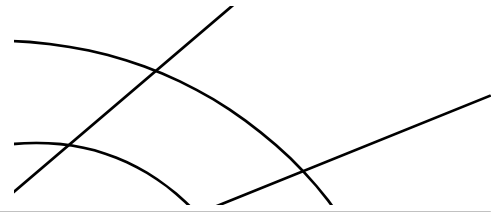


Plan Management Navigator



Analytics for Health Plan Administration

January 2006

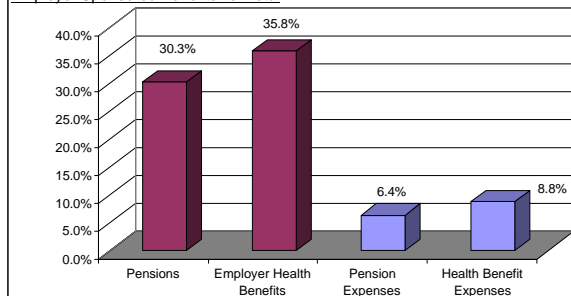
LESSONS FOR HEALTH PLANS FROM THE INVESTMENTS INDUSTRY: PART 2 – FROM MEASUREMENT TO IMPLEMENTATION

Over the past thirty years or so, the investments industry has undergone momentous changes associated with consumers' efforts to link their payments with performance. The similarities between the investments and the health plan industries are such that it is possible to draw some lessons about the next steps in the evolution of the health plan industry.

As noted last month, the two industries share common attributes. They have relatively small administrative costs compared with their investment returns or health benefits, respectively. The cost of failure of the products is high and their performance is hard to reliably predict in advance. Historically, the presence of professionals in the production chain has served as the indicator of quality. *Please contact us if you do not have Navigator from last month, as we will be happy to supply it.*

Interestingly, primary demand for investments and for health care share a common link to employer-sponsored benefit systems. In 2003, pensions comprised 30.3% of all invested equity assets and employer-sponsored health benefits comprised 35.8% of all health care expenditures. According to SEER, for Blue Cross Blue Shield Plans, which are probably similar to other larger employers, health benefit expenses of 8.8% of total compensation and pension expenses of 6.4%, are the two highest non-salary facets of employee compensation.

Figure 1. Health Plan Navigator
Employer Sponsored Benefits vs. Total



Source: Federal Reserve Statistical Release: Flow of Funds Accounts of the United States, Second Quarter, 2005; 2005 SEER, Blue Cross Blue Shield Edition; and CMS, Office of the Actuary, National Health Statistics Group

The impetus for the changes in these two industries has been consumer disillusion, triggering demands for higher standards by consumers. We believe this may lead to essentially similar responses in segmentation of the respective products. The effects may include:

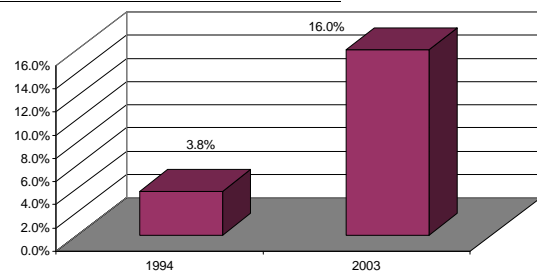
- Reduced Consumer Loyalty.
- Overall Price Pressures on Managers.
- More Numerous Closely-Tailored Products.
- Reduced Discretion to Managers.
- Segmentation of Products and Pricing.
- Less Loyalty of Health Plans to Vendors.

Changes in the Investments Industry

Of all of the segments in the investments industry, mutual funds have the unique property of being the first stop of the investment dollar, in much the same way that health plans are the first stop of the health care dollar. The reaction of the mutual fund business to changes in consumer demand has been reflected in changes in the products offered and changes in managers' cost structure.

Figure 2. Health Plan Navigator

Percent of Stock Mutual Funds Assets in Index Funds



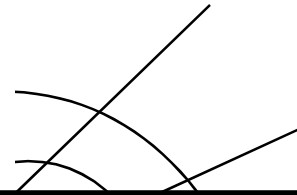
Source: Dayton Daily News, September 12, 2005, "E-trade joins price war by cutting fees on index funds."

