



Adding Value to Care Management by Taking a Patient-Centric Approach

U.S. healthcare spend is on track to reach \$4 trillion by 2015. This means out of every dollar spent in the U.S., 20 cents will go into healthcare. Is this a case of healthcare reaching a larger population or does it signify that healthcare costs are spiraling out of control? The answer is not hard to find. Every healthcare entity -- whether it is the government, employers, providers or patients -- is feeling the crippling effects of rising healthcare costs.

Strangely enough, the healthcare field is highly competitive and extremely fragmented. Ask any payer or provider. The U.S. market has over 600 payers, over 6000 hospitals and 200,000 physicians. Unlike any other industry, however, heightened competition has not resulted in lower costs or increased value.

Competition Hasn't Enhanced Value

In his keynote address at the Annual World Health Care Congress earlier this year¹, Dr. Michael Porter said healthcare is primarily a zero or negative sum game. Industry competition, he said, is driven primarily by cost-shifting, increased bargaining power and choice restrictions. And according to Dr. Porter, competition has actually been all but eliminated where and when it is most important -- at the points of care delivery and outcome effectiveness. Importantly, these are areas where there is maximum value for the patient.

Given its inability to genuinely address costs, it is imperative that the industry stratify its expense structure to begin confronting this challenge along the right dimensions. Using data from large health plans, it has been determined that 75-80% of premium costs go towards medical care (based on Medical Loss Ratios reported by large health plans). It is estimated that 10-15% of these costs go towards covering the administrative overhead of delivering and financing healthcare operations. This means that around 65% -- or two-thirds of every premium dollar -- is spent on direct medical costs. When patient care is broken down into acute and chronic conditions, The Journal of the American Medical Association (JAMA) has estimated that the latter category accounts for 76% of direct medical care costs in the U.S. In absolute terms, this works out to over \$900 billion of hospital, physician and drug costs spent on treatment of chronic ailments, such as cardiovascular disease, asthma, diabetes, obesity, etc.²

Care Management As Cost-Containment Tool

Given this huge expenditure, there is a pressing demand for an integrated, patient-centric care management approach to treating chronic conditions.

Although care management and disease management programs are regular offerings at



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Large Employer Cost Management Strategies

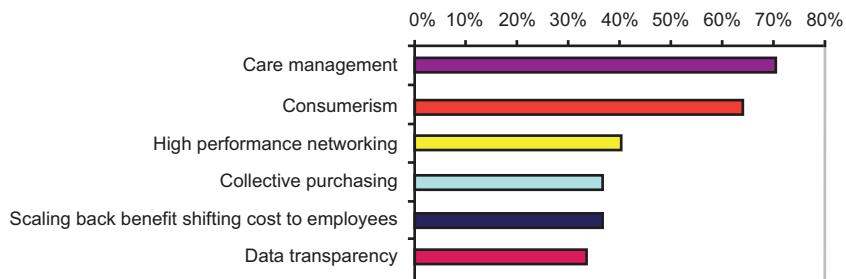


Fig. 1

Source: The Mercer National Survey of Employer-Sponsored Health Plans, 2006

most health plans and employer groups, they typically are not based on a patient-centered approach. For example, care management has been viewed as an instrument of cost containment by payers and employer groups (see Fig. 1, above). These entities use care management to either reduce direct costs (medical costs at health plans) or reduce indirect costs (productivity losses due to absenteeism at employer groups). Care management is still not viewed as an instrument to deliver value to the patient.

Not that care management has failed in its entirety. Care management has evolved into the creation of integrated delivery systems that serve to facilitate the patient's journey through the care continuum. Although this by itself has been a rather pronounced shift from the traditional practice of discrete care, care management has not met the key objective of being patient centric.

Consequently, patients enrolled in care management programs have yet to see the value of the program and the benefits of their participation for one good reason: the objective has been cost containment, not patient value.

The Care Value Model

Care management is still viewed as an extension of care delivery. It needs to be fully integrated with care financing to enable patients to experience its full value. In current models, organizations seem to have ignored the fact that healthcare (and healthy outcome) is a joint product of the patient and the care provider. Hence, there exists a significant opportunity for healthcare entities to recognize and address this need.

