

INSURING THE FUTURE:

HEALTH PLANS RESPOND TO THE FINANCIAL CRISIS

CAUTION CAUTION

Health plans have faced a difficult business environment for several years. They continue to be hit hard by the general erosion of enrollment levels, continuing healthcare cost inflation and most recently by the declining value of their corporate investment portfolios.

Now, as the general economic crisis deepens, industry observers caution that demand for health insurance products continues to soften as government funding declines, critical economic and industry segments falter and fail, unemployment rises, and small employers struggle to remain solvent through the downturn.

We interviewed 30 health plan executives to understand their concerns about the current economic crisis, how they think it will impact their business, and the plans they have to respond to it.

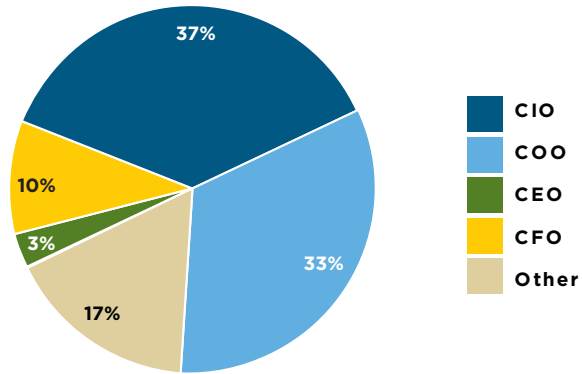
CSC

- Nationally, health plan enrollment is down, driven by a decline in employer-sponsored coverage. Enrollment in employer-sponsored health insurance programs has declined by 4.1 million since 2000.¹
- Healthcare cost inflation continues to outpace general inflation, creating significant changes in the demand for health plan products and services.²
- All seven of the largest publicly-traded health plans reported significant declines in profitability in their third quarter financial results.³
- Healthcare companies are facing increased scrutiny regarding price, efficiency, administrative expenses, management and fraud.⁴

Health Plan Responses to the Crisis

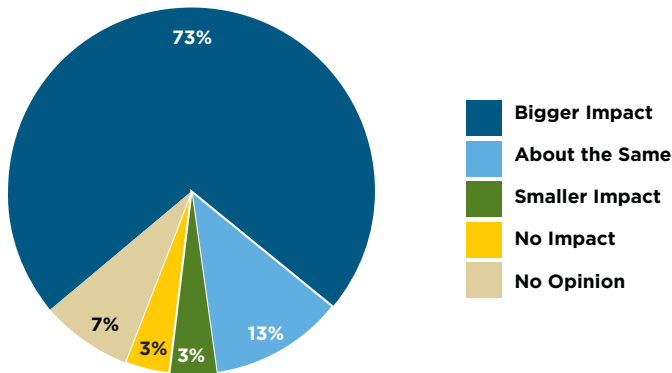
The pressures facing health plans in the current crisis aren't new ones, although the declines in the overall economy are certainly exacerbating and accelerating long-standing industry challenges. To learn the insider view of the current crisis and the likely responses from health plans we conducted interviews in November 2008 with 30 health plan executives.

Survey Respondents by Executive Position (n=30)

