A White Paper

Broker Differentiation: 13 Things To Look For In Your Broker/Consultant

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August 2012

Introduction

As a follow-up to the White Paper published in 2009, one of the observations noted at that time was a relative lack of 'buyer sophistication' in the marketplace. Knowledge of health plan alternatives other than those offered and packaged by the major insurance companies on the Western Slope was not readily apparent. Consumer Driven Health Plans such as HSAs and HRAs were not widely utilized. Wellness and Health Risk Management programs, if evident, were only scratching the surface of effectiveness. Partially self funded plans were being utilized by only some larger employers but not prevalent. Also, a thorough understanding of the in-depth capabilities of related vendors such as TPAs, PBMs, stop loss, etc., was lacking. The focus was on the "transactional" side of the equation rather than the actual "cause and effect" side of the healthcare equation, and what could be done to improve results.

Current Broker Environment

The lack of buyer sophistication can be attributable in large part to the lack of broker sophistication, knowledge, and expertise in the local marketplace. In order to understand why there isn't more broker expertise, one must understand the general nature of brokers in the marketplace. Many brokers are motivated by the compensation received from various insurance companies that they write business with. Insurance companies compensate brokers with commissions not only on each client account, but also pay commission overrides based upon the amount of business, or block of business that is placed with each insurance company.

Therefore, brokers are not necessarily motivated to seek alternative programs because they would not get paid as much by the insurance company than they would otherwise get paid for a larger and larger book of business.

Many brokers also rely on the insurance company to provide many additional services such as legal compliance, communication, and wellness programs, so most independent brokers do not have the depth and breadth of resources to provide these services directly to their clients. If they do have resources, then they are generally very limited, or even outsourced.

Many employers try their best to evaluate a broker through a Request For Proposal (RFP). A RFP can be a good way to begin the process, but in most cases does not begin to be deep enough into the differences between brokers by asking the most appropriate and important questions.

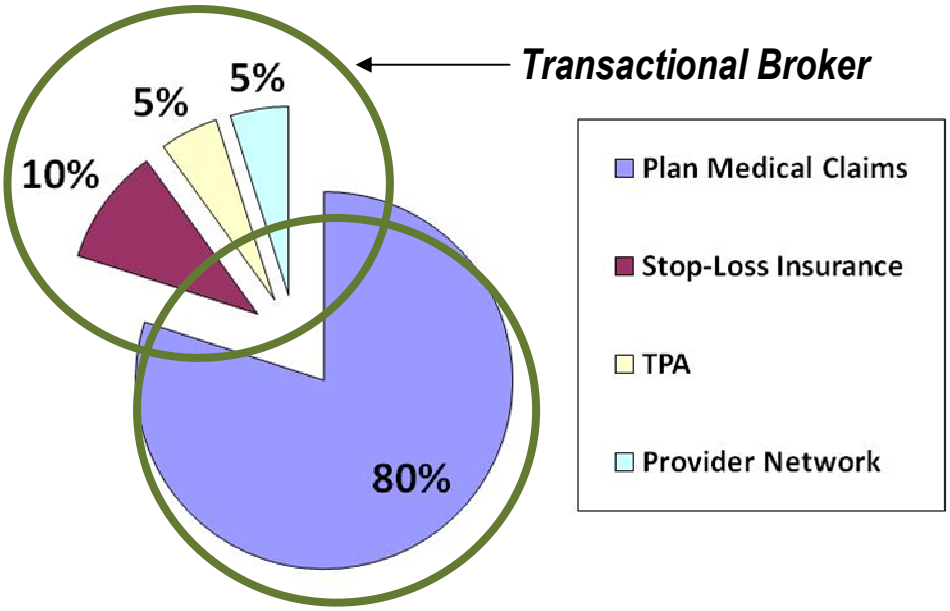
The vast majority of employers have identified the continued escalation of healthcare costs as one of the most significant issues that they face in today's economy. Health plans cannot continue to absorb annual cost increases of 5-10%, or more, for their healthcare premiums. Passing costs on to the members through higher cost sharing, minimizing cost increases through plan design modification, or leveraging a better rate by changing carriers are merely short term fixes. These strategies have run their course over the last decade, and most health plans are now looking to consumerism (empowering employees to become wise health care consumers) and health risk management to stabilize corporate health care costs.

Does the "transactional broker" model address the primary drivers of healthcare costs?

