

Contributors:

Tony Cannata, *The Clearview Group*

Terry Delaney, *RSI Gallagher*

Bill Lavis, *Sitzmann Morris & Lavis*

Robert Petcove, *Advanced Benefit Advisors, Inc.*

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# **The Changing Role of Healthcare Brokers:**

**A New Business Model Provides  
Brokers a Competitive Edge**



**HPM INSTITUTE**

HEALTHCARE PERFORMANCE MANAGEMENT

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## Executive Summary

Health insurance brokers traditionally have played the role of linking business customers with insurers, leveraging their resources to find the most cost-effective solutions for those businesses and their employees. The centerpiece of that strategy has been healthcare cost control, either by steering employers toward less expensive plans, cutting benefits, or by increasing employee contributions. However, as steam picks up behind the concept of Healthcare Performance Management (HPM), the competitive imperatives in the broker industry will change dramatically.

HPM is a technology-enabled, data-driven business strategy that tackles the challenge of controlling healthcare costs and improving quality in much the same way that enterprises have optimized customer relations, supply chain management and enterprise resource management.

As the healthcare landscape changes, brokers who embrace and master the principles of HPM can benefit greatly from the changes that this discipline introduces into the enterprise management of health plans and policies. It is becoming increasingly evident that it is no longer good enough to simply adjust plan costs and establish stand-alone wellness initiatives within an enterprise.

Changes in insurer and carrier business practices caused by health reform legislation also underscore the need for a new broker business model. The Patient Protection and Affordable Care Act, which requires carriers to satisfy minimum medical loss ratio (MLR) requirements, places significant new pressure on broker commissions. Insurers are already reducing broker commissions in the small-group market to help ensure compliance with MLR rules. While these efforts are expected to reduce premiums, they will also reduce broker commissions, now counted as administrative expenses. It raises a compelling question: What future do brokers have unless they find alternative ways to create new revenue streams?

“All stakeholders in healthcare, including insurance brokers, will have to adapt their business model and develop new areas of expertise and capabilities to be successful in the reform era,” says Michael Weinstein, a spokesman for Highmark, Pennsylvania’s largest health plan, to Insurance & Financial Advisor, one of the nation’s leading sources for insurance industry news.

An HPM-driven new business model can help brokers and their customers use data about key workforce population risk factors and trends to make rational investments in preventive programs within a specific employee population. The data can then be leveraged to effect desired changes in health outcomes.

## Shifting Strategies

A strategy that utilizes Healthcare Performance Management strengthens the role of brokers as trusted advisors to their corporate clients, rather than as middlemen for carrier offerings. This strategy requires new and enhanced broker skills and greater knowledge of innovative technology that can deliver more healthcare value for dollars spent, which represents a significant shift in the overall value proposition for customers. An HPM-driven model adds far greater value to core broker traditional business offerings by expanding their ability to make knowledge-based recommendations driven by hard, timely data and analysis.

“The winning edge for employers, employees and brokers lies in understanding the dynamics that are having a negative impact on the health of the employee population — in time to do something about them,” explains Tony Cannata, Managing Partner of the Atlanta-based brokerage firm The Clearview Group, who represents clients including national nonprofit United Way, several private equity firms and a large national media company, among others.

“With HPM, we’re going into these clients and really taking a forensic approach to looking at where their inefficiencies are and what we can implement that a lot of the health insurance carriers aren’t offering, or a lot of the brokers, for that matter,” says Cannata. “We’re finding that the plans are not being managed by the carrier because it would take a lot more resources than they already have, which would obviously affect their profitability — that’s a lot of where we see the opportunity with HPM.”

By being able to effectively leverage data made available by HPM technologies and methodologies, brokers can give employers both a real-time insight into the specific challenges within the population and a workable strategy for mitigating those risks.