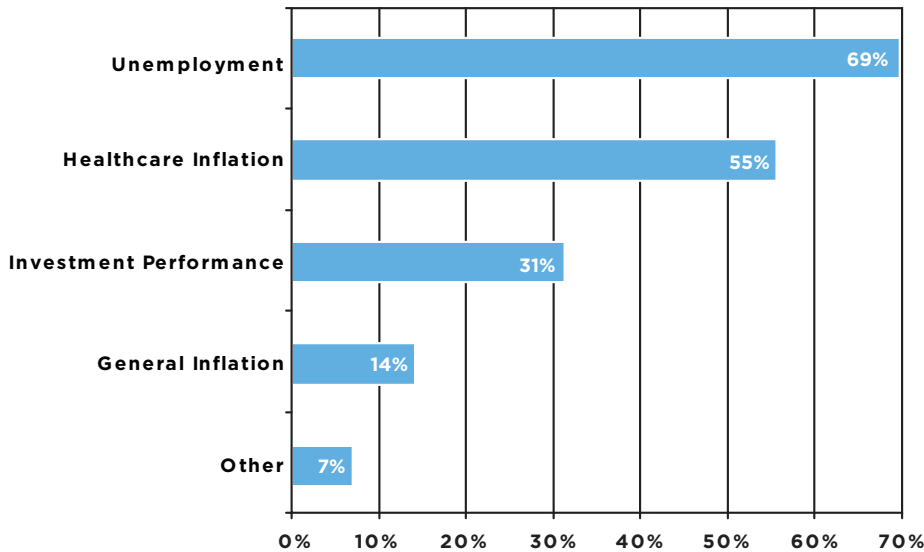


Participants in the interviews included a cross-section of executive decision-makers in operations, information systems and finance.

Compared to 2001 - 2002, how will the current economic downturn impact your organization? (n=30)



Which indicator does your organization use to predict and plan for the effects of overall economic changes? (n=29)

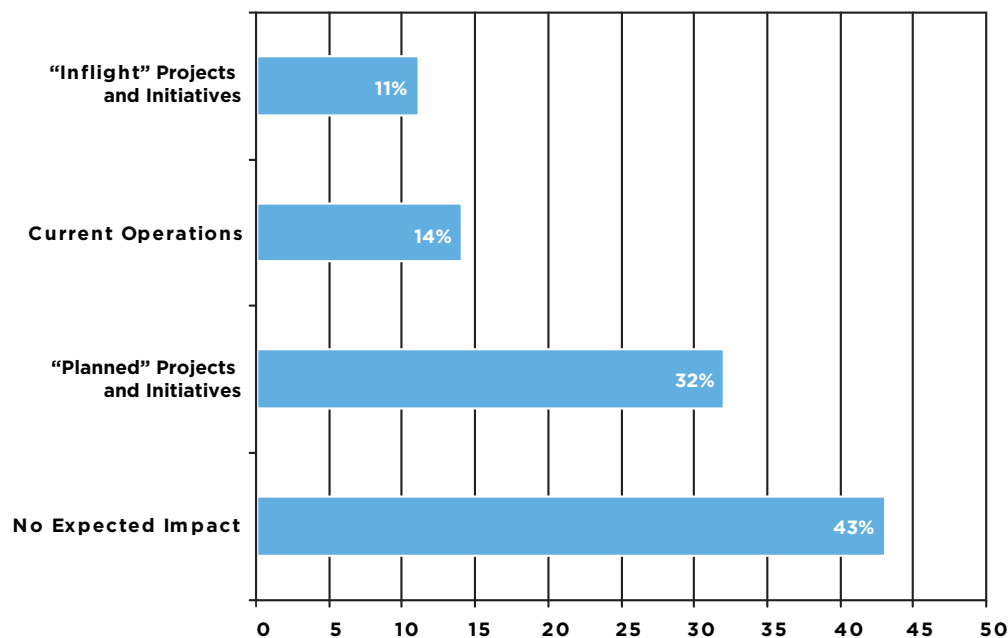


Executives interviewed thought that the current economic crisis would have a significant and long-lasting impact on health plan operations. Seventy-three percent thought it would be more significant than the last major downturn in 2001 - 2002. Several themes emerged in executives' comments about the magnitude of the current downturn:

- All respondents noted that the current crisis affected a greater number of business sectors and had larger international implications than what had occurred in 2001 - 2002.
- Executives expect the current crisis to last longer, and they are very concerned about how it will impact the health benefit buying power of their major customers.
- Many commented that the last major downturn followed a period of growth and expansion for health plans, whereas the current situation follows several years in which the health plan sector has struggled with slowing growth, rising costs and lower profitability.
- Rising unemployment across all industry segments is a major feature of the current downturn. In November the nation's unemployment reached a 15-year high of 6.7 percent.⁵ Sixty-nine percent of the executives we talked to were very concerned about the impact of rising unemployment on company operations and profitability.

