

Healthcare Benefits Innovation:

Practical Information That Supports Your Business Needs



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When the discussion turns to innovation in our industry; it's important to sort through the buzz and focus on practical innovation. Practical Innovation today can be seen in three areas: business model innovation, technology and product development. What follows is a glimpse from a payments perspective on the buzz, the benefits of arming yourself with good information and using it to change or improve your business environment.

Business Model Innovation

A change in business to business interaction can often have the impact on an industry that helps drive change. As consumers we have all experienced this whether we're buying music, organic foods or healthcare. When the mindset around the business model in B-to-B relationships changes, consumers benefit. Apple Computer, for instance, negotiated contracts with record labels to distribute music. Earth Dance Farm, a shares-based organic farm in Minnesota has a shared risk model that changes how the consumer gets produce and ultimately reduces the cost. As consumers' needs evolve, once successful B-to-B models must change in order to meet consumer's expectations.

What does this all have to do with Healthcare? Within healthcare and benefits payments we have also seen recent business model innovation. It's happening because the old models are not effectively delivering value to their stakeholders.

Benefit payment cards were first introduced as a mechanism to facilitate claims and consumer payments. Despite the **belief** that using cards to facilitate properly substantiated transactions are much more cost efficient than manual paper claims, adoption was slow. Factors including technology, consumer acceptance and true costs discouraged adoption. Continued innovation has addressed the technology and consumer acceptance, but cost is just recently being addressed. For third party administrators (TPAs), the adoption of card programs was often cost prohibitive or viewed

as a pass along expense. Many TPAs were discouraged because they were charged high fees for plastics, payment processing, and account administration fees. As a result, many TPAs established gates to discourage card use to access HRA, FSA, and other benefits accounts. Many offered card capability to respond to employer RFPs, but penetration of their book of business remained low.

Now a major business model innovation is changing all those rules. Breaking the existing financial model around cards has allowed TSYS Healthcare to work with TPAs and payers to change card programs from expenses to revenue centers with no financial impact to the consumers or employers.

This is enabled by more enlightened thinking about interchange income. Interchange is the clearing and settlement system for credit and debit card transactional data. Whenever a card is used as a payment vehicle, an interchange fee is paid by the merchant. In healthcare it works the same way. What's makes it different now is that those interchange fees are shared more broadly between partners in healthcare.

Simply stated, as card programs were introduced in the Healthcare market, early providers elected to keep all of the interchange revenues. TSYS Healthcare, partnering with leading banks has changed all that. Interchange is now shared in a meaningful way with Payers and TPAs. This means that as more transactions occur on cards and greater value is moved through the card system, interchange revenues are now directed to TPAs and Payers to offset the costs of the card programs. Depending on card adoption and spend per account, this can rapidly change the dynamics from "expense" to "revenue". This business model innovation changes the industry because it finally aligns the interests of all partners delivering the cards to the end user. Now the TPA (and employer), bank, and processor all are aligned in the promotion and benefits of card usage,

with no more pass-through expenses to consumers for cards. This also has a major impact on the practicality of some technology innovation such as stacked cards.

Technology

We have been reading about the convergence of healthcare and financial services for years now. There has been great innovation over the years to help facilitate that convergence — much of that innovation on the technology front.

Today platforms for account administration can handle very complex business rules and hierarchies to meet the demands of the many benefits programs and tax advantaged accounts. The key to these systems is to manage this complexity in such a way that the consumer experience can be nearly effortless. Systems that, in fractions of a second, can now substantiate claims are enabled by consumer-level rules for use of funds. Informed-consumer purchases are rapidly making benefits/healthcare payments cards more fungible and easier to use. The consumer can now use cards with fewer hassles, understand and keep track of spending, and ultimately make better healthcare financial decisions.

The consumer isn't the only benefactor of this innovation in technology. For the administrator, these systems can now make the operating process much simpler. Web portals enable automated support for the previously cumbersome enrollment process. Enhanced monitoring systems support risk management and fraud tracking. Technology, as we all know, has made great strides in the area of substantiation. Consumer can use mobile connectivity that help with payment decisions and can eliminate customer support calls.

Perhaps one of the most compelling aspects of technology innovation today is in the use of configurable, multi-purse platforms. These platforms, such as the new system launched by TSYS Healthcare in fall of 2007 support multiple accounts.

