Focusing On The Health Care Consumer

Diversified health plans offer the opportunity to take consumer responsiveness to the next level of sophistication.

by Leonard D. Schaeffer and L. Carl Volpe

Describing the evolution of health plans, James Robinson concludes that multiproduct, multimarket health plans will dominate the health care marketplace. He argues that these plans are better structured to accommodate the complex, diverse, and sometimes conflicting demands and constant changes in our health care system. We agree, and we believe that the best way to compete in such a chaotic environment is a disciplined focus on the consumer.

Americans are culturally biased toward a market economy in which consumers have choices in the marketplace for health care as for other purchasing decisions. Choice factors go beyond mere choice of physicians to include the price of the product, array of benefits provided, degree of care management desired, and out-of-pocket costs. The relative importance of each in the final decision is driven by the consumer’s needs and the market segment in which the purchase is made.

Both individual purchasers and employers buy coverage in the marketplace, yet each wants something different. Moreover, purchasing differences exist between small and large employers. Understanding and responding to these different constituencies can mean the difference between a health plan’s market success and failure.

The Individual Purchaser

The market behavior of individual purchasers is straightforward because the purchaser is the plan member. Economic incentives are aligned, and behavior is consistent with prudent-buying principles. Health plans that compete successfully in this market know its extreme price-sensitivity. They pay close attention to the economic impact of product designs. Moreover, they understand the impact of premium and total out-of-pocket costs on choice among product types.

Although the economic behavior of the individual purchaser is straightforward, business success in this market is quite another matter. Purchasing is voluntary, and the market is fragile. Young and generally healthy persons see little value in buying coverage, and a health plan’s ability to spread risk is thereby limited.

Contrary to popular belief, provider availability is not as critical to individual purchasers as is price. To attract a broad range of buyers, health plans must offer products that range in scope of benefits and degree of care management and cost sharing. Since market participation is voluntary, products must have real value to attract healthy persons. At the same time, they should be affordable to those with greater health care needs. With such great insurance risk, no other health care market requires a better understanding of the consumer and factors governing choice.

The Group Purchaser

A schism exists in the group market. The employer is the primary payer, and employees are the plan members. Because market incentives are not always aligned, tension exists, mani-
fest in product preferences. At the extremes, employers generally prefer efficient closed-panel health maintenance organizations (HMOs), while employees are attracted to the freedom and flexibility of indemnity care. These parties’ divergent needs, both legitimate, have created a dilemma. The market has responded by developing hybrid products, which control costs by using network-based care while giving consumers access to out-of-network care. Hybrid products are more expensive than HMOs but less expensive than indemnity coverage. They offer greater value in terms of choice and are becoming more popular in the group market.

**Small-group purchasers.** Small employers (typically having fewer than fifty employees) are less likely to offer health coverage than are their large-group counterparts. When coverage is offered, employees bear a greater portion of premium costs. Small-group employers make product selection decisions like individual purchasers do. Tight operating budgets and slim profit margins encourage prudent buying.

Cost-efficient products are extremely attractive in this market. However, product choice is important. Health plans can and do offer employers multiple product options. Typically, an HMO is offered with another network-based product that allows for out-of-network coverage. Health plans that sell successfully in this market understand the price-sensitivity of the purchaser and the need for some choice, and they offer products that reflect this balance.

**Large-group purchasers.** Large-group purchasers face the same employer/employee dilemma confronting small employers. However, differences in market pressures and economies of scale change the dynamics. Specifically, as firm size increases, an employer is at a competitive disadvantage without a health benefit. With this benefit now functioning more as a right than as a privilege, employees’ needs and/or union requirements carry greater weight. Products offering both cost control and greater provider choice are much more attractive. Moreover, the benefits package is consequential. More often than not, it is custom-designed to meet the purchaser’s specifications.

Quality of care is valued in all market segments, but it is less important in the purchasing decisions of individual and small-group purchasers. By contrast, large purchasers are beginning to incorporate quality and outcomes metrics into their selection decisions. Some large purchasers are publishing “report cards” so that their employees can select among products using price, provider, and quality information. Health plans in this market must compete on these new metrics.

Many large-group purchasers find it cost-advantageous to bear the insurance risk associated with their health benefit. Many health plans have found a market (albeit a less profitable one) contracting to provide administrative services for these employers. Some health plans have increased the value of their product by offering access to the plan’s network providers. The employer benefits from the cost efficiencies of the network’s negotiated rates. The plan benefits by increasing its “member” volume, thereby negotiating volume discounts from providers that can be used with its other network-based products.

Traditionally, insurance risk is borne either by the health plan or by the purchaser. Some health plans offer products wherein the plan provides the administrative services as well as sharing the insurance risk with the purchaser. The purchaser garner some of the savings of self-funding along with protection from excess risk.
Distribution Channels

As consumers differ by market segment, health plans use different approaches to sell their products. In the individual and small-group markets, plans sell directly to the public or use a network of independent insurance agents and brokers, whose portfolios contain a range of products and often include products from competing health plans. The agent or broker helps consumers to make choices among products and serves as the purchaser’s advocate.

In the large-group market, the product may be tailored to the unique needs of the company. Some larger purchasers use consulting firms to guide benefits design and to provide technical analysis and actuarial support. These consultants develop the technical specifications for the bidding process and may assist the employer in evaluating proposals submitted by plans.

Responding To Consumers’ Needs In The Future

Amidst the turmoil of the healthcare marketplace, a multiproduct, multimarket health plan brings order and discipline to its operations by focusing on the needs of consumers. Product and provider choice is valuable, but in this changing environment it may not be sufficient. A new level of consumer service is on the horizon.

In the current group market, the benefits package reflects the group’s aggregate need for care. Health plans are experimenting with product designs that tailor the benefits package and delivery systems to the needs of the group as well as the differing needs of individuals within the group.

For example, healthy persons may choose a product with a variety of wellness benefits. Sicker persons in that same group may choose a product that assures access to centers of excellence in the treatment of a chronic condition. Products are under development that tie medical management to the member’s health status and focus resources where they are needed most. These products are intended to be flexible to accommodate changing needs and preferences both in the short term and over the consumer’s life span.

These individually focused products are on the drawing board. They depart radically from existing insurance approaches and face some pricing and market conduct challenges. However, none appears insurmountable. If successful, these new products offer a real opportunity to take consumer responsiveness to the next level of sophistication. Health plans that focus on meeting the needs of the consumer are ready to make that leap.