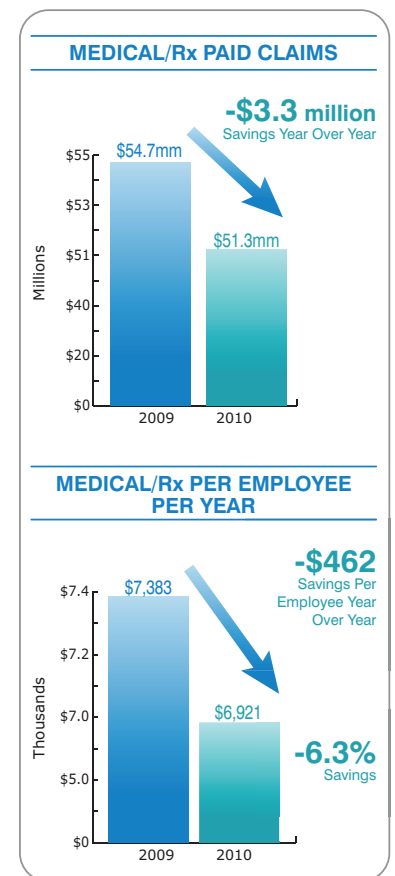
“The difference between me and the traditional broker is that, using Healthcare Performance Management, I am involved with my client every other week looking at the dashboards, looking at the information to micro-tune their plan. As a member of the brokerage community, we have a responsibility to make ourselves indispensable in the process,” says William “Bill” Lavis IV, who leads the Employee Benefits practice at Oakland, Calif.-based Sitzmann Morris & Lavis. “Sure, we have a choice of maintaining the current roles that we have been historically playing, which is simply to procure bids and come back and tell them which one is the best, or we could become better stewards of our clients’ future spend by leveraging technologies and learning new methods and ways that the plan is able to engage members without incurring any additional plan cost.”

However, before brokers can effectively execute this new role, they must first embrace the force of change within the industry — and that is where HPM comes in.

Using HPM, N.J. regional broker RSI Gallagher is adding new value to its clients throughout the mid-Atlantic states. “As a broker, this unique technology gives me increased plan visibility into usage trends that I can convert into actionable intelligence in working with clients,” says Terry Delaney, RSI Gallagher Vice President.

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*Broker Bill Lavis of Oakland, Calif.-based Sitzmann Morris & Lavis saved a national retailer client more than \$3 million by using HPM, which is more than \$450 per employee.*

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## Beyond Cost Management

“Cost management in the health benefits arena has been king for the past 15 to 20 years,” Lavis points out. With the constant pressure of rising costs in every aspect of the health benefits process, brokers and their customers have struggled to find real solutions.

Ironically, a single-minded focus on cost management has actually worked against finding a comprehensive solution to the relentless upward trend of healthcare costs carried by employers. “It has the effect of turning health insurance into a commodity rather than a benefit,” explains Robert Petcove, president and CEO of Cherry Hill, N.J.-based Advanced Benefit Advisors, Inc.

“If brokers must define their business on their ability to pare down costs or simply shop plans year in and year out, there is little room to hone in on the important differentiating factors,” he adds. “The carriers are good administrators, but they are reactive, not proactive. Sure you’re providing me a good discount on the claim, but what’s important to me and my clients is to make sure those claims don’t hit the plan again and again.”

By integrating HPM into the business model, brokers have the ability to move beyond the traditional cost-control mode to establish a greater value proposition that saves companies money. The real value of the broker is to be able to guide and advise a client with real-time, analyzed claim data that will help to predict future risk and cost, thereby allowing the client to implement targeted and measured wellness campaigns within the right population — all to reduce spending, not benefits.

“To me as a broker, I now have technology in front of me that I can then consult with my clients on a much more proactive, not reactive, basis to figure out how we’re going to impact their costs today, not at the next renewal, which may be nine months away,” Petcove says. “This is a very different kind of message than we have using carrier-based programs.”

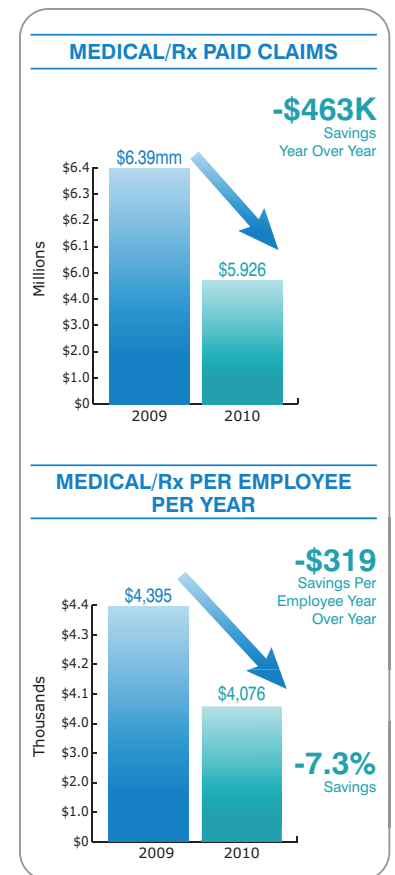
Working with Cannata as its broker, an Atlanta, Ga.-based media company integrated HPM into its health plan management strategies, putting into place integrated wellness programs identified by the HPM analytics system. The targeted outreach prompted a 79 percent engagement rate among the company’s moderate- and highest-risk members, generating savings of almost half a million dollars in the first year, an ROI of 18:1.

