



BENEFITS ADMINISTRATION OUTSOURCING

VIEWPOINT PAPER



Harnessing the Rising Cost of Healthcare

A “perfect storm” of factors has led to a steady increase in healthcare costs over the past 30 years, causing employers to explore new ways to manage their health benefits. Among the strategies that are delivering results are the use of benefits administration outsourcing and related technologies that improve employee, provider and health plan access to information and ensure optimal care delivery.

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Executive Overview

For the better part of three decades, we've been caught in a perfect storm of rising healthcare costs. Many factors have contributed to this perfect storm, as large employers have witnessed significant annual increases in the costs of their healthcare programs - increases that often outpace growth rates in general inflation and in business revenues. Adding to the problem is the fact that employees have been largely insulated from the cost of their healthcare. Limited co-pays and fixed deductibles have often capped member exposure to rising costs.

For more than 30 years, managed care focused mostly on providers - managing how they delivered care and charged for their services. Over time, however, this system of building tight networks, "gatekeepers" and discounts has evolved into one of expanding networks to provide greater healthcare access. The result has been the elimination of gatekeepers in favor of "open access" physicians and undifferentiated discount levels among health plans. However, throughout these changes, participants have not been encouraged to actively manage their health and their personal lifestyles in order to promote good health. The good news is that the trend is definitely shifting, and innovative plans and technologies are beginning to focus on helping plan members manage their own health, with results that suggest the perfect storm of healthcare cost increases may be subsiding.

This change is due in no small measure to companies' more aggressive use of benefits administration outsourcing - the contracting of specific business tasks to third-party service providers. Benefits outsourcing has enabled the following:

- HR departments to focus on high-value, strategic activities to engage participants in managing their own health
- Employees to access information and providers through integrated technology tools and convenient Web-portal access
- Providers and health plans to interface more effectively with participants and patients to ensure optimal care delivery
- The building of a central repository of eligibility and claims data by third parties that can help employers understand chronic condition prevalence in their populations and design the best programs to support employee needs

This paper takes a broad look at the challenges employers face in managing their health benefits, which strategies are delivering results, and how technology and outsourcing can support effective ongoing program management.

The makings of a perfect storm

Historically, healthcare costs have increased steadily year over year. What are the causes? The perfect storm gathered its power from many factors, such as these:

- **TECHNOLOGY ADVANCEMENTS** - the cost of innovation (MRI machines, for example)
- **PHARMACEUTICAL ADVANCES** - the cost of research and development and patent protection
- **UNDER-UTILIZATION OF SERVICES** - preventive services or early interventions that are missed due to limited access or limited education, requiring more intensive services when a condition escalates
- **OVER-UTILIZATION OF SERVICES** - unnecessary care
- **GOVERNMENT COST SHIFTING** - Medicare and Medicaid reimbursement restrictions and coverage limits
- **CARE FOR THE UNINSURED** - providers who increase fees for those who can pay
- **THE AGING OF THE POPULATION** - baby boomers who consume more healthcare services as they age

But perhaps most importantly, our population continues to age in a generally unhealthy manner. Obesity levels in the U.S. population are at all-time highs. The rising prevalence of chronic conditions such as hypertension, diabetes and heart disease has further contributed to spiraling healthcare costs. And all this time, private insurance offered by major employers has paid the bill - generally shielding their employees from the true cost of this deterioration in employee health.

The storm may be subsiding

Since 2005, the trend in annual healthcare cost increases has slowed to less than 10 percent. Although single-digit percentage increases continue to outpace the Consumer Price Index, they may be a sign that we are weathering the storm. According to the Towers Perrin Healthcare Cost Survey, healthcare costs will increase by 6 percent during 2008. But survey results also suggest that the average increase would have been closer to 8 percent without employer efforts to aggressively manage benefit program performance.

These results represent an urgent mandate for change among companies still experiencing double-digit growth rates. Many of these companies continue to struggle with trade-offs between healthcare cost control and work force management pressures and goals.

It's encouraging, however, that some companies now are keeping their annual cost growth near the consumer price index for medical services, which is roughly 4 percent. Among high performers in the survey, 46 percent have cost increases of 5 percent or less, evidence that active management of program performance is an exercise in the "art of the possible."

Savvy employers can manage costs and improve services

As demonstrated in the Towers Perrin research, high-performing companies aren't simply shifting costs to participants to keep their own costs low. Instead, they're using a broad range of tactics and strategies to hold the line on costs for both the company and employees. In fact, employees at high-performing companies will pay significantly less than those at low-performing companies. Moreover, health plan participants at high-performing companies get more for their money in the form of healthcare information and decision-support tools.

