Outsourcing's Role in the Healthcare Industry

Monday, February 24, 2003   **Round One - 3:00 – 3:50 PM**

Session D

STEVEN D. REYNOLDS
Director of Market Management, Health Information Management
UNISYS CORPORATION
Former CIO of Horizon/Mercy HMO
Former CIO, New Jersey Department of Human Services, Division of Medical Systems and Health Services

Learn:

What healthcare executives should look for in an outsourcing partner, and how the healthcare outsourcing market will develop over the next five years.

The commercial healthcare industry consists of payer• and provider organizations, and both continue to increase spending on information technology (IT) and business process outsourcing (BPO) services. Demand comes from staffing shortages and the inability of IT departments to focus on key projects.

Health Insurance Portability and Accountability Act (HIPAA) requirements have taxed internal resources in the payer market, where implementation of e-health applications strategies dominate internal IT department efforts. Outsourcing increasingly has emerged as a vehicle to gain access to external people and technology so that internal organizations can focus on more strategic objectives.

Since 1977, Unisys has been an outsourcing partner with both state Medicaid programs, and large commercial Healthcare providers such as UnitedHealth Group. Over the next five years, the public and private healthcare outsourcing market will develop significantly as providers take advantage of the traditional back-office management and IT infrastructure capabilities of outsourcing providers.

CONTINUED

The 2003 Outsourcing World Summit

Conference & Exposition

CONTINUED

Key topics to be covered include:

- What should healthcare executives look for in a healthcare outsourcing partner

- What impact is payer systems technology having on the healthcare industry

- What alliances are being formed between payer systems software developers and technology services organizations

- How IT outsourcing's centralized monitoring and operations characteristics benefit a company's ability to fine-tune critical interface applications with third parties, such as AARP and physician organizations

STEVEN D. REYNOLDS
Director of Market Management, Health Information Management
UNISYS CORPORATION

Steven D. Reynolds is Director of Market Management in Health Information Management for Unisys Corporation, with responsibility for developing solutions for customers utilizing Unisys Health Payer Application Systems (PAS).

Reynolds has more than 19 years experience in the design, development, implementation and maintenance of large-scale healthcare and other systems, strategic planning, IT alignment, and the management of diverse staff including large scale outsourcing responsibilities.

Previous to joining Unisys, Mr. Reynolds was the Chief Information Officer of Horizon/Mercy, a Horizon Blue Cross and Blue Shield of New Jersey health maintenance organization, charged with aligning the information systems with Horizon/Mercy's business strategies and initiatives.   Prior to that, he served the New Jersey Department of Human Services' Division of Medical Assistance and Health, most recently as Assistant Director/CIO.

Mr. Reynolds has held positions in health information technology with Affiliated Computer Services and MAXIMUS, Inc., a government services firm, where managed the selection of a pharmacy benefit system for the State of Massachusetts, and implementation of a new claims processing system in Oklahoma.

Mr. Reynolds earned a master's degree in public administration, a bachelor's degree in business administration and certification as a public manager from Rutgers University in New Brunswick, N.J.

Slide 1

> Systems Integration.
> Outsourcing.
> Infrastructure.
> Server Technology.
> Consulting.

Case Study:
New Jersey State
Medicaid Program
Presented at
The 2003 Outsourcing
World Summit
February 24, 2003

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Outsourcing's Role in the Healthcare Industry

Steven Reynolds
Former CIO, Horizon-Mercy HMO
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Human Services, Division of Medical
Systems and Health Services

Slide 2

> # Introduction

- Steven Reynolds – Customer and Provider Experience:
  - Customer Side:
    - CIO, Horizon/Mercy: Horizon Blue Cross and Blue Shield of New Jersey HMO
    - Assistant Director/CIO, New Jersey Department of Human Services' Division of Medical Assistance and Health Services
  - Provider Side:
    - Affiliated Computer Services
    - MAXIMUS, Inc.
    - Unisys Corporation

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Healthcare Outsourcing Trends

- Healthcare IT Outsourcing
    - 1999 - $12 billion
    - 2001 - $21 billion
- Gartner Predictions
    - By 2004, healthcare organizations will spend more on external IT support than internal support
    - By 2005, the business service provider (BSP) model, incorporating BPO and ASP, will be dominant in healthcare

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Healthcare Outsourcing Trends (Con't.)