The inherent challenge is that most brokers are merely "transactional" in nature – they are not providing any innovative solutions to their clients in an attempt to control health care costs other than a promise of being "creative" and "aggressive" during the annual renewal and negotiation process. The reality is that a transactional broker can only impact approximately 20% of an employer's total health care spend. As illustrated in the chart below, this 20% consists of fixed costs such as reinsurance, pharmacy, network and administrative expenses. What factors account for 80% of the cost for healthcare? ***The actual claims and utilization.***

The reality is that "transactional brokers" provide

very limited, if any, solutions to address 80%



The Solution? An Integrated Approach to Managing Benefits and Health Management

Over the last few years, research has uniformly demonstrated that an organization's healthcare costs can be impacted dramatically with a professionally designed and implemented Health Risk Management program to not only enhance the services provided to employers and employees, but to essentially transform how to assist employers control their organizational healthcare costs.

Employers have investigated ways to implement a wide variety of strategic approaches, from the very basic to the most integrated. The challenge is not only to identify improvement opportunities for health and productivity, but also to provide integrated health and benefit strategy consultation, implementation and program support. From the most basic health risk management activities to the

most sophisticated approaches, your broker should assist in getting you from where your organization is, to where you want to go.

Unfortunately brokers can over-promise and under- deliver. You may know what your broker is doing for you; you don't know what they are ***not doing***. Satisfaction of a broker doesn't necessarily mean that the broker is delivering the services that you should necessarily expect. Services should go beyond that. It is absolutely necessary to do a deep dive into the evaluation process so that distinctive differentiation can be understood.

Here are 13 things that you should look for in your broker/consultant, their level of knowledge and sophistication, as well as their depth and breadth of resources.

1. **Out-of-the-box thinking**

    a. Is your broker simply quoting the typical insurance companies or are they looking for alternatives to meet your objectives and needs? Most brokers will simply quote identical plans with other insurance companies, or simply quote higher deductibles, copayments, etc. A good broker should be an out-of-the-box thinker and use creative means to solve problems. This includes alternative funding mechanisms, creative plan designs, and other management tools that produce successful outcomes.

2. **What are their success stories?**

    a. It is extremely important to talk to references about a broker's success stories and what they've done to ***reduce*** their client's health-care costs. If the broker cannot cite and document legitimate success stories with references, measurements, and outcomes, then don't look for a success yourself.

3. **Health Care Reform**

    a. With health care reform changes already in play for all employers, it is vital to know what level of support your broker can actually provide to you during these tumultuous times. Do they have in-house legal counsel, or do they rely on the insurance company to provide compliance advice? Do they have the ability, expertise, and knowledge to advise you along the way? What tools do they have two assist you in evaluating "pay or play" beginning in 2015, a timeline of needed changes for HCR implementation, communication to employees, funding mechanisms and requirements, plan design changes, etc. This is critical to your success and overall legal compliance.

4. **Evaluation of Provider Networks**

    a. All PPO networks are not the same. It's not just which providers are in a particular network. The ability to properly evaluate and compare provider pricing is critical to lower health-care costs. Changes in reimbursement pricing are taking place all the time and it is necessary to reevaluate networks on an ongoing basis. Most PPO's have historically discounted providers on a percentage off of billed charges. As charges go up and discounts applied, claim costs will also rise. New pricing is beginning to take place on a reimbursement as a percentage of Medicare. This pricing locks in discounts so that claim cost "creep" does not occur, and usually results in a significantly greater discount than a percentage off of billed charges.

5. **Hospital Bill Review**

    a. Unfortunately, brokers tend to rely heavily on this very important process of lowering costs up to the insurance companies and third party administrators rather than provide an actual solution. Inpatient hospital bills usually account for 40 to 50% of all claim costs. Insurance companies and administrators pay these bills off what is called a Universal Bill or UB. The deployment of a Hospital Bill Review (not simply a retrospective audit), actually reviews an Itemized Bill (IB) to find errors, duplications, excessive charges, etc., before the bill is actually paid. Understanding and

implementation of this process is critical to the success of a plan and can reduce hospital bill costs by 25%-40%.

6. **Pharmacy Claim Review**

    a. Once again, brokers rely on an insurance company or TPA to bring a pre-arranged Pharmacy Benefit Manager (PBM) to the plan. These relationships tend to bring extra revenue to that insurance company and/or TPA (and sometimes even the broker) through rebates, administrative fees, or liaison fees, which increase the cost to an employer. A broker needs to be able to evaluate the PBM for excessive costs and disclose all charges to their client: transparency. More importantly, a thorough claims review should occur to determine whether or not the PBM has competitive pricing on the actual cost of the drugs.