QUESTION: HOW DO YOU EXPECT THE DOWNTURN IN THE PERFORMANCE OF INVESTMENTS TO AFFECT YOUR ORGANIZATION?

(n=28)

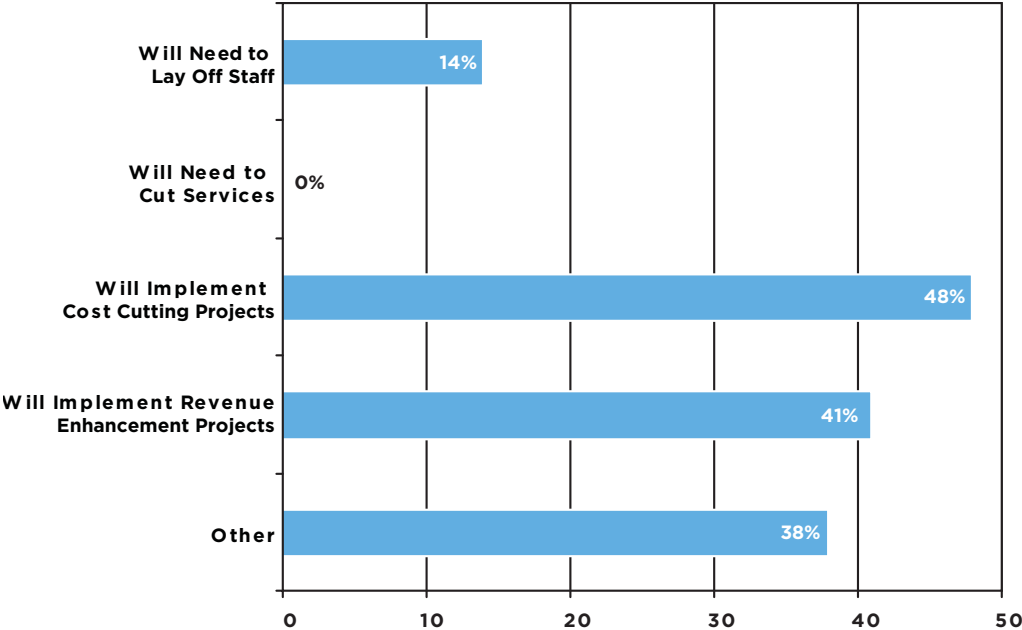


While acknowledging the importance of investment performance on overall health plan profitability, most executives we talked to thought declines in corporate portfolios would have little direct impact on operations or strategic projects. Detailed discussions revealed that these efforts are largely funded from operations rather than investment income. One CIO observed that in the downturn of 2001 – 2002 the impact on major projects would have been very different, because until that experience his organization had relied on investment earnings to fund major initiatives.

However, executives were very concerned about the impact of investment performance on their major customers, and on employment levels that could lead to declining demand for health plan products. Executives were also clear that the longer the downturn continues, the more likely the impact would be felt in operations and that planned projects and initiatives would be deferred. In the meantime, they are prioritizing responses that address operational performance and that will drive new business and revenue even during difficult times

QUESTION: WHAT IS YOUR ORGANIZATION'S RESPONSE TO THE ECONOMIC DOWNTURN?

(n=29)



Every executive we interviewed thought that the current response from their organization was a refinement of tactics already underway.

Many executives observed that the annual enrollment cycles for group business, particularly large group business, provided their organization with some protection from immediate business impact of the economic downturn because relatively few group contracts are changed during the plan year. At the same time, they believed that the impact of the downturn would be felt — and that their organization must take steps to meet the expected impacts.