Broadly speaking, the difference between high- and low-performing companies can be summarized by high performers' commitment to active management of their health plans and service delivery processes. These companies have clear strategies to drive improvements in participants' overall health and wellness and their engagement in healthcare decisions and health-related behaviors. They identify

problems early and take advantage of opportunities for improvement by understanding the current state of their benefit program and the healthcare system overall.

One approach employers are using to attack cost increases is to introduce consumer-driven health plans, which can include tax-exempt health reimbursement accounts or health savings accounts. Nearly half (46 percent) of the 500 employers surveyed by Towers Perrin offered consumer-driven health plans in 2007. Average enrollments in these plans are still relatively low – at less than 10 percent of eligible employees – but data indicate that cost results are favorable and that employers will continue to look at these programs as ways to influence participant behavior.

Using technology to engage and empower healthcare consumers

Although consumer-driven health plans are just beginning to gain popularity, innovative, interactive support tools such as those from ExcellerateHRO are quickly becoming the norm. They give participants the ability to understand their risks, modify their behavior to improve their health and make decisions about the healthcare plans that are best for them and their families. Online health assessments, for example, guide participants through a series of questions that identify areas where their health is most at risk. The system then provides relevant information about wellness programs and prevention opportunities. Participants typically are offered incentives to complete the assessment. Incentives range from premium reductions and gift cards to employer-sponsored reward programs in which participants accumulate points.

Much of the initial emphasis of these interactive support tools has been on the 20 percent of health program participants who drive 80 percent of an employer's cost (usually related to treatments for diseases and chronic conditions). Lately, however, we're starting to see more companies using interactive tools to influence the behavior of healthy individuals to prevent serious, expensive medical conditions in the future.

ExcellerateHRO provides a large financial institution, for example, with these tools as an extension of its intranet portal. The leading-edge site gives participants access to a wealth of information and decision tools and, as part of the underlying process, identifies geographical health data among participant groups that the employer can address directly. For example, if the company notices a significant number of asthma-related claims in a specific location, it can assess the need for a program that targets asthma treatment.

These tools, combined with consumer-driven health plans, are beginning to help U.S. companies create a culture of health that can reduce the cost of healthcare. The key is to change the way participants think about their healthcare management and simultaneously enable employers to “mine” the supporting databases and extract business intelligence to make better decisions and address specific populations and their accompanying risks.

What are some of the conditions for success? Research on account-based health plans shows that participants are more likely to use the program effectively and have a high level of satisfaction when they understand the plan and their underlying financial risk.¹

The research further reveals that the organizational climate can have a significant impact on employees' readiness for change and openness to new approaches to healthcare and health benefits. It's important, for example, that employees trust the company and its leaders and that they believe the company cares about their well-being. Once trust is established, employees need education to help them think about their healthcare in new ways. They must understand how the plan works, how it specifically affects them and their financial risk, and how they can better manage their financial and health risks by using all the tools available to them – from tax-advantaged savings accounts and financial modeling tools to health risk assessments and other support for wellness and prevention.

Companies that implement these plans and tools under the right conditions typically see sustained cost reductions. Those that implement them without a supportive culture and communication strategy may experience short-term cost reductions but are likely to see the savings evaporate over a period of time.

In addition, it's critical to understand how employees use their employer-sponsored portals. Employer surveys and participant usability studies undertaken by ExcellerateHRO can provide insight into Web usage - and create a better Web experience for participants.

Online tools must be accessible and easy to navigate so employees will return for information when making health-related decisions. It's equally important to ensure the information available on these self-service sites is robust enough to assist participants through key decision processes - much as a service center representative in a call center would do.

A deep commitment is the hallmark of a successful healthcare program

According to Towers Perrin research, high-performing companies are strongly committed to managing their programs in ways that benefit both the company and participants:

- **COMMITMENT TO EMPLOYEES** - High-performing companies demonstrate their commitment to employees by supporting their ability to make sound healthcare decisions, taking steps to motivate participants to manage their healthcare purchases responsibly, and working to manage health risks and conditions in the employee population overall.
 - **MANAGING BY MEASURING** - High-performing companies are far more rigorous than other companies in developing and documenting their healthcare strategies. They also manage by fact. For example, more than 80 percent of high-performers in Towers Perrin's healthcare cost study use results measures to build performance-improvement plans, while only about a third of low-performing companies use this program management discipline.
 - **ENSURING CRITICAL SUCCESS FACTORS ARE IN PLACE** - Although data show that all companies are doing more than ever before to ensure that critical success factors - such as senior leadership involvement, support from managers and supervisors, and disciplined execution processes - are in place, high-performing companies are much more committed to these program pillars.
- **INCREASING ACCOUNTABILITY** - High-performing companies design their programs to make the true costs of care visible to participants and hold them accountable for the decisions they make at the point of purchase. They do this by using, for example, coinsurance rather than co-pays to share costs with the company.
 - **ENGAGING PARTICIPANTS** - High-performing companies require employees to be more accountable for their decisions and take steps to help them do that by expanding communication initiatives and providing a variety of tools and resources to support awareness, understanding and action.
 - **BUILDING A CULTURE OF HEALTH** - High performers are much more likely to say they're committed to building a culture of health in their organizations and to report that their participant education efforts are succeeding. For example, a majority of the high performers say their participants accept their roles and responsibilities under their health plan, are comfortable with the level of risk under the plan, and understand and use decision-support tools.

