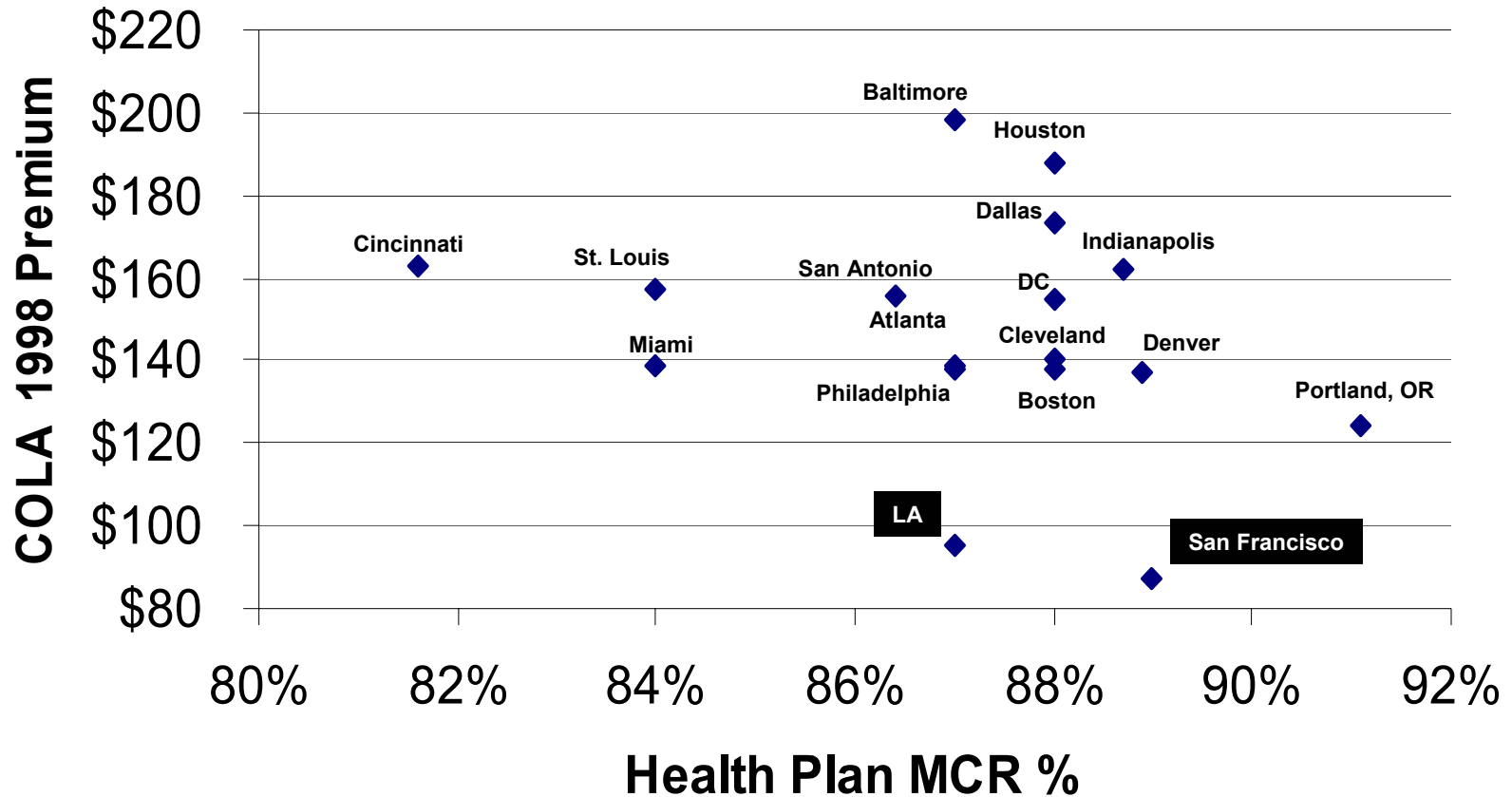


The Plan / Provider Nexus in California

**California Health Care Symposium
The Sheraton Palace, San Francisco**

National Perspective

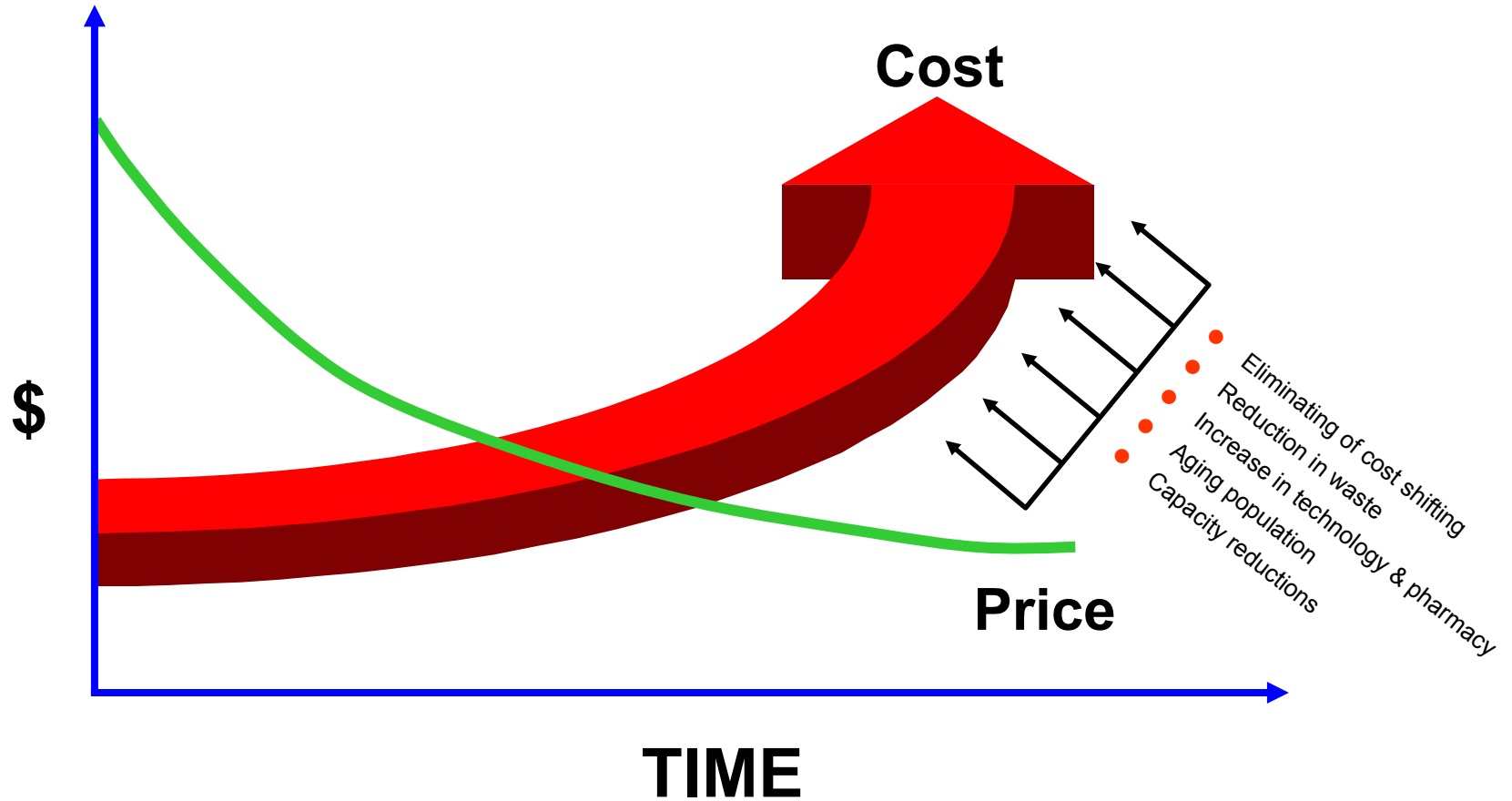


Source: MCR - Interstudy, January 1, 1999 for MCR % (blended for all products). COLA 1998 Premium - M&R, actuaries, Institute for Health Policy, Partners HealthCare System, Inc., 1998 BDC Advisors, LLC analysis.