The product changes appear to have gone in diametrically opposite directions, but actually both reflect consumers' desire to withdraw discretion from managers. First, investors have increased their use of indexed funds, which have increased from 3.8% of stock mutual fund assets in 1994 to 16% in 2003. Because these funds have little need for investment management and research, firms offering index funds can operate at very low costs. Index segment leader Vanguard had an average expense ratio of only 0.26% of assets in 2002, compared with 1.26% for the average mutual fund. Put a different way, index funds both reduce management discretion and provide a mechanism to drive down costs.

On the other hand, the number of mutual funds has also increased, growing from 564 to 8,044 between 1980 and 2004 according to the Investment Company Institute. Such new funds are often quite narrow in their investment focus,

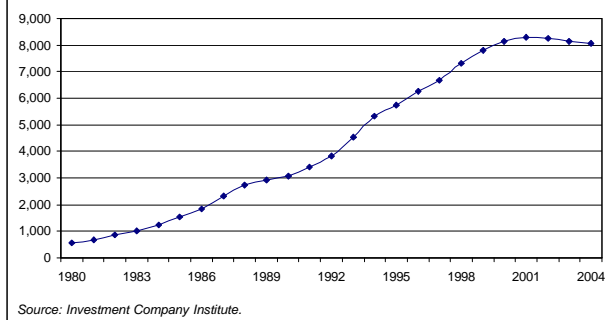


Navigator



similarly, but to a lesser degree than index funds, withdrawing a degree of discretion from the fund manager.

Figure 3. Health Plan Navigator
Number of Mutual Fund Companies



Also indicative of dissatisfaction, according to John Bogle, Founder of Vanguard Group, consumer pressure has also been expressed by switching funds more often: Mutual fund redemptions increased from 15% of equity fund shares in 1979 to 45% in 2002. In other words, the average share in a mutual fund is held for two years, down from seven years in 1979. As shown in Figure 5, changes since the '50s are even more notable.

It is unclear what the effect on mutual fund expenses have been. On one hand, according to the Investment Company Institute, the growth in the number of equity mutual funds has been accompanied by a decline in expenses. From 1980 to 2003, the average expense ratios declined by 101 basis points to 1.25%. However, Mr. Bogle believes that ICI calculations tend to understate expense ratios which, when corrected for its weighting methodology and backing out the effect of growth in index funds, would have posted higher costs. A study prepared for the SEC's Division of Investment Management in 2000 seems to support Bogle's analysis. He believes that the higher turnover cited above has caused the higher costs he cites.

Figure 4. Health Plan Navigator
Sales-Weighted Mutual Fund Expenses

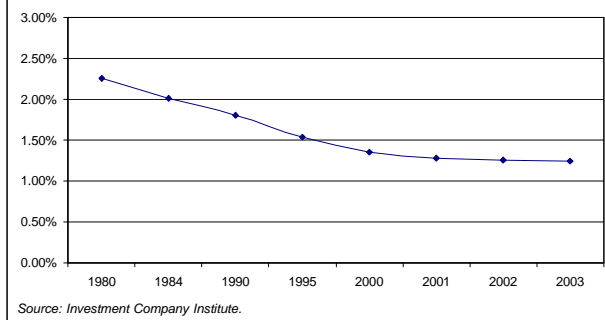
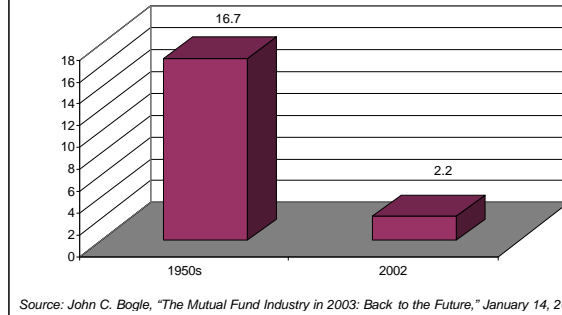


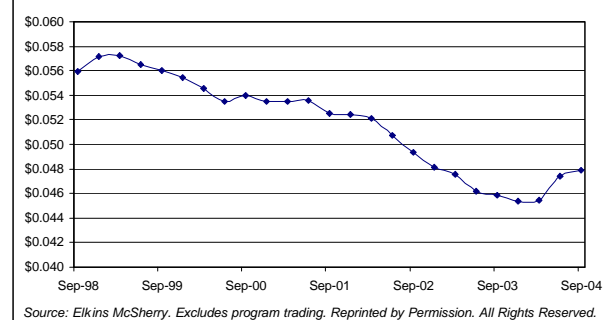
Figure 5. Health Plan Navigator
Mutual Fund Holding Periods, in years



These pressures are likely to have been expressed in much greater operational focus and pressures on vendors. In 1979, Vanguard paid an average advisory fee to its external advisor, Wellington Management, of 0.162%. It is now 0.038%.