Regulatory compliance and data security are key needed-to-play practices

Fundamental to the employer's role as benefit sponsor is compliance with legislative and regulatory standards that protect the privacy and security of data - standards which, in recent years, have become more stringent, adding yet another element to the perfect storm around health benefits. An effective compliance approach reduces risks, protects reputations and enhances shareholder value. An effective compliance solution includes:

- **INDUSTRY, LEGAL, PRIVACY AND SECURITY OFFICERS AND OTHER COMPLIANCE SUBJECT-MATTER EXPERTS.** These experts must stay ahead of the curve by maintaining their industry credentials, attending continuing education programs and participating in global associations to stay informed about developments that impact compliance.

- **BEST PRACTICE PROCESSES**, which maintain compliance with existing regulations around the world. A global compliance team comprising leaders from risk management, legal, information security and privacy, information technology, internal audit and business operations should oversee the compliance program.
- **COMPLIANT, INTEGRATED TECHNOLOGY AND TOOLS**. An integrated HR platform should include tools, processes and procedures that facilitate compliance through the use of business rules based on a company's needs. The technology should allow for timely response to protect employer plans and participants, should compliance issues arise.
- **SECURITY SAFEGUARDS** must be in place to prevent impermissible use or disclosure of participant data. ExcellerateHRO believes these security standards should be in place:
 - Physical security features at facilities: security guards on duty at all times; physical barriers and card access at all entrances; card key authorization required for buildings and strong authentication for sensitive areas; access restricted to individuals with a need for access and the appropriate authorization; and monitoring of the facility with security cameras
 - Logical security features: requirement of SSL (Secure Sockets Layer) encryption for point-to-point transmissions across the public network; encryption technology for transmission of confidential information across any network (internal or external); authentication of all external hypertext transfer protocol (HTTP) requests through third-party reverse proxy architecture; and strong security controls to protect data at rest
 - Personnel security: enforced clear-desk policy; password protected screen savers activated after short intervals of inactivity; mandatory security and privacy awareness training at least annually and preferably biannually; frequent security and privacy communications as reminders to personnel to keep data protected from unauthorized use; quarterly review of access list; and strong password policy

Managing information

It's also important that employers conduct the right level of due diligence to fully understand their health plans and offer the right mix of content and tools. Saturating participants with too much information can have a negative impact.

In some situations, striking the right balance is critical to the program's success and can have broader business implications. Bringing multiple plans together as a result of a merger or an acquisition is a powerful example. Managing the orientation into new benefit plans or sustaining legacy plans affects cost structures and the participant base. Efficient systems are needed to reduce time to production - which directly affects cost - and to ensure minimal employee disruption at a time when the organization is relying on an engaged work force to help deliver the value of a new business structure.

ExcellerateHRO partners with a major hotel chain that acquires an average of one new hotel each week. We developed processes to enroll new participants in the healthcare program without breaks in coverage, from the date of acquisition to date of enrollment. On the first day of employment, participants can enroll and receive the coverage they request. By enabling acquired employees to enroll in the company's plan quickly and efficiently, these processes help control costs and eliminate the need for retroactive payments and costly manual intervention.

The power of benefits administration outsourcing

In an environment where a perfect storm has created bigger health benefit challenges than ever before, companies today increasingly rely on benefits administration outsourcing providers to manage these programs. Outsourcing vendors offer economies of scale and a concentration of expertise. And they continually invest in the latest technology and the most talented experts.

Most important, outsourcing involves a fundamental change in the way a benefits or HR department operates - in its activities, responsibilities and impact on overall business results. It can be the first step in transforming an HR group into a true strategic business partner by aligning its objectives with the organization's top priorities and shifting the focus from day-to-day transactional and administrative tasks to achieving long-term business results through cost savings and sustained value creation.

While some HR organizations outsource benefits administration to reduce costs, others are driven by the desire to enhance their strategic value. In many cases, outsourcing benefits administration is part of a broader agenda for HR transformation and plays a strategic role in areas such as mergers and acquisitions and talent management.

To realize the full value of benefits administration outsourcing, the company and its outsourcing partner must combine HR and benefits expertise, best processes, and a robust delivery model. And the company is most likely to achieve sustained savings on administrative costs by outsourcing to a provider that delivers leading practices through standardized, repeatable processes.