As shown in Fig. 2, below, entities have tried to loosely couple care delivery and care management with care financing processes such

The Care Value Model

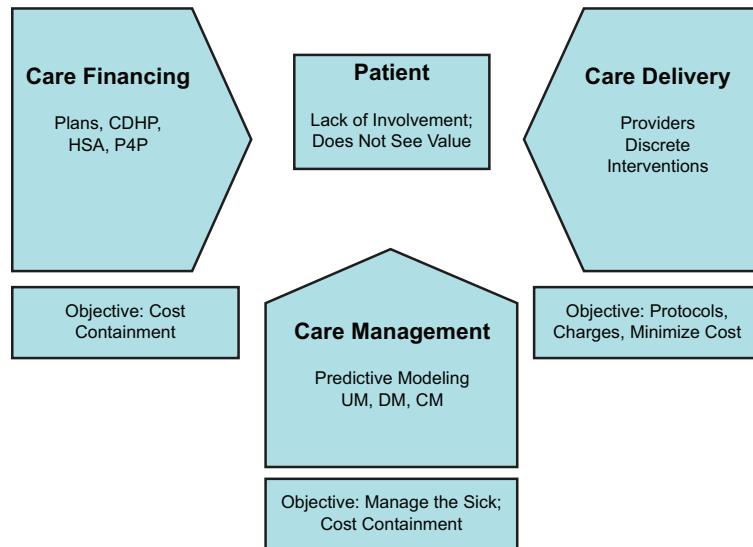


Fig. 2

as CDHP, high deductible plans and P4P programs. These still do not measure or address value to the patient.

For example, CDHP plans are run by payers as a cost-shifting mechanism. P4P programs are run by payers to reduce cost and improve quality of care -- but are, in themselves, flawed because these programs primarily reward process compliance, not outcomes. Moreover, without a formal provider rating program, based on health outcomes analysis, patients do not see a benefit in the entire scheme.

There is an urgent need to redefine care management around the core concept of "Care Value." The Care Value approach includes the measurement of outcomes and integrates outcomes into the care management and care financing process. This integrated patient-centric, model, (shown in Fig. 3), aligns the entire care management process to patient goals, hence directly addressing care value.

By integrating evidence-based guidelines and outcomes analysis into traditional care management processes, healthcare firms can sharply align care management with patient objectives. And by extending the model to include care financing, the patient is in a position to analyze and decide care options, based on the value derived.

Competing on Value

Cognizant believes that there is tremendous opportunity for healthcare organizations to meet patient expectations by re-positioning care management as a Care Value model.

As the consumerism wave washes over the healthcare industry, organizations which rapidly adopt the Care Value approach will benefit by competing on value to the patient -- not cost. In

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the Care Value model, patients would have enough information to assess provider quality and cost while understanding the financial impact and value of the health- care decisions they take. In this scenario, healthcare becomes truly a personalized service co-produced by the patient and provider, supported by optimized financing models.

Information technology can be a critical enabler of this transformation. Given technological advancements such as portals, workflow/rules engines, decision-support tools and SOA (service-oriented architecture), healthcare organizations can extend their systems to embrace a patient-centric Care Value model and demonstrate value where it matters -- at the point of care.

Integrated Patient - Centric Model

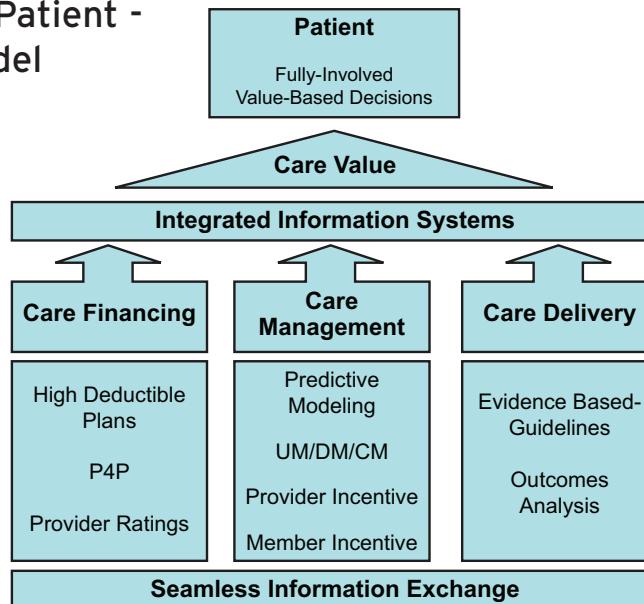


Fig. 3

Footnotes

¹ Dr. Michael Porter's keynote address at the 4th Annual World Health Care Congress, 22-24 April, 2007, Washington, D.C. (<http://www.worldcongress.com/events/nw700/highlights/>)

² CMS National Health Expenditures Tables, 2006

Reference Materials

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About the Author



Krish Venkat is Vice President & General Manager of Healthcare & Life Sciences Practice at Cognizant. He has over 20 years of leadership, consulting and operational management background in several industry sectors including banking, financial services, insurance and healthcare and has broad experience in the creation and management of successful IT services business. Under Venkat's leadership, Cognizant's Healthcare & Life Sciences industry segment has recorded significant growth, contributing to over 20% of the company's revenues last year. Krish is focused on delivering solutions and services to the broader Healthcare Industry that address the business challenges and emerging trends across the payer, provider and pharma domains.

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