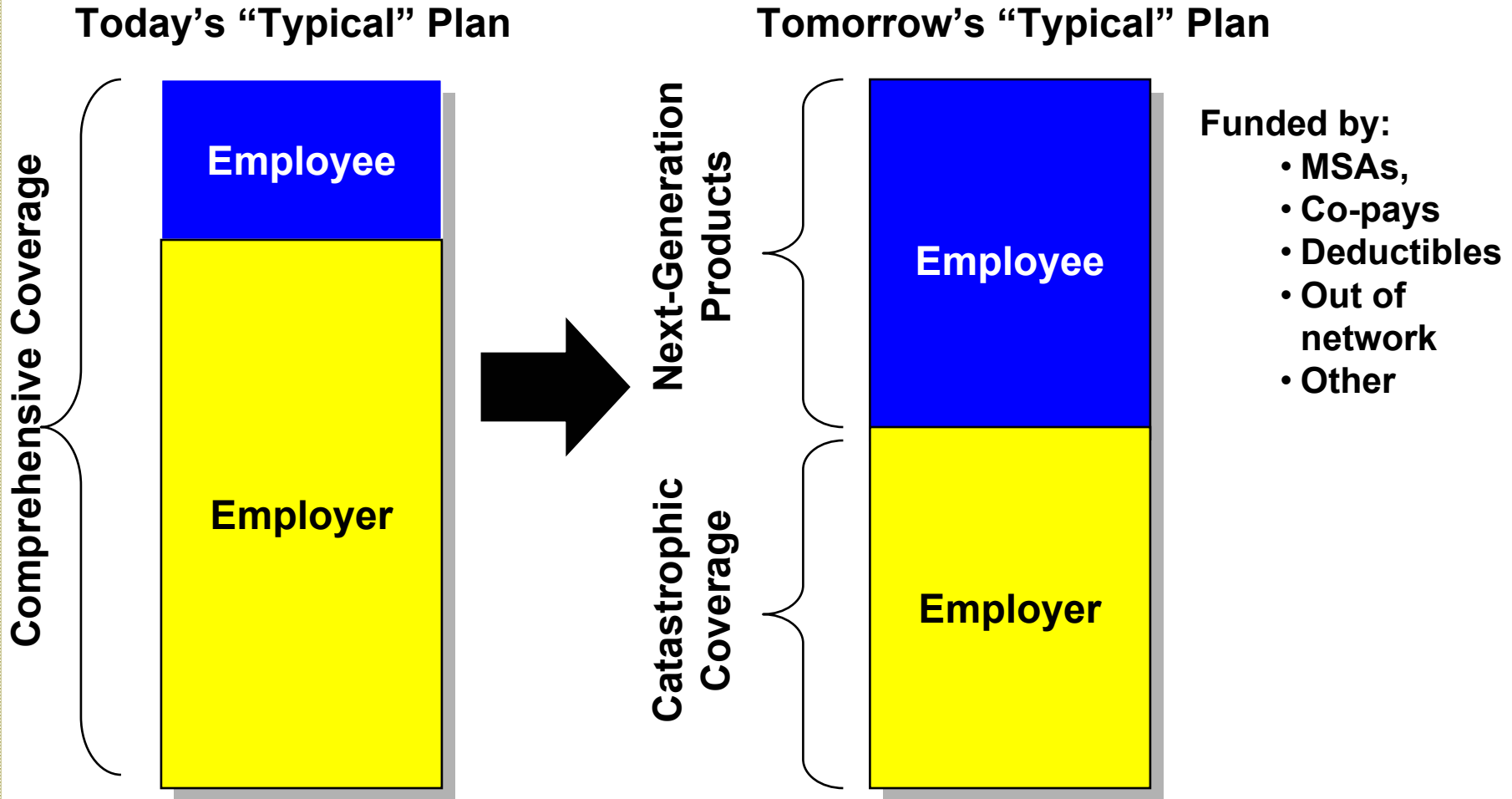
Environment

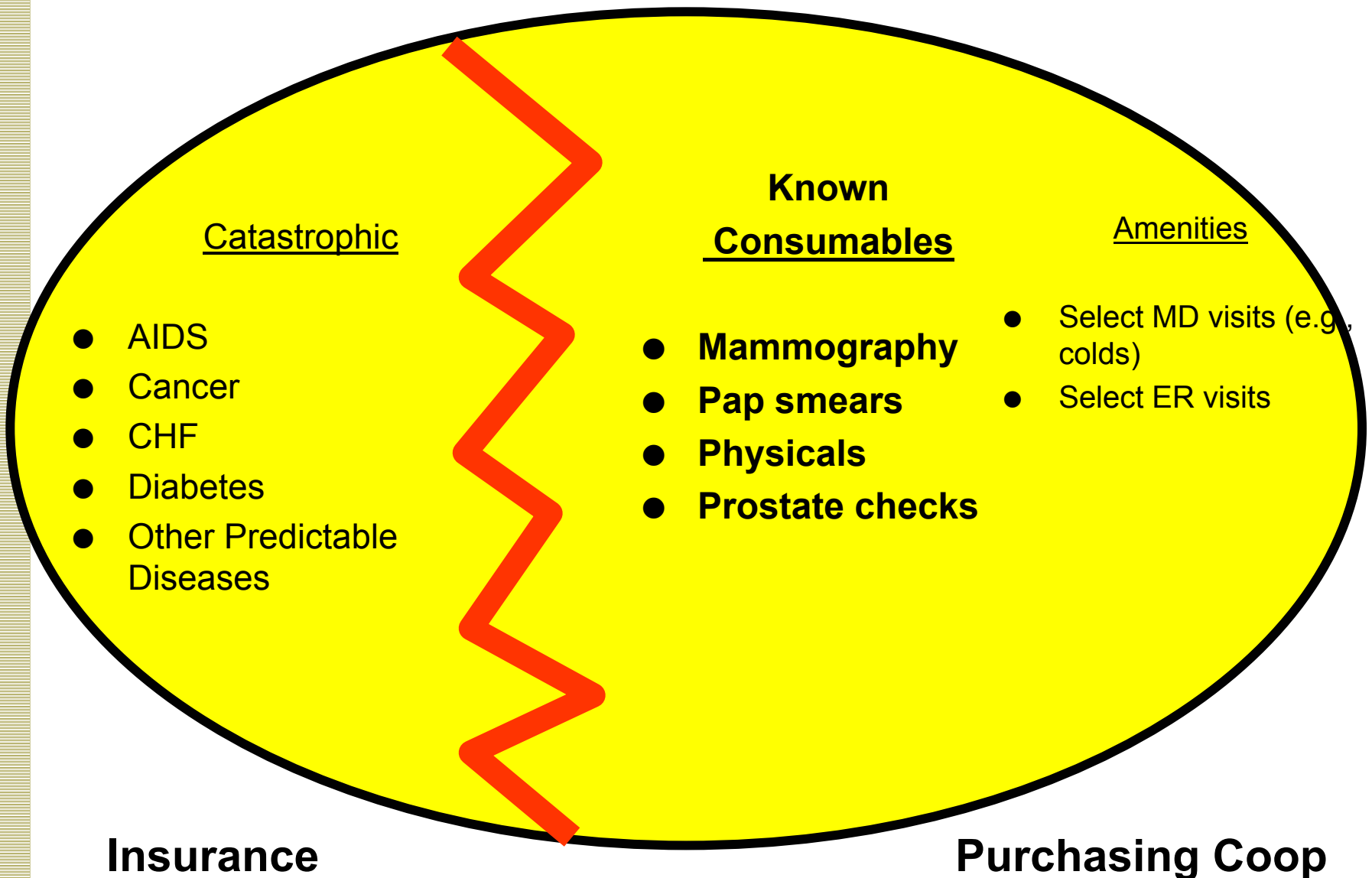
- Health plans and providers need better execution in order to increase consumer satisfaction
- An inherent conflict exists in that underlying healthcare costs are rising at a rate that exceeds the amount employers are willing, or able, to bear (i.e., cost of living)
- Without a drastic change in the economy, it is unlikely that employers will drastically alter employee health benefit plans (i.e., defined contribution)
- However, employers are likely to shift a larger portion of healthcare spending to employees through the introduction of next-generation products:
 - ➔ Actuarially determined catastrophic packages, and
 - ➔ Purchasing cooperative (e.g., health maintenance) type packages
- Next-generation products will expose the underlying costs of various providers as health plans offer alternative networks at different price points
- Internet is the means by which:
 - ➔ Plan / provider interfaces may be improved
 - ➔ Costs may be reduced (\$6.00 - \$7.00 PMPM)