As a starting point, employers must select a provider that has the core competencies to deliver. These competencies include investment to create a market-leading technology platform, domain expertise in benefits, standard business process outsourcing, information technology and leading-edge portals that bring benefit programs to life in ways that address participants' real-life events and needs.

Taking administration to the leading edge

High-performing companies want to gain more than cost savings, or even strategic focus, from outsourcing their benefits administration functions. CEOs want their HR departments to take an active role in supporting corporate business objectives and deliver the data necessary to support business decisions.

CEOs demand full value. Today, full value in the management of healthcare costs is driven in large part by an empowered customer experience founded on simple, intuitive and individualized transactions provided through Web portals. These portals take users beyond simple transaction processing and provide support as they make healthcare decisions based on events and needs in their lives.

The business logic behind ExcellerateHRO's portal is maintained by an integrated infrastructure that presents personalized information to participants. The portal's usability, navigation capabilities, content management, and appealing look and feel are integrated, so participants can make informed decisions and manage their healthcare effectively and efficiently.

A portal should be constructed around an agile architecture that's designed to keep pace with clients' changing business needs and requirements. Leveraged, scalable processes and technology that is equipped to handle spikes in volume, support growth, and drive quality improvement and cost savings. Commercially standard, research-based, repeatable processes enable top-quality service delivery. And a global infrastructure with effective security procedures mitigates risk by providing tools to protect data and privacy.

Data gleaned from these systems produce business intelligence that goes beyond facts to deliver strategic analytics. Integrated databases strive to eliminate redundant information, provide better quality data and offer the ability to integrate reports. These functions provide the information leaders need to make informed decisions.

To produce these positive outcomes, the relationships between organizations and outsourcing providers must move beyond the basics of contract management to create collaborative problem-solving partnerships. Proactive relationships between employers and their outsourcers minimize risk and strengthen the company's position as health plan fiduciary.

From transaction data to business intelligence: an example

In 2007, ExcellerateHRO began tracking transactions for a client to determine whether a new consumer-driven health plan was providing the desired results. Transactions were monitored from log-on to log-out. The company wanted to understand the paths employees followed to gather information and make decisions about their healthcare and treatment options.

We knew when individuals entered the annual enrollment transaction and when they left the benefits site to get information through their wellness provider. We tracked them as they opened plan and cost-comparison pages, as well as whether this was their first visit or a subsequent visit. The data were then aggregated and available for the client to review and analyze to develop meaningful insights into the plan's effectiveness. The information is currently being used to direct communication to regions, locations and even classes of participants who did not use the tools and resources effectively.

This data mapping can be performed for any circumstance to determine if a strategy or an idea resulted in the employer's desired outcomes. In this case, data were compiled during the company's 2007 annual enrollment. Participants in this organization are Web-savvy, so the enrollment site featured robust content. A solid communication strategy supported the company's decision to rely on the Web as the sole vehicle for enrollment. Here are some statistics on the participants who enrolled:

- Only 2 percent called the service center with questions
- 99.86 percent used the Web to complete their transactions
- 81 percent used the available Web tools
- 70 percent accessed the cost-comparison tool
- 53 percent accessed plan-comparison charts

The analysis suggests that the Web was successful in providing communication and tools for participants to make informed choices without the help of service center representatives.

This employer believes the analysis provided good insight into participants' Web habits and interactions with online documentation. The company requested the initial metrics and now intends to go deeper into the data, use the analysis to draw further conclusions about the behavior of participants, and then incorporate findings into plans and strategies for future annual enrollments.

Conclusion

The perfect healthcare storm has unleashed its power for many years but now shows signs of abating. Companies that want to weather the storm and control healthcare costs must continue to aggressively manage benefit programs through outsourcing and other strategies.

These strategies include enhancing the overall health and wellness of their participants and engaging them in healthcare decisions and healthy lifestyles. A key element in these strategies is the availability of interactive support tools that enable participants to understand their health risks, modify their behavior and make decisions about the healthcare plans that are best for their individual situations.

HR organizations that embrace this empowered customer experience can deliver tremendous benefits to their companies and plan participants.

Notes

1 *Account-Based Health Plans: What Works - and Why*; published by Towers Perrin in 2007.

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About ExcellerateHRO

ExcellerateHRO is a global, full-service human resources outsourcing company offering a flexible portfolio of services to mid-size and large employer organizations. The company provides HR Outsourcing, Benefits Administration, and Relocation and Assignment services to more than 400 clients, serving more than 34 million active and retired employees from its client organizations. ExcellerateHRO is the jointly owned HR Outsourcing business of EDS and Towers Perrin, combining the outsourcing experience of EDS with Towers Perrin's HR domain expertise. Learn more at www.excelleratehro.com.

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