- Vendors will support BPO services for greater proportion of business process
    - Partner with healthcare payer
    - Share risk for operational performance
    - Improve end to end business process
- Increase in IS organization operations
- Increase in expansion of scope and knowledge requirements of IS organizations
- Utilization of Application Service Providers (ASP) arrangements

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Healthcare Outsourcing Trends (Con't.)

- Increases in use of 'offshore' development
- Increased Business Process Outsourcing (entire business processes)
- Utilization of Application Service Providers (ASP) arrangements

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Healthcare Outsourcing Trends (Con't.)

- Core Vendors (On Their Own or Through Teaming) Moving to BPO Services
- Increased Clinical Outsourcing
- Healthcare Payers as Outsourcers
- Outsourcing Priorities Will Change

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State Of Healthcare

- Healthcare Environment – Chaotic / Complex / Overwhelming
  - Costs/Reimbursement
  - Complexity of delivery system
- Consumer Demands & Internet
  - Increasing automation
  - Real-time interaction with members
- Strained Resources

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State Of Healthcare (Con't.)

- Connectivity Between all Constituents
  - Health plan
  - Members
  - Providers of care
  - Brokers
- State of Technology
- Moving to Right Time / Real Time Information Exchange
- Rapid, Far-Reaching Regulatory Issues

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Healthcare Business Model

- Flexible – Agile – Nimble
- Strategies That Promote Information-Based Business – Not Transaction Management
- Position Business Model Around Expert IT and Business Partnerships
- Respond to Customer Demands for New Products and Services
- Respond to Improved Service Quality

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Healthcare Outsourcing Drivers

- Small Organizations in Rapid Growth Mode
  - Limited capital / staff
  - Incomplete infrastructure
- Large Organizations Undergoing Change
  - New benefit plans
  - Acquisition/Transition
- Organizations Without Expertise
  - Staffing
  - Culture
  - Experience

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Why Outsource?

- Redirect Activities Toward Strategic Initiatives That Distinguish It From Competitors
- Focus on Core Competencies
- Operational/Business Flexibility
- Valuable Operational Insight
- Cost Effective
- One Less Process to Manage

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HC Outsourcing Provider Qualifications

- Base Line Requirements
  - Capability
  - Process Competence
  - Experience
  - Scale
- Cultural Compatibility
- Rapid Implementation
- Geographic Coverage
- Healthcare Knowledge
- Service Breath & Life Cycle Coverage
- Ability to Transform

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Impact of Payer System Technology

- Pace and Intensity of Change Has Increased
- Focus Changing From Legacy Applications to Integrated, Parameter Driven, Web Based Solutions
- Integration of Solutions
  - Transactions / Contact / Clinical

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Outsourcing Models

- Business Service Provider
  - Business Process Outsourcing
  - Application Service Provider
- Management Services
  - Application management
  - Help desk support
  - Operational support
  - Network support
- Facilities Management
- Transition Management

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Outsourcing Models (Con't.)

- Consultation
- Labor Pools
- Other:
    - Discrete Activities
    - Portions of Individual Activities
    - Temporary Assignments

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How To Outsource

- Internal Review/Assessment
    - Staff
    - Other resources
- Business Strategy
- ROI
    - Short term
    - Long term
- Precise Terms
- Full Evaluation of Alternatives

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Unisys Medicaid Contracts Overview

Unisys provides outsourcing services to five states to operate and maintain their Medicaid Management Information Systems (MMIS) and to provide fiscal-agent services.

