

# SPECTRUM OF INSURER/MANAGED CARE OPTIONS

	<i>Key elements</i>	<i>When it makes sense</i>
<i>Stay the course</i>	Continue arm's length relations with providers	<ul style="list-style-type: none"> <li>• Payor has high market share/clout</li> <li>• Providers are fragmented</li> </ul>
<i>Provide services</i>	Offer services to integrated providers, e.g., MSO	<ul style="list-style-type: none"> <li>• Providers integrated--with clout</li> <li>• Payor has capabilities to offer, and growth oriented</li> </ul>
<i>Be "integration friendly"</i>	Contract with integrated systems e.g., capitation	<ul style="list-style-type: none"> <li>• Payor has weak position, relative to provider</li> <li>• Payor's strengths lie in administration</li> </ul>
<i>Integrate partially</i>	Acquire/integrate with elements of the delivery system <ul style="list-style-type: none"> <li>• PCPs typically</li> </ul>	<ul style="list-style-type: none"> <li>• Payor has high membership/low share</li> <li>• PCPs aligning with integrated systems</li> </ul>
<i>Lead full integration</i>	Create the functional equivalent of a fully integrated system	<ul style="list-style-type: none"> <li>• Payor has high share</li> <li>• But providers have integrated to match payor clout</li> </ul>

## OPTION: STAY THE COURSE

Key Elements	Where It Makes Sense	Economics	Examples
<p>Continue arm's length relations with providers</p> <p>But secure stronger ties by addressing administrative costs and connectivity</p> <ul style="list-style-type: none"> <li>• e.g. EDI</li> </ul> <p>And build advantage through next generation MC capabilities</p> <ul style="list-style-type: none"> <li>• Network mgmt</li> <li>• Disease mgmt</li> </ul>	<p>Payer has high market share/clout</p> <p>Providers are fragmented</p>	<p>Systematization of capabilities requires moderate investment</p> <ul style="list-style-type: none"> <li>• New systems</li> <li>• Process reengineering</li> </ul> <p>Returns generated from potential to improve some degree of system economics for your providers</p> <p>And decreasing utilization through traditional and new levers</p>	<p>U.S. Healthcare United Health Care Many Blues</p>

## OPTION: PROVIDE SERVICES

Key Elements	Where It Makes Sense	Economics	Examples
<p>Recognize horizontally integrated delivery systems as potential customers of managed care capabilities, e.g.</p> <ul style="list-style-type: none"> <li>• MSO</li> <li>• Utilization mgmt</li> <li>• Case management</li> <li>• Disease mgmt</li> <li>• Carve outs</li> </ul>	<p>Payer has capabilities to offer...but is significantly disadvantaged as a primary player in the market from structural perspective, e.g.</p> <ul style="list-style-type: none"> <li>• #5 player in consolidated mkt</li> </ul> <p>Delivery system is integrating</p> <p>Payer seeks revenue opportunity in non-target markets</p>	<p>Minimal to moderate level of investment required...depending on portfolio of services offered</p> <ul style="list-style-type: none"> <li>• Traditional MC</li> <li>• Hospital administrative activities</li> <li>• etc.</li> </ul> <p>A “diversification” opportunity</p> <p>Fee-based business</p>	<p>United HealthCare Phycor EDS</p>

## OPTION: BE “INTEGRATION FRIENDLY”

Key Elements	Where It Makes Sense	Economics	Examples
<p>Contract with provider driven integrated systems to provide all medical services on capitation or percent of premium basis</p> <p>Degree of MSO and managed care activities customized to specific relationship</p> <p>Payer focus on</p> <ul style="list-style-type: none"> <li>• Low cost admin</li> <li>• Sales/Mkting</li> <li>• Insurance administration</li> <li>• Stop loss underwriting</li> </ul>	<p>Horizontally integrated systems emerging</p> <p>Payer has limited market power relative to providers</p> <p>Payer’s strengths lie in sales/administration</p> <p>A dominant competitor is perceived as hostile by providers</p>	<p>Lower returns available to payer</p> <ul style="list-style-type: none"> <li>• Though aggregate margins higher than if competed independently</li> </ul> <p>Required investment depends on core capabilities</p> <ul style="list-style-type: none"> <li>• Need to assure returns at least meet reserve requirements</li> </ul> <p>Low cost key</p>	<p>Pacificare John Alden Aetna</p>

## OPTION: INTEGRATE PARTIALLY

Key Elements	Where It Makes Sense	Economics	Examples
<p>Acquire/integrate with elements of the delivery system</p> <ul style="list-style-type: none"> <li>• PCPs typically</li> <li>• Specialists another option?</li> </ul> <p>Though recognize that majority of services provided through contractual relationships</p> <p>Can include simply acquiring assets of practices, not employing the physicians themselves</p>	<p>Payer has low market share/clout</p> <p>Payer has high membership</p> <p>PCPs beginning to align with integrated systems</p> <p>Payer risks being locked out of access to primary care on attractive terms</p>	<p>Moderate/high level of investment required</p> <ul style="list-style-type: none"> <li>• Bricks and mortar</li> <li>• Management capabilities/ systems</li> </ul> <p>Returns generated by ability to offer lower cost care delivery option...</p> <p>And maximizing value of physician practice</p>	<p>Aetna</p> <p>BCBS-NJ</p> <p>BCBS-MA</p>

## OPTION: LEAD FULL INTEGRATION

Key Elements	Where It Makes Sense	Economics	Examples
<p><b>Create functional equivalent of fully integrated system</b></p> <p><b>Through ownership or partnership between payer and delivery system</b></p> <ul style="list-style-type: none"> <li>• Holding company</li> </ul>	<p><b>Very sophisticated managed care market</b></p> <p><b>High concentration of payers and emerging integrated delivery systems</b></p> <p><b>Payer is forced to make choices of systems</b></p> <ul style="list-style-type: none"> <li>• Network design flexibility is lost</li> </ul> <p><b>Sense of stalemate</b></p>	<p><b>Fundamentally different economics from perspective of either payer or delivery system</b></p> <ul style="list-style-type: none"> <li>• Significantly lower ROA for payers as economics get merged with delivery system</li> </ul> <p><b>Can payers compensate for this via access to a significantly larger business</b></p> <ul style="list-style-type: none"> <li>• Or is it simply better than the alternatives</li> </ul>	<p><b>Health Partners</b></p> <p><b>Allina</b></p> <p><b>Choice Care</b></p>

# OPTIONS VARY BY RELATIVE MARKET POWER AND STAGE OF EVOLUTION

*Conceptual*