Paralleling this, and also as a result of passed on pressures by investment managers, commissions paid to brokerage houses (not included in mutual fund expense ratios) have fallen from \$0.056 per share in 1998 to \$0.048 per share in 2004 excluding program trading conducted by index funds. According to the consulting firm Elkins-McSherry, in the most recent quarter, the average per share cost on the New York Stock Exchange, including program trades was \$0.032.

Figure 6. Health Plan Navigator
Institutional Commissions per Share on NYSE



Pressure on mutual funds has also led to some unbundling of broker commissions. According to a paper by Michael Goldstein, Paul Irvine, Eugene Kandel and Zvi Wiener, commissions can best understood as a blend of basic commissions at 1-2 cents per share and the majority of institutional trades at 5 or 6 cents per share, including the value of other services including research. Indeed, Fidelity Investments and Lehman Brothers have recently announced a new type of relationship in which Fidelity will pay a fixed fee for Lehman Brothers' research and an unbundled deeply discounted commission rate for execution.



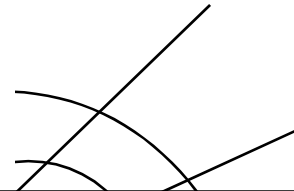
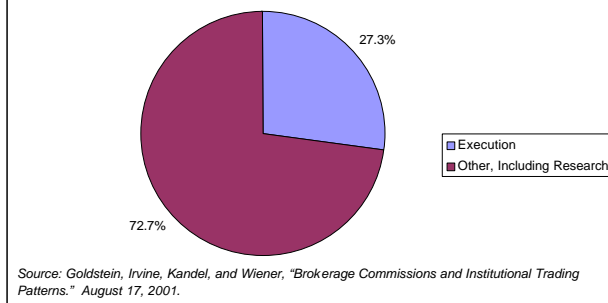
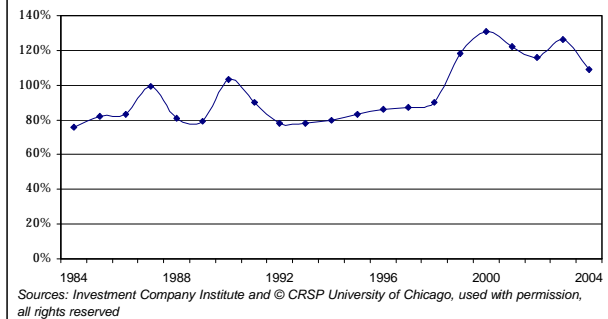


Figure 7. Health Plan Navigator
Composition of Brokerage Commissions



Investment manager pressure on vendors can be said to extend to the investments themselves. As shown in Figure 8, the turnover in mutual fund assets has risen from below 80% in much of the 1980s, to over 100% more recently as investors have demanded immediate superior performance in the quest for greater investment returns. The counterpart in the health plan industry could be much greater turnover for care managers or for providers beyond the scope of normal consumer choice.

Figure 8. Health Plan Navigator
Mutual Fund Asset Turnover



Functional Areas and Implications

There are functional parallels between the costs of health coverage and the costs of investment management. The oft-cynical complaints about health plan administrative expenses echo John C. Bogle's summation, "The shortest route to the top quartile in performance is to be in the bottom quartile of expenses."

Figure 9 illustrates the functional parallels. While investment management reports expenses as a percent of assets, we think it is illuminating to consider these costs in the context of gross investment returns. (While the normal accounting is appropriate for understanding investment management firms, our treatment may be helpful in understanding investments from a customer's perspective.) Our implicit analogy is between health benefits as beneficiaries and investment returns to the investor: As in the calculation of health plan administrative

expense ratios on a premium-equivalent basis, we calculate expenses as a percent of the sum of net investment returns and expenses.