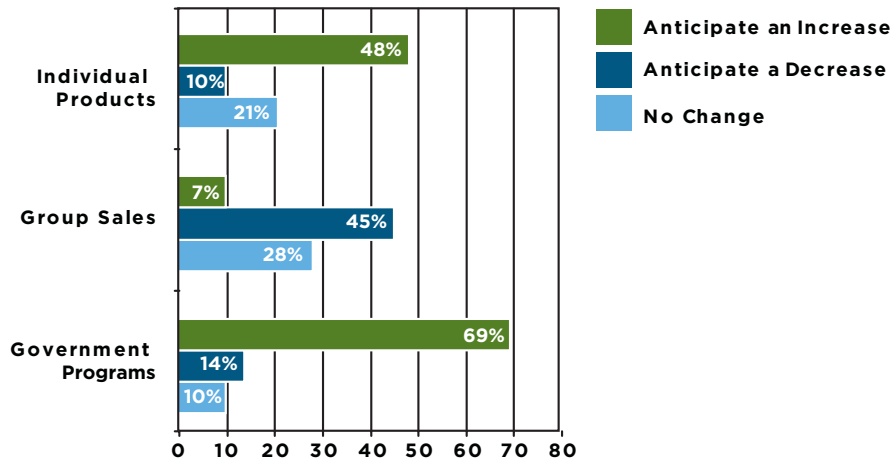
The needs to reduce costs and pursue revenue emerged as themes in every interview about how health plans would respond to the ongoing situation.

- Most organizations are in the midst of resetting budgets and strategic priorities.
- Two executives commented that they had just completed significant reductions in staff, and another had recently completed a significant reduction in planned technology projects.
- More than half of the respondents had completed or anticipated cost cutting projects and staff reductions.
- Respondents indicated that planned investments and projects were being subjected to heavy scrutiny, and business justification requirements had increased in intensity and complexity.

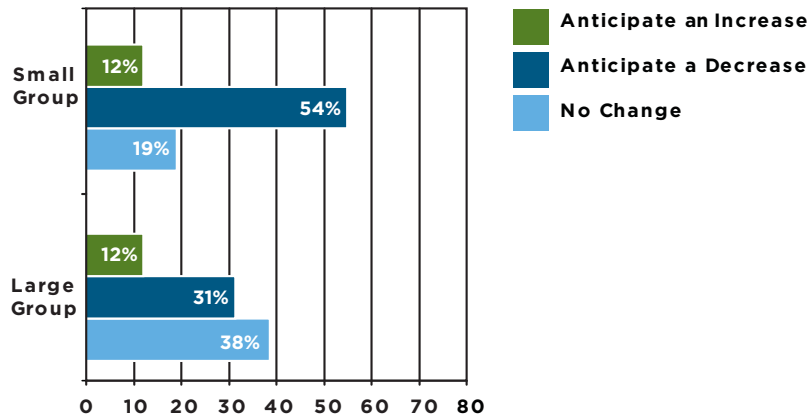
Several executives noted that initiatives for product development and introduction were the highest priority, and some noted that these efforts were being accelerated in an effort to grow through the economic downturn.

QUESTION: HOW HAS THE DOWNTURN AFFECTED DEMAND FOR YOUR PRODUCTS?

Anticipated Changes in Enrollment/Membership (n=29)

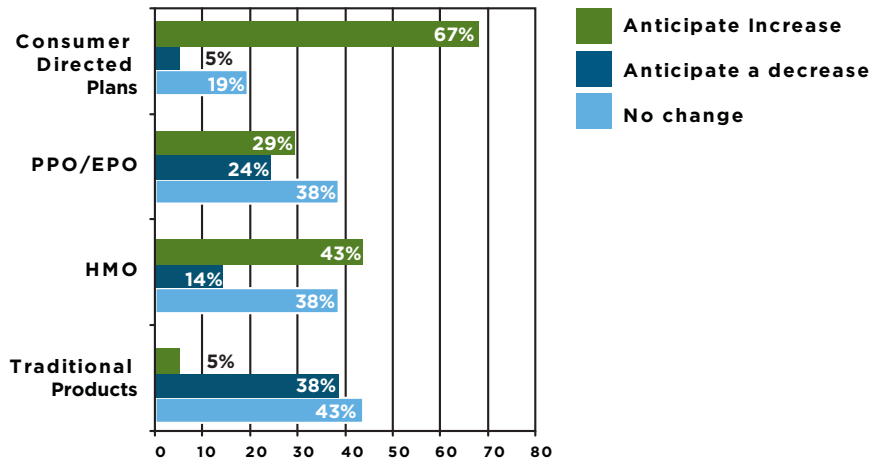


Anticipated Changes in Employer/Group Renewals (n=26)