Inherent Conflicts



Leading to . . . Shifting Financial Responsibility





Catastrophic

- AIDS
- Cancer
- CHF
- Diabetes
- Other Predictable Diseases

Insurance

Known

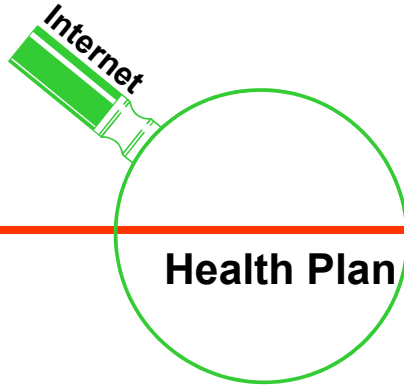
Consumables

Amenities

- Mammography
- Pap smears
- Physicals
- Prostate checks
- Select MD visits (e.g., colds)
- Select ER visits

Purchasing Coop

Cost Transparency Illustration

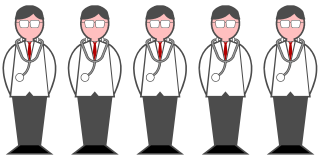


Health Plan Provider Network

\$70PMPM

Network 1

Community Hospital



Copay: \$5

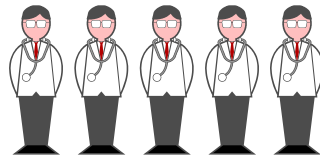
\$78PMPM

Network 2

Community Hospital



Children's Hospital



Copay: \$10

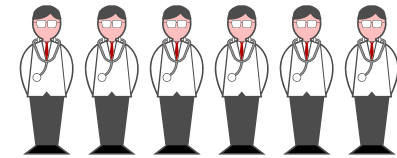
\$85PMPM

Network 3

Academic Medical Center



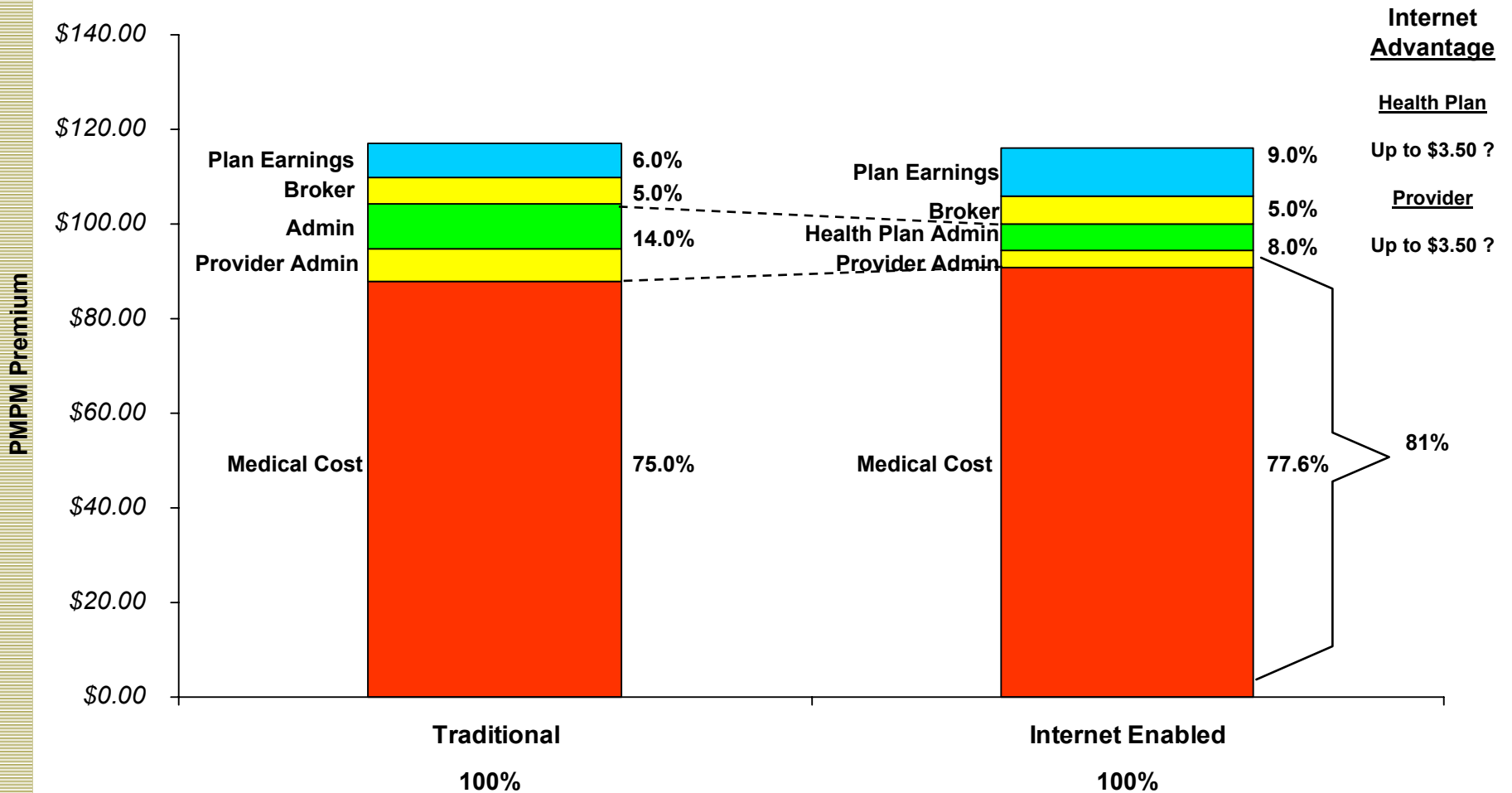
Community Hospital



Copay: \$20

Internet Platform Commercial Cost Opportunity

ILLUSTRATIVE



Source: BDC Advisors, LLC analysis

How can payors and providers create new value for consumers, restore their confidence in the healthcare system, and generate revenue?