Commonwealth of Massachusetts
- Period of Performance: Five years.
- Contract Value: $27 million
- 36.5 million claims, 1 million recipients, $6.5 billion paid in benefits

Commonwealth of Kentucky
- Period of Performance: Six years
- Contract Value: $135 million
- 45 million claims, 600 thousand recipients, $2.5 – 3.0 billion paid in benefits

State of New Jersey
- Period of Performance: Eight years.
- Contract Value: $116 million
- 57 million claims, 1.3 million recipients, $5.8 billion paid in benefits

State of Louisiana
- Period of Performance: Six years.
- Contract Value: $177 million
- 33 million claims, 740 thousand recipients, $3.7 billion paid in benefits

State of Oklahoma
- Period of Performance: Seven years.
- Contract Value: $80 million
- 21 million claims, 600 thousand recipients, $2 billion paid in benefits

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Healthcare Outsourcing Case Study: New Jersey

- Competitive procurement, 1989.
- Design, development, implementation, and operation, modifications and enhancements to federally certified claims processing system.

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Healthcare Outsourcing Case Study: New Jersey

- Unisys performs claims processing
    - Claims receipt through final adjudication
    - Check and remittance advice production and mailing,
    - EOB services,
    - Adjustment processing, and reporting
    - Automated Eligibility Verification System

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Healthcare Outsourcing Case Study: New Jersey

- Provider Services
- Contact Center 0perations
- Fraud and Abuse Reporting
- Web Services

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Healthcare Outsourcing Case Study: New Jersey

- Transitioned from multiple disparate systems to single, integrated system
- 53,000 active and 28,000 inactive providers maintained
- Average of 1,300 Provider Master File changes per week
- 192,000 pieces of correspondence prepared
- 2.9 million telephone inquiries
- 2,700 training sessions
- 400 million claims processed for $36 billion in on-time provider reimbursement
- Auto-adjudication rate = 98.6%
- EDI = 88%

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Healthcare Outsourcing Case Study: New Jersey

- **Business Process Improvement**
    - General Accounting System Automated Interface
    - Increased Online Claims History Data and Search Capabilities
    - Added Imaging Capability
    - Managed Care Processing Support
    - Data Transfer Improvement
    - Computer Output to Laser Disc (COLD) Report Access
    - Web Based Capability

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When to Outsource

- Realized Business Value Can Be Enhanced
- Consider:
  - Unique branding -
  - Third-party supplier can provide cheaper/faster/better/greater flexibility/transition
- Initial Investment Is Not Possible
- No Magic Formulas

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Partnership - Match

- Mutually Agreeable Contractual Terms
  - Scope
  - Services
  - Technology
  - Future Path
  - Pricing
  - Term
  - Etc.
- Performance Metrics
- Service Level Agreements

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Partnership – Match (Con't.)

- Business Process Integration
- Handoffs Contractor
- Culture
- People

Pitfalls & Risk Minimization

- Urge to React vs. Study the Situation
  - Does it make sense for your organization?
  - Doesn't have to be all or nothing
  - Structure to meet business need – determine corporate expectations and reasons for outsourcing
- Lack of Clarity - Requirements
- Performance Standards
  - Risks
  - Rewards
  - Ensure alignment of risks and rewards

Pitfalls & Risk Minimization (Con't.)

- Don't Expect Miracles; Other Possibilities:
    - Partial solutions
    - Defer decision (can't find match)
- People / Cultural Mismatch
- Training
- Flexibility
- Enable Organization to Partner

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Pitfalls & Risk Minimization (Con't.)

- Ensure Other Partners Support
- Uncontrolled Requirements Change
- Scope / Cost Creep
- Learn As You Proceed
- Lack of Flexibility

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Outsourcing Success

- Major Issue in Healthcare Today – Healthcare Organizations Can't Do Everything By Themselves
- More Than Saving Dollars
- Careful Planning
- Partnering

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- Systems Integration.
- Outsourcing.
- Infrastructure.
- Server Technology.
- Consulting.

Questions?
Comments?

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