Each of these functional area groupings, marketing, professional services and back office costs, vary a bit from each other but, interestingly enough, are managed similarly to their counterparts in their respective industries. We discuss each of the functional area groupings below.

Medical Management and Investment Management

The most glamorous aspect of asset management is the professional investment process. It occupies a similar central position to Medical Management and Provider Network Management and Service in health plans, especially those that have long heritages of care management, such as HMOs.

In response to consumer changes, the two industries are evolving in similar ways. Investors, dissatisfied with the performance of investment managers have limited their prerogatives by purchasing funds increasingly narrow in their parameters. For example, rather than investing in growth funds generally, investors seek growth funds focusing on health care.

Sometimes, they have gone further, using indexing to largely exclude active management. Index funds not only reduce management discretion, they require less management effort, and hence require lower fees to cover them. By design, they also are far less volatile relative to investment benchmarks, making them attractive to risk-averse investors. As discussed later, index funds also tend to entail lower "transactions costs" other than internally reported, since the turnover is also low. By contrast, active investors have sharply increased their turnover creating additional costs.

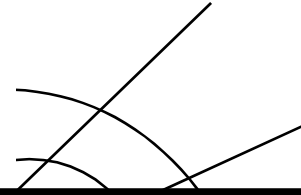
Figure 9. Navigator
Expense and Return Ratios

Investment Management		Health Plans	
Functional Areas	Pct. Net Returns Plus Expenses*	Functional Areas	Percent of Premium
Distribution	1.71%	Sales and Marketing	4.28%
Investment Management	6.73%	Medical Management and Provider Network Management and Service	1.33%
Shareholder Services and Other	1.50%	Account and Membership Administration, plus corporate services	10.60%
Total Expenses	9.94%	Total Administration	16.21%
Yield	90.06%	Health Benefits Ratio	83.79%
Expenses plus yield	100.0%	Expenses plus benefits	100.0%

Source: *The Mutual Fund Industry in 2003: Back to the Future*, John C. Bogle, January, cited money market fund. SEER-BlueCross BlueShield Edition 2005, commercial insured.

* Based on national money market account rate of 5.89% net yield for December 31, 2000 from iMoneyNet, Inc. Expense ratio data is for Vanguard Money Market Funds in 2000.





Health benefit plans appear to be engaged in many of the same strategies at the behest of their customers. On one hand, the growth of high deductible plans effectively excludes care managers from the health plan design. On the other, medical management is becoming more narrowly focused on case management and disease management, rather than attempting to manage all health care needs. For both mutual funds and for health plans, their growth can reduce unit costs by increasing bargaining power with external investment managers and disease and case managers, respectively. In essence, we think that medical management costs will track with consumer demand for their services.

Shareholder and Membership Services

From the standpoint of a health plan manager's ability to implement savings, the most exciting area is Account and Membership Administration, plus Corporate Services. This has also been the case in the financial services industry. Sanford Weill, former CEO of Citigroup, is cited by *Forbes* as describing the highly leveraged benefits of improvements in mundane operational issues with the grand Sir Halford John Mackinder quote, "He who rules the heartland ... commands the world."

In the opinion of Alan Little, senior manager, national service lead for customer service technologies, First Consulting Group, customer service in healthcare still lags behind that in other industries, such as financial services. Financial services, he believes, have a significant head start in integrating various databases to the desktop and using automated self-service technologies to lower costs. According to Mr. Little, research and experience have shown that a self-service transaction costs less than a 10th that of a live transaction.

In addition to cost savings, improvements are also needed to increase member retention. "Why did financial services and telecom companies focus on customer service? Because it's so easy for a customer who's perturbed to find another provider," says Joseph Heinen, vice president of strategic marketing for Genesys Telecommunications Laboratories Inc.

There are many examples of process improvements in both the health plan and the investments industry. Those improvements are achieved through internet transaction processing and integration with customer service interfaces, those of computer-linked telephone transactions, automated document delivery systems and other improvements in transaction processing. For competitive and other reasons, information on these improvements is limited albeit informative.