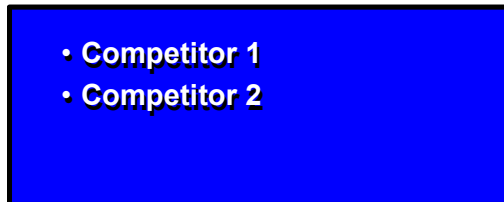
Market Structure

PROVIDERS

Provider

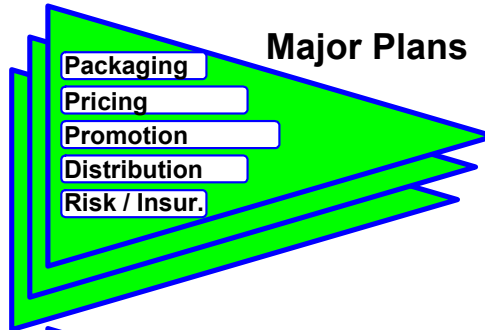


Competition

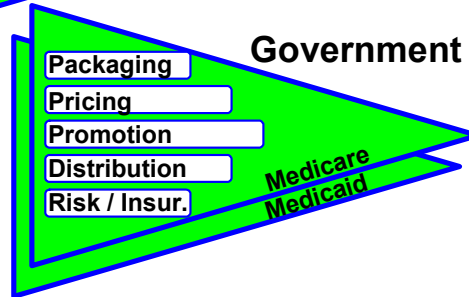


CHANNELS

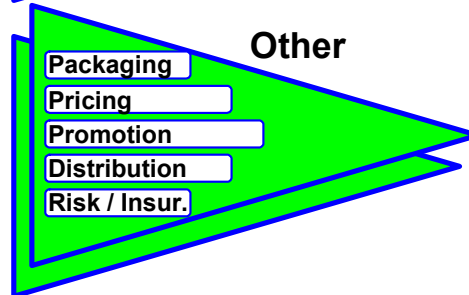
Major Plans



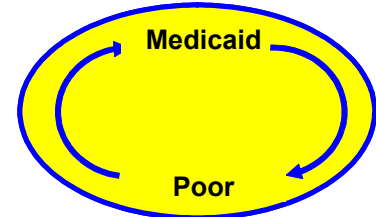
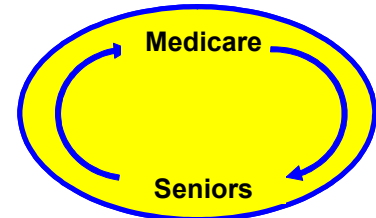
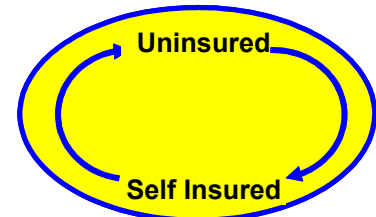
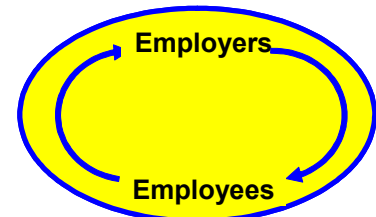
Government