The holistic approach to health management made possible by HPM should be driven by brokers who are tasked to give their customers a true, precise picture of the highest risk areas within their plan — an effort that in turn helps businesses reduce health plan costs while improving employees’ health outcomes.

“The enabler for this model resides in the interpreted and actionable data,” says Cannata. “As a representative of my employer clients, unless both my client and I have the de-identified information about its employees’ health, we can’t get out in front of the high-cost conditions that wind up not only raising premiums, but also decreasing productivity.”

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*Robert Petcove, Broker at Advanced Benefit Advisors*



*Tony Cannata of Atlanta-based The Clearview Group saved one of his clients using HPM over \$450,000.*

## The HPM Differentiator

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The argument is similar for brokers. While they can still make commissions on plans by doing business in the traditional manner, they can become far more competitive and successful in writing new business and retaining existing accounts if they assume the role of partner. Adding HPM to a broker's portfolio of solutions they offer to enterprises can be a major competitive advantage. Conversely, traditional brokers who continue to advise companies based on limited data and annual "spreadsheets" are left at a competitive disadvantage.

"The people I'm competing against have in the last several years brought on doctors, a wellness director and maybe even a pharmacy expert, but they seem to be nipping around the edges," Lavis says. "What Healthcare Performance Management technology allows us to do is get right to the core of risk and cost drivers and then give us the tools to do something about them on a continuous basis, not once a year at renewal with plan design changes."

"The early adopters of HPM are certainly going to have something the others don't," Lavis says. "I'm going to have a leg up on my competition because I've got clients seeing tangible results using HPM. I'm able to walk up to my competitor's clients and show them the results that I've got — they're going to then turn back to their existing advisors and say, 'Well, why aren't you doing this for us?'"

Other brokers are experiencing much the same dynamic in what is recognized to be a saturated and highly competitive market.

"Essentially, 95 percent of all employers that have a health plan receive their insurance through a broker," says Petcove. "In order to grow, we have to go capture other people's territory. So, at the end of the day, if the name of our game is to keep that business, then I'm going to have a leg up on the people who don't adopt HPM."

Petcove, who represents Glenmede Trust in Philadelphia, Pa., Fox Rehabilitation in Cherry Hill, N.J., and many other well-managed businesses around the nation, recounted a renewal meeting with one of his clients, MacSteel — a leading metals processor and distributor headquartered in Orange County, Calif.

"By working with our HPM partner, we have been able to be much more proactive, which has allowed us to monitor medical costs in real-time and influence spending behavior for our client. MacSteel loves the HPM-based approach so much that its comment to me was, 'What else can you help me with? I wish my other vendors would handle me like you do, with kid gloves.'"

Today, approximately 40 percent to 60 percent of this plan member community is engaged in targeted wellness and prevention activities driven by the interpreted data. The company is reporting better healthcare outcomes even as the cost structure is reduced.

"Beyond this, they're seeing reductions in absenteeism or increases in presenteeism, which is a major soft cost to a company," says Petcove. "They're lowering training and recruiting costs. They're also putting employees in a healthier, best practice environment where they can lead healthier, more productive lives."

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***"HPM allows me....to get to the root of the problem.... my business customers don't manage anything in their company in a reactive setting — why should their healthcare be any different?"***

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## Conclusion

For healthcare brokers, the introduction of Healthcare Performance Management is nothing short of a game changer. It enables brokers to go beyond differentiating themselves from competitors who primarily focus on commodity pricing and creates a new broker model based on a value proposition that can enhance the health benefits plans of their clients.

At the simplest level, any time brokers have the opportunity to engage with customers, it is a good reminder of their value for business. HPM increases the opportunity to have highly productive touchpoints with clients. This is especially true as companies seek alternatives to address rising healthcare costs by the traditional fix of paring back plans or increasing employee contributions.