Internet Transaction Processing

The use of the internet can have great benefit to participants in both the health plan and investment industries. For the investment industry, *Computerworld* and *CIO* cite numerous benefits to Vanguard with direct applicability to health plans. Most notably, the average cost per transaction was 95% less than for customers using other channels, like telephone or

letter. The internet was apparently a satisfactory substitute for voice interactions in that the number of calls declined to 40,000 from 100,000 daily between 1999 and 2002. Also, these inquiries did not require any customer support: Between 98 and 99% of all such inquiries required no involvement by a customer service rep. The quality also improved as the investment cycle time dropped by 90%.

The internet can have indirectly favorable effects on overall costs, other than those directly related to transactions. Vanguard's retention rates are 20% higher for customers using the internet to process transactions, reducing the need for marketing expenses. In addition, online customers of Vanguard maintain account balances that are 50% higher than those of phone or mail customers. These larger accounts are less expensive to serve because, as Merrill Lynch notes, the correspondence and mailing cost of a \$10,000 account is often the same as for a \$10 million account.

Superior costs, faster transaction cycles, higher retention rates and other benefits of the internet based transaction systems are as applicable to health plans as they are to mutual fund managers.

Among health plans, industry leaders are benefiting through similar innovations. Humana, teamed up with Blue Cross/Blue Shield of Florida, has created a multi-payer physicians' portal called Availity, apparently similar to NaviMedix. Using the portal, physicians can perform claims inquiries through one common interface rather than having to log onto different systems for different insurers. Availity says it also speeds claims processing, not only because it is performed on line, but submissions are done in real time, rather than by batch. Moreover errors can be identified by the ones, leading to speedier resolutions.

Integration of the Internet to Customer Service Interface.

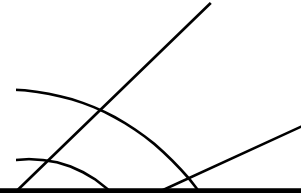
Not every Vanguard customer is comfortable using web applications. In response, Vanguard adapted the web-applications to customer service desktops in Vanguard, which had a positive impact on quality and costs. There is a similar trend amongst health plans.

According to *CIO*, prior to Vanguard's integration, customers were served through 13 siloed client/server systems. Customer service reps had to refer to as many as ten different systems, and occasionally needed to transfer to other employees for customer service inquiries.

The internet-based transaction system was approximately 80% directly transferable as a customer service interface, and had numerous benefits. Notwithstanding, it also evidently required an investment of approximately \$150 million to migrate the multiple systems to one common enterprise system.

Cost savings arose in many Vanguard functional areas. The reduction in the number of systems was such that reentering data across systems became unnecessary. This led to \$30





million in annual savings, and a decline in IS personnel from 800, by 75, through attrition. This alone provided approximately a 20% ROI.

Costs were further reduced because of the consolidation of the systems. The number of steps required to complete a telephone initiated transaction was sharply reduced and the number of employees needed also declined. This also reduced the need for training employees to use the more complex internal system, since, after all, customers don't have to be trained.

Finally, quality also improved since the customer service interface allowed consumers and reps to literally "be on the same page." Employee response time also declined by 60-70%.

Similarly, in 2004 Humana has changed some functionality to its on-line service. Its SmartSuite's Health Plan Wizard allows a family to custom design their plan based on their prior health history and project what their out-of-pocket expenses will be depending upon the tradeoff between a high premium and their exposure. Included with this analysis is the amount of money that. This system is believed especially useful to the 200,000 members using its consumer-choice products.

An even more direct comparison is found in Humana's customer service representatives use of Humana's ePlan to access the same information that members can see on their own PCs. Cited by *Health Management Technology*, according to Gail Knopf, chief operating officer of TriZetto's HealthWeb business unit which assists Humana, the savings are high since "Health plans are averaging three calls per member per year into their call centers. And the average cost for these calls is \$3 to \$10 per call. Humana estimates that it gets 20 million calls per year, costing about \$4 to \$5 per call."

Use of Computer-linked Telephone Transactions

While interactive voice response systems are common, Fidelity Investments, according to *CIO*, encourages the use of telephone keypads to make account transactions. Upon implementation in 1997 such communications represented 75% of its inquiries. The cost savings are very high considering that the average Fidelity Investments representative answers 50-110 calls per day. These calls cost the company \$0.70 versus \$11.00 per call answered by a person. This technology has applicability in health plan enrollment changes, as well as other transactions.