Other



CUSTOMERS



STRATEGIC ISSUES

- Supply
- Differentiation

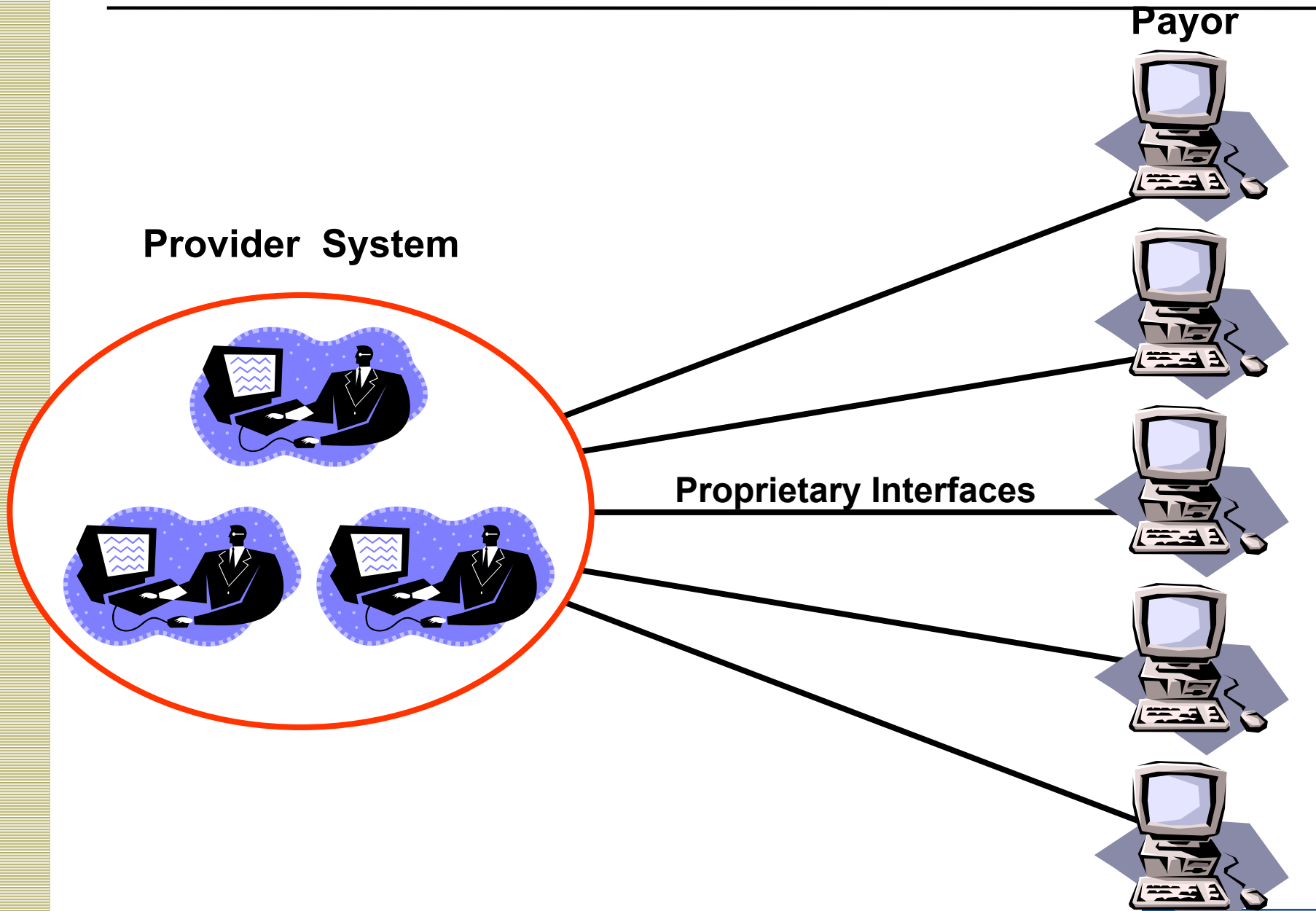
- Who / How Many
- Role
- Influence

- Targets
- Commercial vs. Retail
- Policy

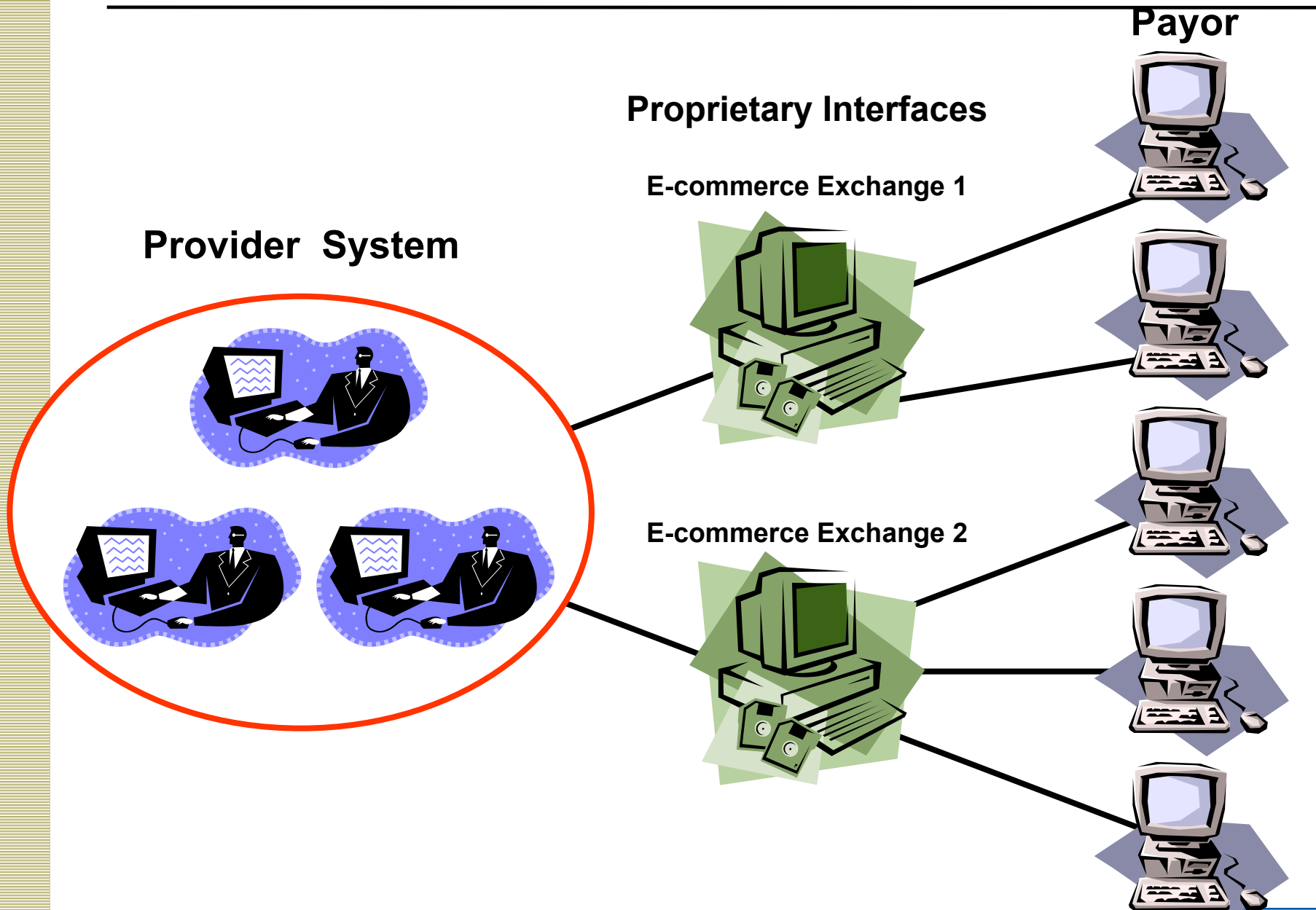
Opportunities

- Internet efficiencies to reduce admin and improve service:
 - ➔ Duplication
 - ➔ Complexity
- Relationships to restore consumer confidence:
 - ➔ Clearly defined roles
 - ➔ Kiretsu (alliance) characteristics
- Differentiation to grow share:
 - ➔ Sophisticated product interfaces
 - ➔ Service improvement and consumer tactics
 - ➔ Advanced care management systems
 - ➔ Segmenting consumer groups
 - ➔ Integrating around risk and non-risk products
- New revenues to break the zero sum game:
 - ➔ New customer opportunities

Internet Current Model



Internet Current Model



Internet Highest Utility Model

Provider System

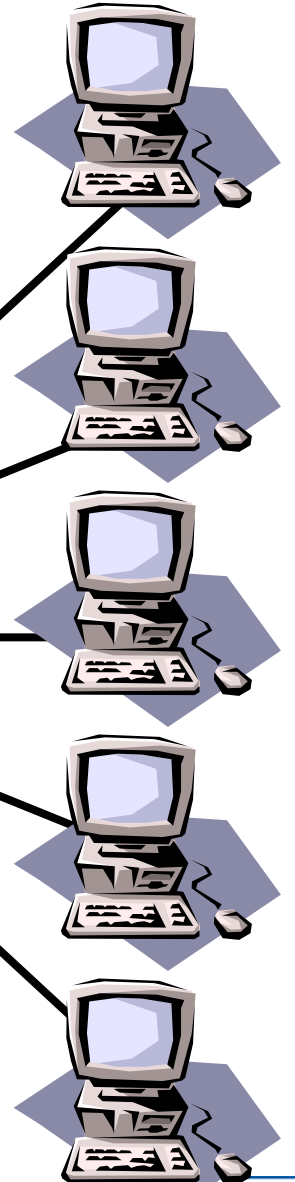


Public Utility?