Employer-sponsored health benefits in large employers are expected to remain strong, while demand in the smallest employers will continue to erode. Respondents expected growth in Medicaid plans as a result of deepening unemployment and the economic downturn, but expressed concern about the availability and expansion of state and federal funding. While executives believed that demand for Medicare products would remain strong, they expressed concern about the ongoing profitability of these products, particularly Medicare Advantage, as federal health reform and cost containment efforts accelerate under the new administration.

Anticipated Changes in the Demand for Product Type (n=21)



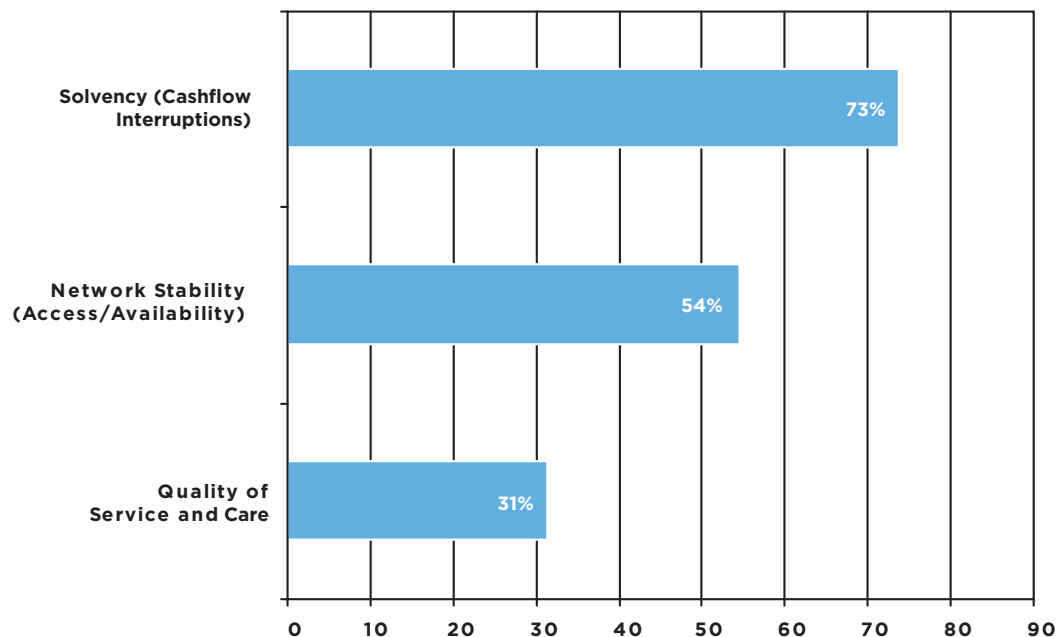
Customers continue to be most interested in products that deliver cost reductions through increased cost transfers to consumers in the form of higher deductibles and coinsurance, or through aggressive management of care. Executives anticipated growth in consumer-directed plans during the downturn in both the group and individual markets.

The executives we interviewed offered interesting insights about member utilization. Executives reported seeing some decrease in utilization over time. Most thought these changes were happening where members had greater financial responsibility for the costs of care they receive. According to these inside observers, higher coinsurance and deductibles are driving different consumption choices at the member level.

IN EVERY CASE, EXECUTIVES REPORTED CHANGES IN DEMAND AND PREDICTED FURTHER CHANGES THAT WERE CONSISTENT WITH ESTABLISHED INDUSTRY TRENDS.