Humana has similarly strengthened its interactive voice response. In 2001, 80 percent of its contact from physicians and members was handled by customer service representatives and 20 percent used self-service, mostly IVR. By 2004, more than 60 percent of these contacts were redirected to self-service IVR and the Web. The high adoption rate was achieved by adding transactional capabilities to the Web and making it easy to use.

In another example, West Corporation was able to provide significant improvements in the IVR of a system for an undisclosed health plan, which we estimate had approximately four million members. For the approximately 30% of all member and provider calls it handled, it achieved over \$8 million in annual savings, a 30% or greater reduction in cost per call and met or surpassed quality goals, including a 15% improvement in service levels.

Introduction of Automated Document Delivery Systems

Mutual funds send out statements, often monthly and when transactions are completed, while health plans distribute Explanations of Benefits (EOBs) and other materials. A high proportion of costs of service to mutual fund customers are printing and mailroom. These expenses are also significant for health plans and the experience of the investments community has applicability to health plans.

According to the *Journal of Communication Distribution*, in 2002, Vanguard initiated an end-to-end monitoring and tracking system from print queue to delivery of statements to the U.S. Postal Service, creating its own system based on systems developed by Bowe Bell and Howell and Sefas Innovations. Among Vanguard's accomplishments of its print/mail output distribution were 19% productivity improvements, processing steps down by 22%, production workflow steps reduced from 82 to 64. The real time feedback in the printing process alone meant that the need for reprints per quarter declined from 15-20 (at \$2,000-\$3,000 per printing) to zero.

We do not know of similar activities by health plans. Anecdotally, we have heard that this is an area of great interest.

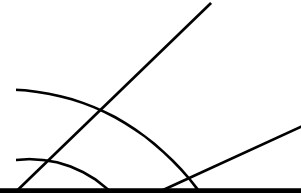
Improvements in Transaction Processing

While the health plan industry may experience an increase in the number of transactions relating to the increasing importance of high deductible health plans and consumer directed health plans, the securities industry has been wrestling with this for years. The number of shares traded daily on the New York Stock Exchange increased five-fold from 73 billion in 1994 to 367 billion in 2004.

Among the causes of greater volume is that in recent years, the New York Stock Exchange changed its pricing conventions from eighths to decimals. *CIO Magazine* cites SRI International as estimating an increase in volume resulting from this change to be 173%. Similarly, pending changes in health plans to consumer directed health care, by increasing flexibility to consumers, may also have the indirect effect of increasing volumes of claims, enrollment and other transactions.

The sharply increased number of stock transactions stressed the capacity of Merrill Lynch's Equity Books and Records System. According to Microsoft, in 2004 Merrill Lynch introduced a system which reduced costs "considerably", increased throughput by 30%, increased speed of processing





by 300%, while making better use of existing hardware, increasing its effective capacity by 50%. It also improved its scalability, easing its ability to add capacity.

Similarly, Humana in its relationship with EDS, implemented a fully integrated enterprise software system for healthcare organizations to administer benefit programs, across multiple companies, lines of business and products. Working with Humana, EDS implemented the MetaVance application and supported integration requirements to the Web and other systems. This system works with internet-based systems for Humana's enrollment and claims transactions, as well as providing nearly instantaneous service and makes the very most of their individualized benefit plans.

EDS claims, although Humana does not indicate that it applies in its instance, that this system achieves 75 – 85 percent first-pass claims processing results, at or above the 75th percentile in our *SEER* report. The company also asserts highly extraordinary savings of on average \$2 per claim. Humana believes that this system enhances productivity by eliminating redundant activities, increasing productivity and will increase speed to market with new products and services for clients with minimal changes to the system.

Similarly, Christine Arnold of Morgan Stanley tells us that UnitedHealth Group will be deploying Comet, a new claims processing system, by year-end. According to her, United expects that Comet will raise productivity by 20% to 25% by increasing claims payment accuracy and reducing defects by 20% to 30%.

Improvements in claims and other transaction processing can have valuable spill-overs to other functional areas. In particular, improvements in claims carries through to customer service since inquiries are often related to claims. Customer self-service in claims falls into two main types of activities: one, reporting the claim; and two, getting historical claim detail or the progress of in-process claims. Tim Carpenter, senior analyst at Watchfire GomezPro estimates that the cost savings can be calculated as, "instead of paying someone \$18 an hour to handle a 25-minute phone call, carriers could move those inquiries to the Web, and customers never would be put on hold." This requires a common view integrated through legacy systems and provided through the MetaVance application, according to Michael Voelker of TechDecisions for Insurance.