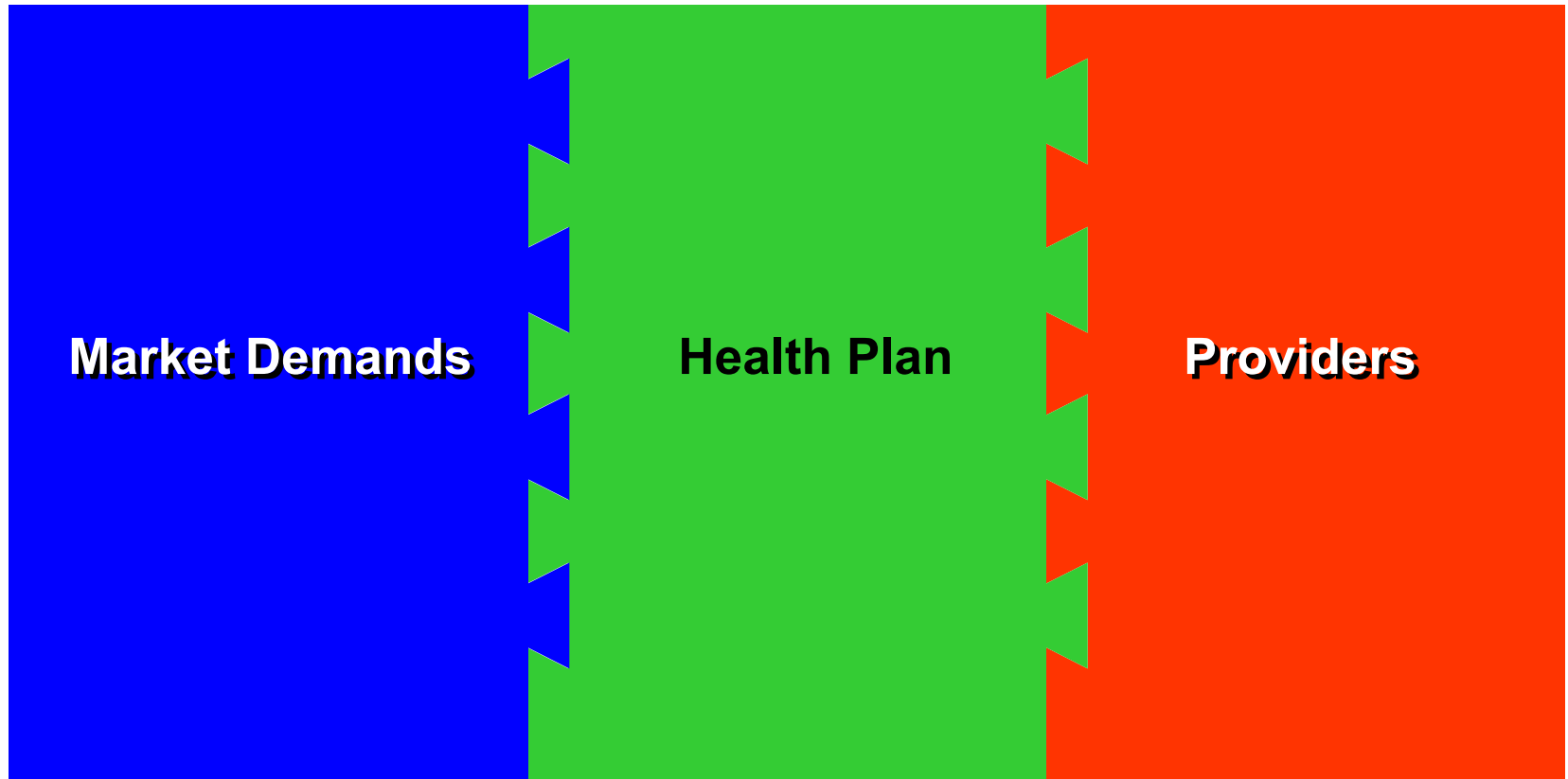


E-commerce Exchange

Payor



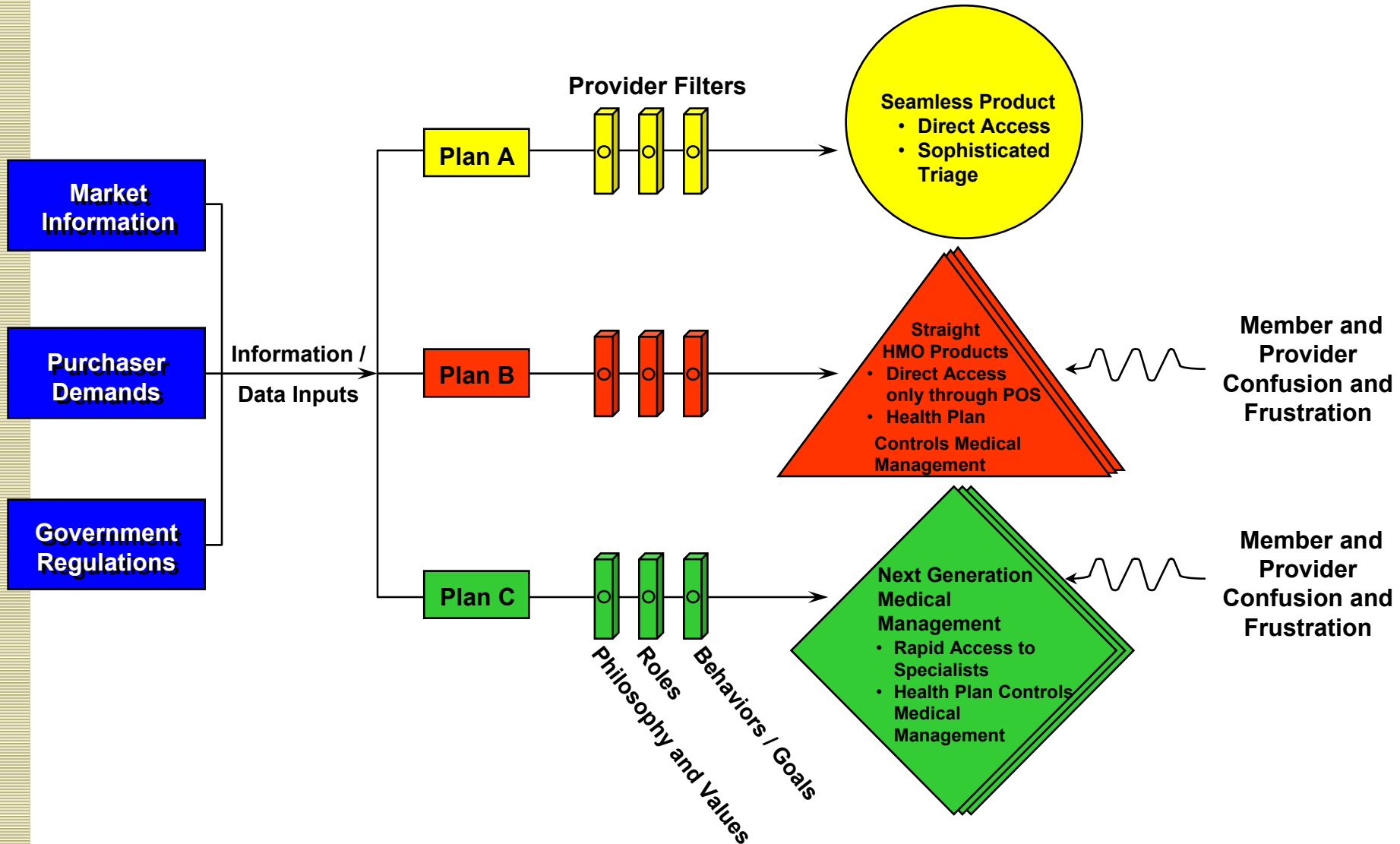
Relationships - Building Seamless Interfaces



Relationships - Kiretsu (Alliance) Characteristics

- Change the Nature of Relationships
- Partnerships Grow From a History of Shared Experiences
- Common Vision and Goals, and Compatible Culture
- Joint Product Development and Implementation
 - ➔ Cross-Functional Teams
 - ➔ Single Point of Contact
 - ➔ Joint Market Responses
 - ➔ Target Costing
 - ➔ Collaboration
 - ➔ Share Knowledge and Capabilities
- Systematic Process for Jointly Lowering Costs and Improving Quality
- Reward Performance and Recognize Profit Targets
- Demonstrate Sincerity and Willingness to Change Role and Behaviors
 - ➔ Tangible Actions
 - ➔ Formal Responses
 - ➔ Responsibility for Own Actions
- Require Supplier Participation and Success
- Ensure Communication
- Build Systems / Processes to Formalize and Support Relationship
- Long-Term Commitment to Performance and Quality

Differentiation - Need for Sophisticated Product Interfaces



Differentiation – Common Payor and Provider Objectives

... Lead to Service Improvement

- Improve Quality of Care
 - ➔ Best Clinical and Administrative Practices
 - ➔ Outcomes and Satisfaction Measurement Feedback
 - ➔ Innovation in Health and Care Management
- Enhance the Relationship
 - ➔ Understand Each Other's Business, Motivations, and Needs
 - ➔ Establish Sustainable and Durable Relations: Board to Board, Staff to Staff
 - ➔ Develop Long-Term Business Plans and Agreements
- Strengthen Integration
- Simplify Health Plan Relations
 - ➔ Eliminate Variation in Health Plans' Policies and Procedures
 - ➔ Simplify Providers' Interactions
- Ensure Sufficient Profit Levels
 - ➔ Achieve Net Margin Targets
 - ➔ Improve Physician Income, Diminish Uncertainty and Reward Superior Performance
 - ➔ Reduce Administrative Costs
- Increase Market Share
 - ➔ Channel Patient Volume
 - ➔ Attract New Members
 - ➔ Improve Competitive Positioning
 - ➔ Improve Relations with Purchasers