QUESTION: HOW WILL THE ECONOMIC DOWNTURN AFFECT OTHER BUSINESS PARTNERS?

Anticipated Changes in Provider and Network Performance
(n=26)



- Seventy-three percent of executives thought the downturn would pose solvency and cash flow challenges for providers.
- Fifty-four percent believed there would be impacts on the stability and availability of provider networks. One executive commented that the situation for primary care providers was especially problematic because their financial situations were fragile before the recent crisis.
- Executives from plans with Medicaid programs were especially concerned with provider solvency and cash flow. These executives commented that providers were demanding rate increases and faster payment in order to remain in networks for Medicaid subscribers.

The decline in small employer group health benefit demand seemed likely to hit the broker segment hard. One executive commented that his organization was trying to accelerate initiatives to provide support to brokers.

EVERY EXECUTIVE EXPRESSED CONCERN ABOUT THE IMPACT OF THE DOWNTURN ON PROVIDERS, AND THUS ON ACCESS TO QUALITY CARE FOR HEALTH PLAN MEMBERS.



THE BOTTOM LINE

It's a challenging time for health plans. The economic outlook creates uncertainty about enrollment, declining stock prices, reductions in government funding and increased cost pressure. We believe that plans can't afford to stand still; competition remains intense, and product and service innovation is at an all time high. We're advising our clients to focus on ongoing cost control, and creative, cost-effective approaches for completing key initiatives.

*Scot McConkey,
Managing Director, CSC
Health Plan Business Unit*

For health plans, the current economic downturn is testing the processes and discipline that they have had to establish in response to long-term trends in enrollment, cost pressure from customers, and market demand for innovations in products and services. Operational efficiency, cost reduction and management, and strategic expansion and growth are the competencies that successful health plans have developed to respond to these long-term industry trends. These are also the competencies that executives expect to carry them through the current crisis. A few executives even see opportunity in the current situation: high performing health plans may very well be able pursue long-standing acquisition targets, emerging from the downturn larger and stronger than before.

References

- 1 Gould, Elise. March 2008. "The Erosion of Employer-Sponsored Health Insurance." Economic Policy Institute (October 9, 2008).
- 2 *Mercer's National Survey of Employer Sponsored Health Plans 2008*. Mercer (March 2008).
- 3 Berry, Emily. "Health Plans Feel Economic Pain, Brace for More." *American Medical News* (November 24, 2008).
- 4 National Coalition on Healthcare: <http://www.nchc.org/facts/cost.shtml>. Accessed on December 5, 2008.
- 5 U.S. Department of Labor Bureau of Labor Statistics Economic News Release: "Employment Situation Summary." (December 5, 2008).

CSC

266 Second Avenue
Waltham, Massachusetts 02451
United States
+1.800.272.0018

Worldwide CSC Headquarters

The Americas

3170 Fairview Park Drive
Falls Church, Virginia 22042
United States
+1.703.876.1000

Europe, Middle East, Africa

Royal Pavilion
Wellesley Road
Aldershot, Hampshire GU11 1PZ
United Kingdom
+44(0)1252.534000

Australia

26 Talavera Road
Macquarie Park, NSW 2113
Australia
+61(0)29034.3000

Asia

139 Cecil Street
#08-00 Cecil House
Singapore 069539
Republic of Singapore
+65.6221.9095

About CSC

The mission of CSC is to be a global leader in providing technology enabled business solutions and services.

With the broadest range of capabilities, CSC offers clients the solutions they need to manage complexity, focus on core businesses, collaborate with partners and clients, and improve operations.

CSC makes a special point of understanding its clients and provides experts with real-world experience to work with them. CSC is vendor-independent, delivering solutions that best meet each client's unique requirements.

For more than 45 years, clients in industries and governments worldwide have trusted CSC with their business process and information systems outsourcing, systems integration and consulting needs.

The company trades on the New York Stock Exchange under the symbol "CSC."

Copyright © 2008 Computer Sciences Corporation. All rights reserved.

DS08_0848