The idea of several accounts accessed through one card provides efficiency and convenience. There are several important innovations that this technology delivers that may not be immediately apparent.

By being highly configurable, these platforms allow Payers and TPAs to create uniquely differentiated products through the use of business rules and option setting. That in turn creates scalable efficiencies. This means innovation is gated more by the creative process, and the translation of market requirements, than it is by the retooling of platforms. And that's because the ability to configure a unique product offer is built in from the beginning.

Account Applications

When working in the securities industry I witnessed daily the fascination people and businesses had with the new account innovation — be it a new fund type or a new application of capabilities to achieve an objective. Healthcare certainly is no different as stakeholders look to new accounts capabilities and structures that will better serve their customers. As an example, recently, we've seen a good measure of interest and some confusion around the VEBA, an account that has regained some popularity with employers today. VEBA is the acronym for a "voluntary employee beneficiary association", which is a type of trust that provides for payment of life, sick, accident, or other benefits to members or their dependents or designated beneficiaries. While the VEBA certainly isn't new, the interest in the Healthcare benefits world has been piqued as more and more are taking advantage of this underlying account to deliver retiree benefits solutions.

Many employers have also curtailed or replaced their traditional "defined benefit" type of retiree medical coverage with a "defined contribution" approach such as a retiree medical spending account (RMSA) or other form of health reimbursement arrangement (HRA).

The way a typical HRA works is that the employer credits an accrual to a participant's HRA "account". The participant can then use the account balance for reimbursement of certain qualified medical expenses. Unlike a health flexible spending account ("FSA"), HRAs are not subject to a "use-it-or-lose-it" rule, so amounts deposited in the account can continue to be available to a participant from year to year, so long as the participant continues to be eligible under the terms of the HRA plan. Employers can contribute to HRAs on behalf of current or former employees, so if an employer establishes an HRA for its active employees, the employee, upon retirement, can continue to use any remaining funds (if the plan so provides), and the employer can continue to make contributions to the HRA on the participant's behalf and continue to enjoy the tax advantages, particularly through a VEBA trust. (To learn more about VEBAs, see the notation at the end of this article.)

Another application that is gaining momentum is the use of stacked card solutions incorporating cash purses. The idea is to set aside one of the many purses a card can access for the purpose of cash reimbursement. This means that TPAs are no longer sending checks in the mail to consumers, but are loading cash into the card they already carry for tax advantaged accounts. Cash put on the card is then in a purse that allows unrestricted spend of the dollars (i.e.; no restrictions such as would be found with an IAS compliant FSA purse). Consumers can use the cash as they see fit, including setting it as an account to be used for spend when tax advantaged account purses are depleted. For the consumer it is more secure than a check and saves the hassle of deposits. For the TPA it removes cost as checks are no longer mailed, and if the TPA is working in an interchange share business model — it also generates incremental revenue. All the innovation in the industry is giving rise to options seldom or never considered before.

Conclusion

In summary, there is a great deal of innovation in healthcare administration today. The next generation technology platforms and new business models are in place and working. Account application options are readily available. Adopting these and other innovations can provide cost effective, new solutions consumers need and want. We must listen to the consumer and ask ourselves what is it that we can do differently to meet or exceed their expectations? How can we take newly existing, next generation tools and create the options that are efficient, flexible and revenue producing?

Start by keeping your knowledge base current — seek out the answers to your questions. Attend conferences, and sit in on a few sessions you might normally forego. Talk to your customers, peers, and industry advisors, your processors and partners...read, read, read. Push the envelope, think creatively and ask for solutions. There is a great deal of quality information out there. Make sure the buzz you're hearing is supported by new vendor solutions that include the business model, technology, and account applications that prepare your business for the next generation of healthcare. Or that buzz may just be deafening white noise.

AUTHOR NOTE: There is of course more to VEBAs than this. To help educate and clarify some of the confusion around VEBAs, I've partnered with John Hickman of Alston & Bird LLP to publish a White paper on VEBAs that explains how they work, and why the changes in the healthcare industry have been a catalyst for resurgence. Copies of the paper are available at no charge to our friends and partners in Healthcare and can be obtained by calling your TSYS Healthcare at 612-338-3871 or at our website www.tsys.com/healthcare.