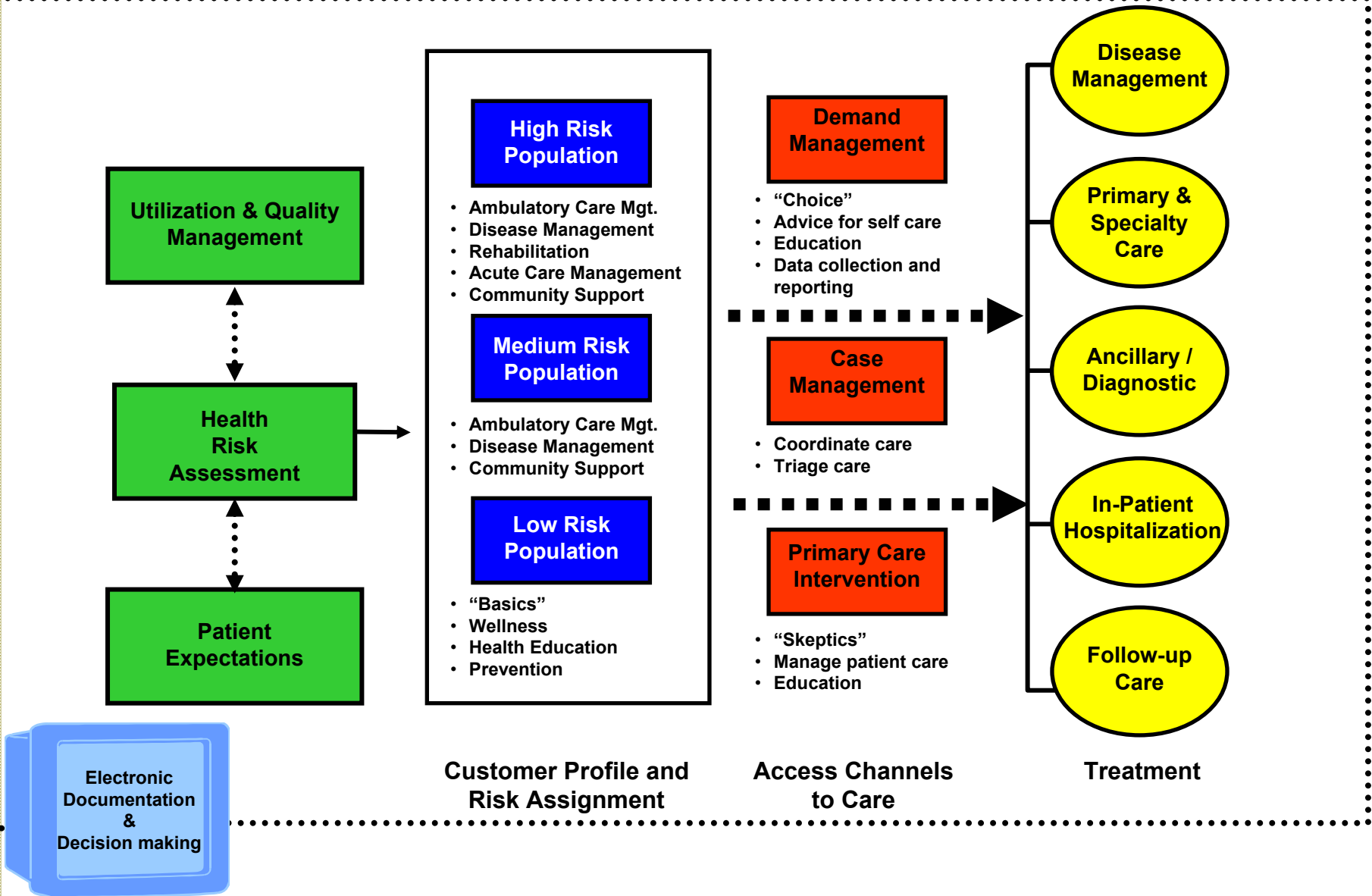
Differentiation - Illustrative "Strawman" Relationship



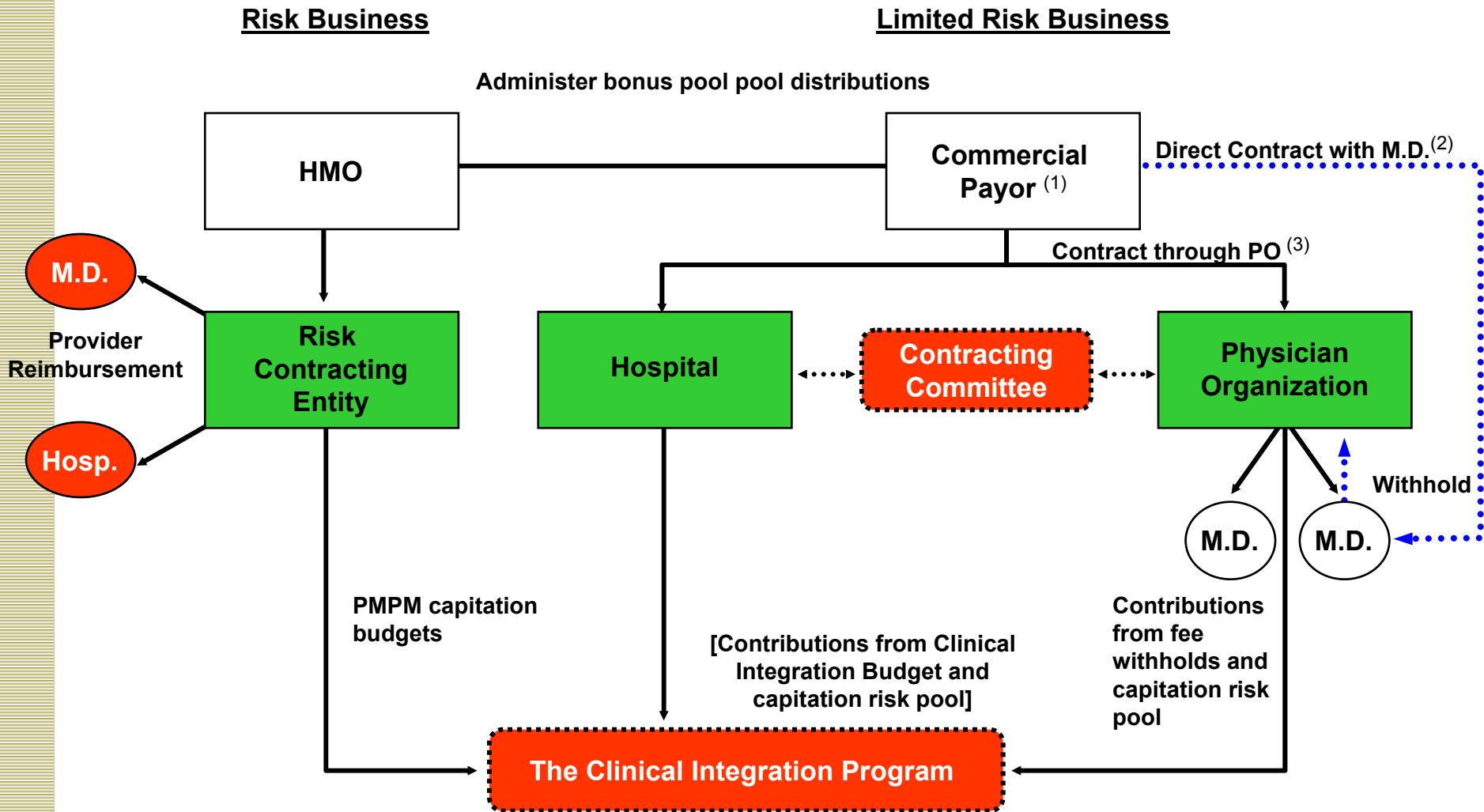
Differentiation - Next Generation Care Management Vision

- Define and fulfill customer expectations
 - ➔ Segment customers
 - ➔ Customize risk assessment, benefits, and care management by segment
 - ➔ Manage customer relationships (e.g., timely information, genetics testing)
- Organize infrastructure around value-added by health plan
 - ➔ Build/manage infrastructure for high-volume tasks (e.g., claims, credentialing, performance reporting)
 - ➔ Organize data to measure performance against expectations
- Support performance improvement among providers
 - ➔ Evolve payor / provider role from vendor to collaborator to partner
 - ➔ Evolve physician value proposition from money and clinical autonomy to information and customer service
 - ➔ Configure channels (i.e., provider networks) to support customer segments
 - ➔ Deliver predictable and consistent products efficiently based on shared data
 - ➔ Provide clinical process and service excellence (e.g., post discharge calls, internet services)
 - ➔ Customize integration of care management with providers

