The health plan back office must be transformed to take on a new, strategic role

Overview

Health plans are facing a fundamentally different market, with unprecedented pressures and opportunity. New populations with unknown risk characteristics are coming into the market, bringing growth opportunity, but also bringing significant financial risk.

Government programs are moving to risk-adjusted and quality-based reimbursement models, which health plans were not designed to support. Competitive and regulatory cost pressures are forcing plans to identify step-change efficiency, not incremental improvement. Transformational change is required for health plans to remain in business and grow.

As a consequence, health plan back-office functions must refashion themselves to play a more strategic role. Long viewed as capital intensive, labor intensive, and a non-strategic cost of doing business, operations are now under intense pressure to change that calculus. Operations leaders need to rethink the equation and chart a course for transformation that demonstrates their contribution to meeting these enterprise challenges.

A powerful prescription for change

Leading health plans should apply a straight forward and powerful prescription: take out significant costs from the current operations baseline, then reinvest in strategic capabilities that support broader prerequisites to remain competitive and grow in the new market.

1. **Baseline administrative cost reduction —** health plan operations have considerable opportunity to remove cost from their current baselines. Modernized core operations and customer contact platforms bring a three-fold opportunity for improvement:

   a. Reduced technology support cost
   b. High automation rates
   c. High workforce utilization and productivity

   In addition to these technology-driven efficiency gains, the globalization of back-office administrative and voice services has become proven and well accepted over the past ten years. Productivity-adjusted labor unit cost gains are significant, but accuracy gains can be equally impressive, due to the engineering orientation embedded into global operations.

2. **Claims cost containment —** as payers take sizeable cost out of baseline administrative performance, reinvesting part of that savings in leading-practice claims cost-containment models brings a second, often larger, upside.

   Improved analytics and focused process redesign have been proven to significantly increase a health plan's ability to identify, reduce and prevent claims overpayment. To realize these gains, a comprehensive focus across the spectrum of fraud, abuse and waste is required.

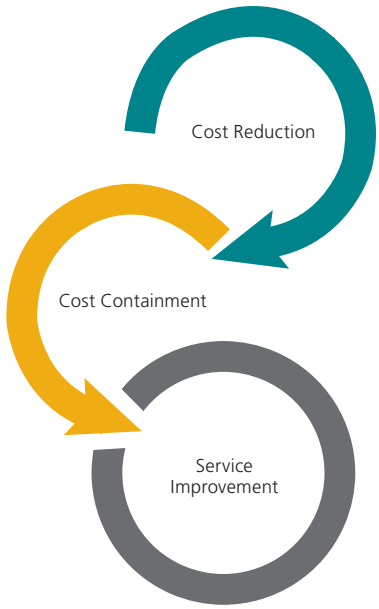
   Opportunities for improved results span the categories of data mining, coordination of benefits, third-party liability, clinical editing, abusive billing detection, subrogation, injury claims coordination, true fraud detection, high-dollar claim audit and claims recovery processing.

   Payers at the forefront have created centralized cost-containment functions and invested in analytics and partnerships with specialized service providers to accelerate their programs and dramatically increase savings. The largest and most sustainable savings are captured by plans that systematically focus on detecting this costly financial leakage on a prepay basis, and instituting ongoing overpayment-prevention processes.

3. **Strategic service improvement —** with modernized technology platforms and efficient workforce cost structure, health plans can apply capital in service improvements that help support growth and meet evolving risk- and quality-based business models.

   More advanced customer contact technologies enable context-sensitive servicing that brings tangible results. For example, payers can detect and use service contacts to address quality and premium drivers, such as unmet immunization requirements that can result in penalties in state children's health programs. In another example, provider service calls can be used as opportunities to detect and prompt the return of patient assessment forms that are critical to earning the full premium under Medicare Advantage.

Through this combined technology and globalization lever, health plan operations functions can realistically target a 40–50% cost reduction, depending on their starting position.



Moving from average capability to leading practice in these functions can result in 2-4% reduction in claims spend — an amount that may exceed the entire administrative cost of many health plan claims functions.

The impact of these advancements is harder to baseline than classic administrative-cost budgets or observed-claims cost containment. It shows up in areas such as HEDIS and Medicare Stars scores that increasingly drive the plan's ability to earn margin and compete. It shows up in market flexibility to grow through product innovation and benefit customization — the kinds of flexibility that health plan front-office teams have sought for years, but back-office teams have struggled to support, due to outdated systems and high, base operating-cost structures.

The latest core administrative-platform technologies are markedly more configurable than legacy systems, with flexibility to support custom employer programs and innovative benefit designs.

Charting the course

Achieving this scale of transformation — delivering the cost and quality contributions of advanced health plan operations — requires a systematic approach and a well-defined plan. In order to get started, operations teams need to establish where they stand today and how much opportunity there is for cost takeout, as well as quality and service improvement. The next step is to understand their options from a sourcing, technology and transformation partner standpoint. The process is completed by creating a transformation blueprint that sequences the interventions and investments into a rigorous plan. The plan has to be practical and feasible.

This degree of conversion will require full commitment within operations leadership, across the senior leadership of the health plan, and by the board of directors. A robust plan with a strong business case and rigorous value measurement is the backbone.

Transformed operations enable quality and growth

Health plans have strong growth opportunities if they can reposition their business model to be quality-driven at the core, with the ability to profitably support new populations — and drive innovation in high-impact arenas of clinical integration and product innovation. However, current-state operations functions are generally not well positioned to play a strategic role in that future, due to their cost structure and inflexible, high-cost technology platforms.

Incremental gains are not sufficient to support the competitive viability and sustainability of many health plans. Operations leaders have an opportunity to take dramatic action and contribute in new and substantive ways to the future growth and quality agenda. With the willingness to transform their operations' cost structure and functional focus, and a well-defined plan to get there, payer operations leaders can play this strategic role in the future of their enterprise and its growth.

optum.com

13625 Technology Drive, Eden Prairie, MN 55344