In 2003, by delivering leading self-service capabilities, almost 70 percent of all inbound contacts to Humana were handled electronically by year end, according to International Customer Service Association. Total contacts through the Web increased from 4.6 million in 2002 to 10.8 million in 2003. Humana had consolidated its service center operations from six locations down to three and achieved significant cost savings while reducing call handle time for customers. This was complemented by skills-based routing and an integrated knowledgebase for customers that require such service.

Linking the Supply Chain

Linking the supply chain can reduce the costs of transactions. The key is to begin the linkage where the important drivers exist.

Health plans are the drivers of the health care supply chain. For example, we recently had a conversation with a health plan manager who found he was unable to take full advantage of the savings available through electronic claims submissions. These claims, however submitted, each required a determination of the appropriateness of the claim. Through an agreement with a major provider in his community, his solution was to link data systems for the limited purpose of easing these reviews, while preserving the economic advantages of the electronic claims submissions. These supply chain links can be key elements in future successes in improving performance.

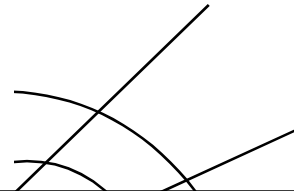
This is also true in financial services. Mortgage originators, brokerage houses, and banks are the drivers of the financial services supply chain. Costs vary between participants in each segment. Innodata cites a McKinsey study showing that processing costs for mortgages range from \$100-\$200 per bank, to \$50 in more efficient banks.

Because the success of all of the participants is dependent upon their collective speed and efficiency, each has an interest in the performance of the others. According to Interlinq, regarding financial services, "the entire supply chain must become one extended electronic enterprise in which each participant has an increasing stake in the success of each of its trading partners." To do this, "supply chain partners need greater visibility into one another's operations and greater connectivity with one another's information and transaction processing systems."

Similarly Humana introduced a system for the electronic submission of claims by its TRICARE providers. Under this system, Humana promises that TRICARE electronic claims process two to three weeks faster than paper claims, plus mail time is also saved. In addition, the provider experiences and eliminates data entry errors.

Aetna, according to *Insurance Technology*, is also providing links so that consumers can assume the responsibilities associated with the consumer directed health plans. Recently piloted with information for approximately 600 procedures provided by 5,000 physicians and physician groups in Ohio, Kentucky and Indiana, it will serve as a guide to rates for the most common office-based services offered by primary care or specialist physicians.





Similarities in Transactions Across Industries

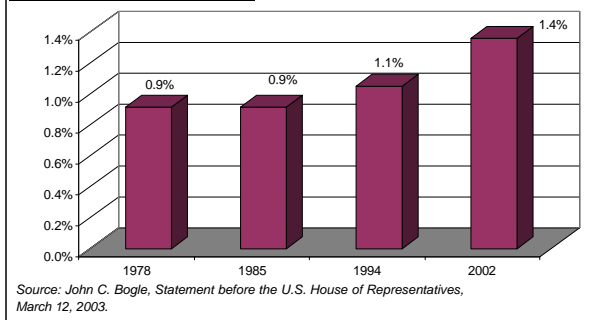
One company that highlights the possible transferability of process improvement experience across industries is Fiserv. It has acquired numerous firms in unrelated industries on the notion that efficient transaction processing is important to them all and transferable between them.

Fiserv has acquired TPAs and National Flood Services, a provider of flood policy administration services, and providers of data processing services to assist data processing for insurance products for existing banking customers. Crossing industries of banking, securities and insurance has been especially important since the end of the Glass Steagall Act in 1999.

Marketing and Distribution Costs

Marketing costs also have important similarities between investments and health plans. The unfortunate experience of the mutual fund industry is that the segmentation of the market has *increased* costs to consumers through higher marketing costs. Bogle notes that in the 1950's liquidations of fund shares were 6% annually, implying a seventeen year holding period, but this is now 45% (two years) today. Firms offering an "open architecture" of no-load funds have added to the overall cost by charging access fees to the funds themselves.