By incorporating HPM into the equation, brokers can do more than cut costs for their customers — they can leverage that data into solutions that reduce the risk of catastrophic health conditions. By having the healthcare data — and knowing what that data is telling them — companies will be able to target specific programs to at-risk segments in time to improve outcomes. Perhaps even more significant, these programs are able to address productivity issues such as absenteeism and presenteeism, and that's a benefit that drops directly down to the bottom line.

“With a lot of the carriers, you'll see that 20 percent of the population causes about 80 percent of the cost, and if you break it down even further, about 2 percent of the population draws approximately 40 percent to 60 percent of the large claimants. Using HPM to pinpoint and engage these members with no delay allows for thoughtful and measureable reduction in healthcare costs,” says Cannata. “By guiding and advising my customers and using HPM as a prospecting tool, I'm able to look at key trends every day, week or month as developments actually happen. HPM changes the industry business model that has been in place for the last quarter century.”

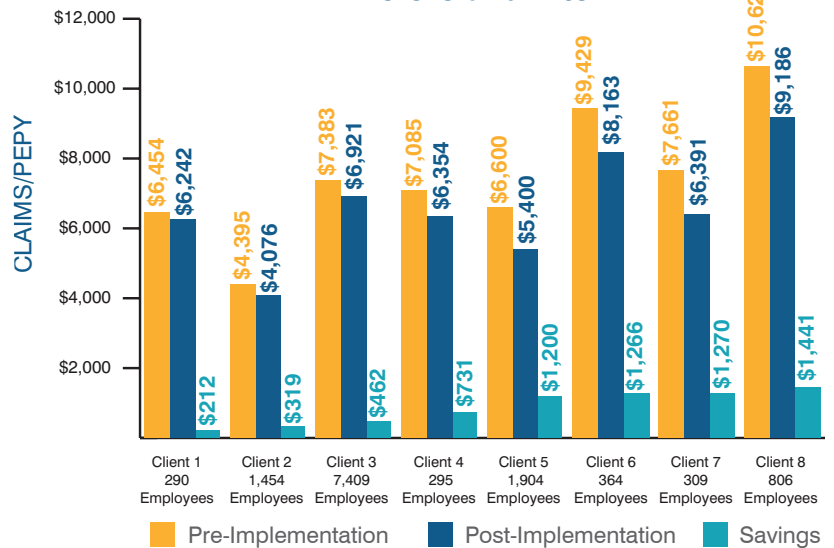
“HPM allows me, as a broker/consultant and representing my employers and their employees for that matter, to get to the root of the problem so that jointly we can make a material difference in healthcare spend,” Petcove says. “My business customers don't manage anything in their company in a reactive setting — why should their healthcare be any different?”

Lavis agrees that HPM holds great promise for the future of the healthcare brokerage business. “We need to break out of this traditional mold that we've been in for the last few decades,” he says. “We have to become better advisors by predicting where the claims are being incurred and better advisors on how to assist in preventing claims and better managing them going forward. Just six months ago, in January of 2011, I wrote a new 2,500-employee life group that is a publically traded company, and they were using one of the big national consulting firms. The reason I won the account was that I brought Healthcare Performance Management to the client's attention.”

With health costs projected to continue to increase into the decade, brokers must reinvent themselves to become trusted partners with clients seeking real solutions to manage and reduce healthcare costs. With commissions being reduced or evaporating altogether, the HPM approach becomes increasingly more important as a way to create a new revenue stream that will help brokers' businesses grow.”

“The definition of insanity is doing the same thing over and over again while expecting a different result. Without having real-time data, you have the definition of insanity,” says Petcove. “What I'd say to the broker community is that the more educated and more proactive brokers are going to be the ones who will take business away from you if you don't get on the stick and understand the changing landscape. I've seen it happen, and I've been lucky enough to benefit from using HPM to write several new broker records already.”

**Summary of Savings Using HPM - Before and After**



## About the HPM Institute

The Healthcare Performance Management Institute (HPM Institute) is a research and education organization dedicated to promoting the use of business technology and management principles that deliver better and more cost-effective healthcare benefits for employers who cover their employees.

The Institute's mission is to introduce and develop a new corporate discipline called Healthcare Performance Management (HPM) — a technology-enabled business strategy that tackles the challenge of controlling healthcare cost and quality in much the same way that enterprises have optimized customer relations, supply chain management and enterprise resource management. HPM provides C-level executives with visibility and control over company healthcare benefits spending trends and risk management postures, while protecting individual employee privacy.

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