7. **Healthcare Risk Management**

    a. When 15% of your population accounts for 85% of your costs, Healthcare Risk Management is critical to the success of your plan, and the understanding by a broker is one of the most important aspects of a health plans success or failure. The ability of a broker to analyze claims data and recommend proven strategies to reduce participant claim costs is vital to the health of the plan. Whether it's Lifestyle/Behavior claim issues or Chronic conditions that drive claims, these costs can be not only reduced but eliminated in many cases. A broker must have the analytic tools with which to do a deep dive into all aspects of Healthcare Risk Management in order to create an impact, and recommend specific plans to accommodate these members.

8. **Communication and Education**

    a. A broker must have the ability to assist the employer with effective communication/education strategies and content. Case specific content is needed to direct communication and education effectively to all participants regardless of employer limitations. Communication can occur in a variety of electronic means, paper/hard copy, posters, meetings, etc. to effectively disseminate information about plan changes, educational opportunities, announcements, enrollments, wellness programs, etc. The actual production of these documents must reflect the professionalism and accuracy of the broker on behalf of the employer.

9. **Non-Reliance on Third Party vendors**

    a. As stated earlier, brokers tend to rely on insurance companies and third party administrators to recommend and implement their packaged plans and vendors to employers rather than research, evaluate, and implement the best possible independent program(s) to their clients. Many programs can be implemented independently rather than packaged, so as to achieve more desirable results. It is incumbent on brokers to have the ability to evaluate independent "Best In Class" vendors so that the best results can be achieved. By relying on an insurance company or administrator, the plan implemented may be best for them – not the employer.

10. **Advanced Knowledge Level of Alternative Funding**

    a. Similar to the category above, a broker should have a thorough and detailed knowledge of all aspects of alternatively funded plans. This requires knowledge of how all programs operate as well as the component parts (administration, stop loss, PBM, eligibility, etc.). It is then critical to have advanced knowledge and understanding of contracts, pricing, guarantees, financial value, etc. Further, direct access to those components rather than access through the administrator or TPA is critical in the negotiation process on behalf of the employer. Healthcare Reform will definitely make self funding a desirable alternative.

11. **Reporting and Data Analytics**

    a. Brokers should have a sophisticated reporting system available to their clients beyond what the insurance company or TPA provides. Simply regurgitating the same numbers for the client isn't beneficial. Brokers must have the ability to analyze various data sets in order to make meaningful recommendations to the client. This includes in depth reviews of hospital and pharmacy claims, clinical compliance, the identification of high risk members and their gaps in care, patterns of utilization, large claim analysis, etc. The only way to make subsequent and relevant recommendations is after a thorough analysis of the data in the broker's reporting system.

12. **Depth and Expertise**

    - What sort of internal depth and expertise does your broker have at their disposal? What happens if your broker or key employees terminate their employment, or get hit by a bus? Who will fill the void? A "Best In Class" Agency should have considerable depth and expertise at various positions in order to continually provide exemplary services. Small agencies may provide simple day to day service relying on the insurance company or TPA, but lack depth and expertise needed in today's complicated world of employee benefits.

13. **Trust**

    - Trust should be earned as you broker / consultant demonstrates to you their independent knowledge and understanding of your plan. They shouldn't have to rely on others to educate and inform you about issues. With demonstrable results, insights, advice, and recommendations (not spreadsheet options) their value will become very apparent and will become a partner that has earned your trust.

Conclusion

An in-depth evaluation and understanding of your broker services is extremely important. Your plan's success directly depends on the real (not perceived) value that is brought to the table. They should not rely on an insurance company or TPA for ideas and solutions.

When it comes to employee benefits plans, the role of your advisor should no longer be one of a broker- which by definition is someone who helps you shop and place insurance- but rather that of

a consultant - whose job is to help you understand all the “moving parts” of the employee benefits business and partners with you to integrate those parts. This role usually means looking more closely at all aspects of your plan, where claims are coming from and whether or not there may be means to help control them, a detailed review and thorough understanding of your vendor contracts, always trying to determine if there are options available to you, and to challenge the status quo.

As a trusted advisor and advocate, your consultant should be actively involved in your plan on a monthly basis, checking the pulse and continually reviewing plan activity and discussing ideas and opportunities for better plan performance. This can be a healthcare game-changer. **Use this guide as a basis to begin discussions with your advisor as to exactly what (and how frequently) they are working on YOUR behalf.**