Figure 11. Health Plan Navigator
Expense Ratios in Non-Index Funds



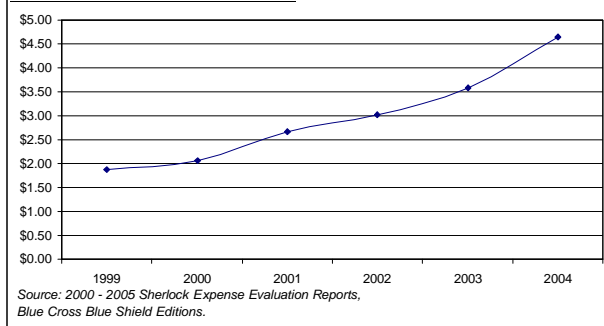
It is arguable that the same unhappy dynamic is at work among health plans as broker commissions are increasing with their share of total membership. At \$11 per broker member per month, comprising one-third of administrative costs, a modest increase in the proportion of expenses attributable to brokers can have a dramatic effect on total costs. Thus, paradoxically, since some of the new products are becoming more complex, more efforts may be needed to explain them. Thus marketing costs could increase.

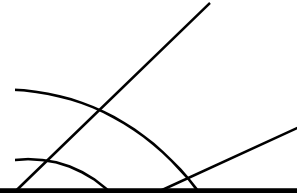
Figure 10. Health Plan Navigator
Examples of Acquisitions of Fiserv

Firm	Date Acquired	Industry
Results International Systems, Inc., Worthington, OH	8/04	Insurance data processing
Pharmacy Fulfillment, Inc., Huntingdon Valley, PA	8/04	Health plan management
RegEd, Inc., Morrisville, NC	1/04	Insurance/securities training
MedPay Corporation, Memphis, TN	12/03	Health plan management
MI-Assistant Software, Inc., Eleva, WI	11/03	Insurance software systems
WBI Holdings Corporation, Wausau, WI	5/03	Health plan management

Source: Fiserv 2004 10-k.

Figure 12. Health Plan Navigator
Health Plan Broker Commissions PMPM





“Off the Books” Costs

All of the above costs *exclude* other transaction costs that are also borne by the customer, but are outside the scope of what are normally considered to be expenses to the mutual fund, or expenses to the health plan. For the ultimate owner of a mutual fund, these transactions costs can include broker commissions imposed on fund assets, tax cost inefficiencies, market spreads, market impacts and advisory fees charged directly to consumers. Advisory fees incurred by investors closely parallel benefit consultant fees to health plan sponsors.

Like for investors, with complexity health plan sponsors' costs can increase. Plans operating in ways envisioned by the Alain Enthoven *Health Plan* model offer a form of community rating, have limited copayments and deductibles and are closely identified with their providers. In other words, they can be readily understood by consumers. On the other hand, the new products have experience rating, high copayments and deductibles and great choice of providers. These more complex products will require higher costs at the plan sponsor level

Conclusion

Consumer disillusion regarding industries' value proposition is central to the changes in both the investments industry and in the health plan industry. This has led to unbundling of the respective services into administration and the direct services (health care or investment returns) for more efficient measurement and pricing. This removes managers from key elements of their traditional discretion.

The direct services in both industries, health care and investment returns, are harder to manage and to measure so that the key pressures facing these industries are on administrative functions. However, each of the broad clusters of functions are subject to differing types of scrutiny. We expect that medical management, like investment management, will be subject to heightened levels of scrutiny, although the type of services and form of scrutiny will depend on the degree of unbundling desired by consumers. In both industries, the “back-office” functions will be subject to the most intense pressures. The investments industry has a number of close parallels that seem directly applicable to the health plan industry. Marketing costs are intrinsically more problematic, in part because when consumers demand, collectively anyway, more unbundled products, the complexity of the resulting portfolio requires more effort to explain. Thus, paradoxically, until consumers can make better sense of this, marketing costs will be hard to manage.

The parallels between the investments industry and the health plan industry are numerous. The relationship to the employer sponsored system, the high benefits – low administration relationship, the consumer preference for professional involvement, the uncertainty of benefit outcomes are attributes shared between these industries. Interestingly enough, UnitedHealth Group's John Peshorn says that this is “more than just metaphor, (it is) a strategic convergence called health financial services.”

Additional information, including citations, is available upon request.