Differentiation - Next Generation Care Management Vision



Clinically-Integrated Provider Network



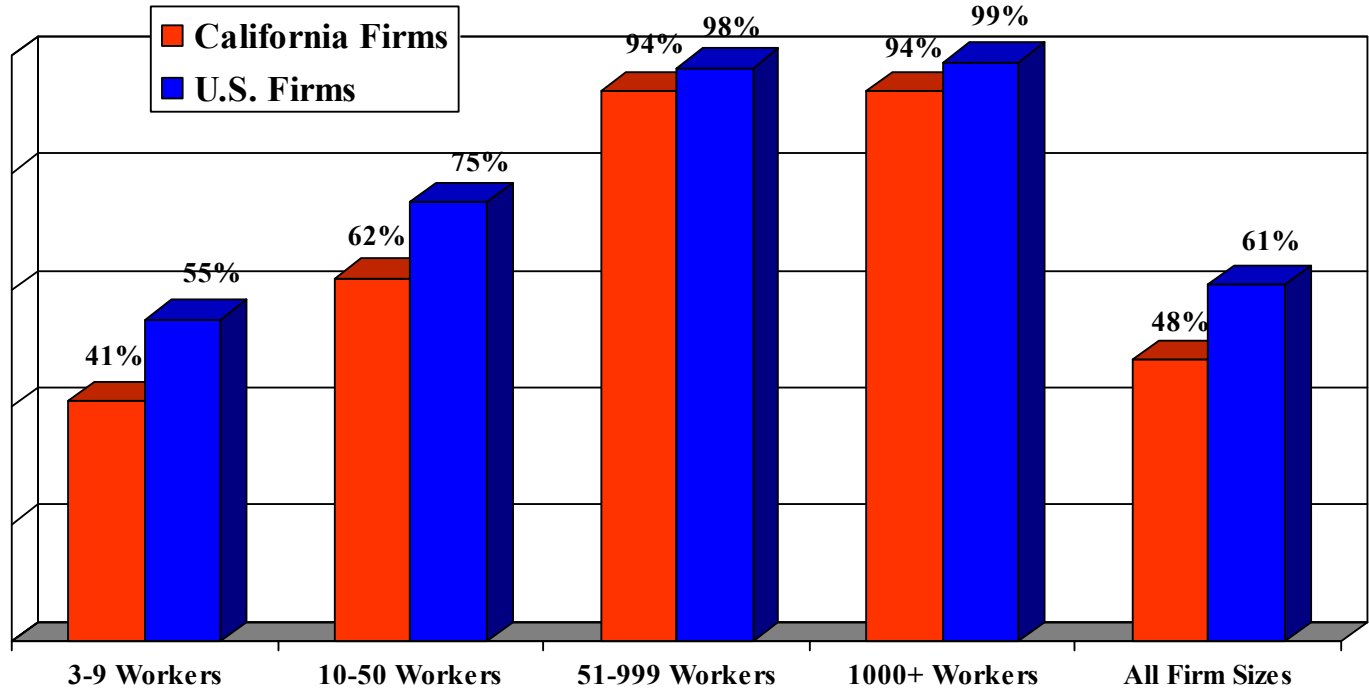
- (1) Medicare fee-for-service payments will not be subject to a withhold.
- (2) If the payor has a direct contract with the physician, then the physician would assign the withhold.
- (3) PO would function as a prime contractor.

Source: BDC Advisors, LLC.

Breaking the Zero Sum Game

Percentage of companies that offer insurance

California firms are less likely to offer health insurance . . .



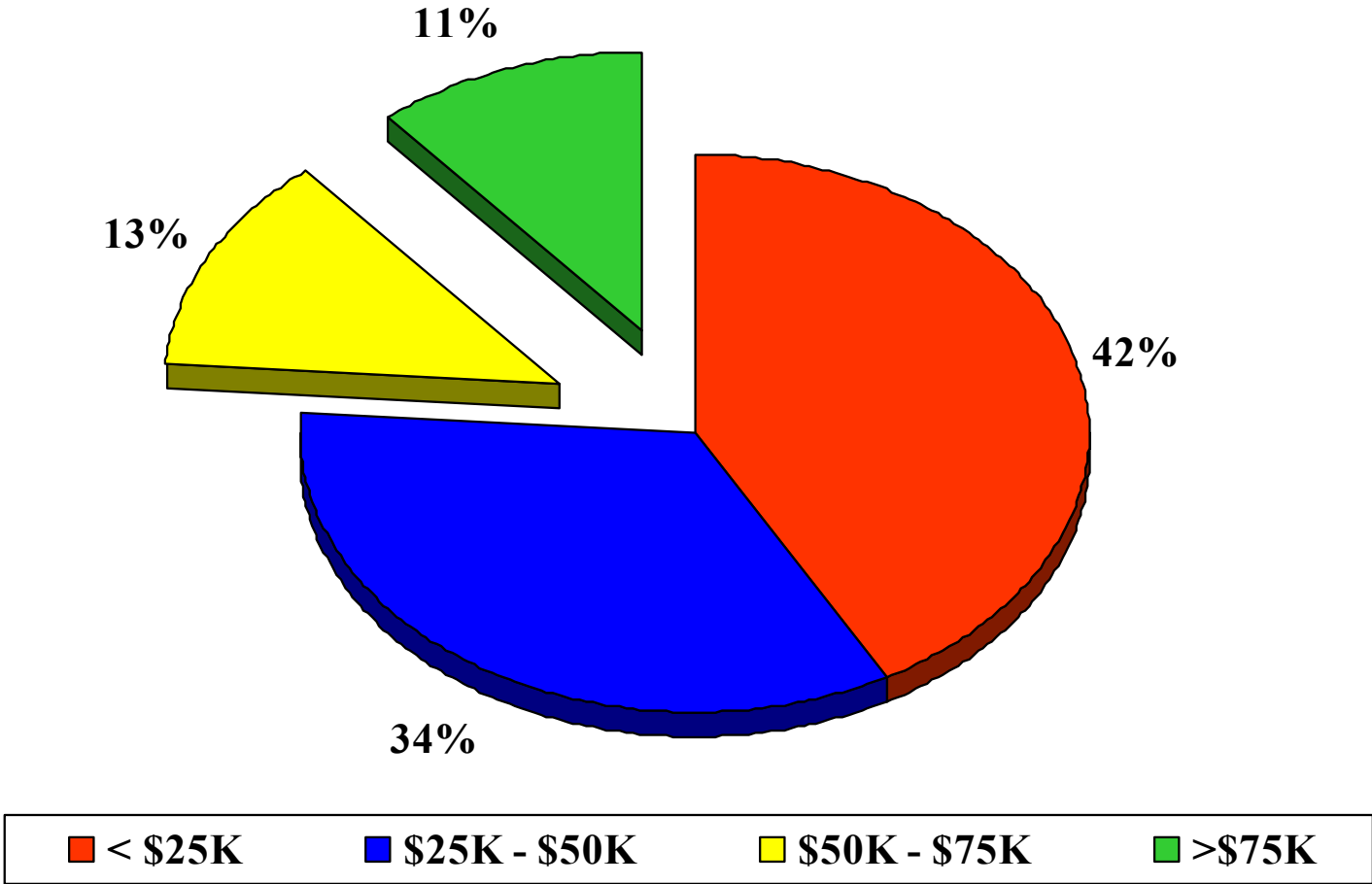
. . . But are more generous when they do.

		California	United States
Firms that offer health insurance		48%	61%
Offers Coverage to	Nontraditional partners	31%	18%
	Part-time employees	55%	41%
	Temporary employees	6%	3%
Monthly Employee portion of premium	Single	\$21	\$35
	Family	\$117	\$14

Source: Kaiser Family Foundation

Breaking the Zero Sum Game

Household Incomes of the Uninsured



Source: U.S. Census Bureau, 1997

Opportunities

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