Final Draft
MCIS/TPA Vendor Marketplace – 2003

MCIS/TPA Vendor 2003 Update – The payer and TPA industry will be changing dramatically over the next three years. Payers must evaluate national trends and must align their IT purchases with new business strategies. The MCIS and TPA software marketplace is consolidating with 5 vendors leading the market with the best overall functionality.

The 21st century healthcare organization, rather than just manage incidents of illness, will need to be customer- and information-driven, Internet-linked to other healthcare entities and possess a thorough understanding of managing the healthcare of specific populations. By 2003/04, Information technology will become the critical element that will provide healthcare organizations the differentiation necessary to flourish in an increasingly competitive environment. Unlike other industries that spend typically three to seven times more as a percentage of their revenues on IT, healthcare organizations must understand that this spending gap cannot last long. We believe that as competition heats up, this spending gap will continue to close. The top priorities for healthplans include:

- Shift from cost model to customer-intimacy model requires substantial retooling and investment
- Shift to defined-contributions model will cause an explosion in products and complexity
- Opportunity/requirement to Web enable key transactions (eligibility to claims remittance) requires major investments
- Mergers and expanded product portfolio requires new approaches to managing disparate provider contracts and files
- Pricing pressure from pharma and providers causing premiums to increase rapidly and eventual profit squeeze
- Complexity driving TCO
- Major movement towards open architecture to facilitate access of data across previously closed systems

During the next 3-5 years, we believe there will be certain healthcare technology mega-trends. They include:

- By 2003/04, healthcare organizations must become knowledge-driven. Like Physicians and consumers, healthcare management must become hungry to capture data, ensure its integrity and employ IT throughout the organization to facilitate managing operations and care delivery. We believe the top integrated Delivery Networks (IDNs) will spend from 4.2% to 6.0% of their annual revenues on technology by 2003/04. Additionally, the top healthplans will increase their technology spending from < $4.00 PMPM (per member per month) in 1999 to > $8.00 by 2003/04. Previously, data acquisition in the healthcare industry was dictated by the billing department; however, that model must now be discarded in favor of a more efficient model that must encompass the measurement of health outcomes, health status, indicators prior to and following treatment, severity of conditions and risk factors.

- By 2004/05, healthcare organizations will extend their expertise in identifying and understanding their many types of customers. As the customer can assume many forms, including patient, employer, affiliated provider and insurer, the healthcare organization will use technology to segment those customers and will develop tailored products. Finally, these healthcare organizations will implement CRM applications to improve customers' service and satisfaction. Finally, by 2003/04, healthcare

organizations will establish benchmarks in customer service as other competitive service industries have achieved.

- By 2004/05, healthcare organizations will transition to "virtual" care network. These networks will involve a wide range of independent but interconnected individuals and institutions. Today, boundaries among multiple entities, systems and geographies are very apparent to patients and other customers. By 2004/05 virtual care networks, using conduits such as the Internet, will provide a seamless and secure interface for real-time interaction.

- By 2003/04, healthplans will start embracing comprehensive care management (CM), in which healthcare providers will assume more risk and responsibility for the health of specific populations. CM will create demand for tools to manage the risk, demand and cost-effectiveness of healthcare delivery. This model of healthcare delivery assesses the risk of each patient as that person enters the network; characterizes patients by their needs; tailors treatments for patients; helps create clinical pathways and protocols and tracks caregiver compliance; and measures the efficacy and quality of care delivered. Spending on CM will increase from $100M in 1999 to $2.1B by 2004/05.

- While having the data, maintaining its integrity and performing analyses are critical, ultimately the success or failure of an organization is its willingness to actually use the data. While changing an organization's hardware and software might take months, changing its culture is an ongoing process requiring an almost single-minded dedication by the healthcare organization.

- The current patchwork of information systems will continue until better integrated systems become available.

- To accomplish all of these trends, successful healthplans will need to upgrade their core information systems.   Current MCIS applications include claims management, contract management, case management, risk management, outcomes reporting, member services, and benefits management. However, HMOs now want to add provider profiling, provider credentialing, decision support, EDI claims linkages, customer service, clinical protocols, data warehouse, case management, EDI eligibility links, and automated medical records, to their information capabilities. Healthplans require the following from their technology partners:

• Authorization	• Facility Profiling
• Benchmarking	• Financial DSS
• Capitation	• HEDIS
• Case Mgmt.	• Outcomes Improvement
• Claims Auditing	• Outcomes Measurement
• Clinical Criteria	• Patient Education
• Clinical Guidelines	• Patient Satisfaction Data
• Contract Mgmt.	• Physician Credentialing
• Credentialing Data	• Physician Profiling
• Data Warehouse	• Referrals
• Demand Mgmt.	• Triage
• Disease Mgmt.	• Wellness
• Eligibility	
• Enrollment	

The top MCIS and TPA vendors have changed over the past five years. The majority of the systems from 5 years ago have been purchased by other companies. The top companies are:

- Amisys Advance (Platinum Technologies)
- CSC PowerHMS
- CSC TXEN
- EDS Metavance
- Electronic Health Plans, Inc
- Eldorado
- Epic
- FACTS
- HealthAxis
- HealthTrio
- IDX
- Linnaeus
- OAO
- Perot Health Systems Design
- Physmark
- PLEXIS Healthcare Systems v 5.0
- QCSI v 4.14
- Quovadx (formally Quovadx, Mpower, Healthcare.com, and Confer)
- Synertech (Platinum Technologies)
- Trizetto (Erisco and RIMS)
- WLT

MCIS/TPA Vendor Evaluations:

How does a healthplan or TPA determine which vendor has the richest functionality?   Traditionally, healthplans and TPAs have spent months reviewing their needs, creating requests for proposals (RFPs), attending conferences, and researching each vendor based on printed materials. In most cases, the knowledge they received during the process was valuable, but only as valuable as the questions they asked.   To assist the healthplan and TPA community, AC Group, Inc. (ACG) based near Houston, Texas conducted a comprehensive evaluation of the Managed Care Information Systems (MCIS) and TPA marketplace during the 2nd quarter of 2002,. The purpose of the evaluation was to determine which vendors provided the most comprehensive MCIS/TPA applications for the US market.   The evaluation included a detailed functionality comparison of the top 15 vendors who sell MCIS/TPA applications in the United States.

- Amisys
- CSC (Txen)
- Electronic Health Plans, Inc
- Eldorado
- EPIC
- FACTS Services, Inc.
- Healthaxis
- Linnaeus, Inc.
- OAO
- Perot HSD
- PLEXIS Healthcare Systems
- QCSI (QMACS)
- Quovadx, Inc
- Trizetto (RIMS)
- WLT Software

Three vendor responses to the study were not available at the time of this report, but will be included in a latter version:
- Trizetto's Erisco Facets
- CSC Power HMS
- EDS Metavance

To insure that each vendor was submitting accurate responds to each question, the vendors were informed that they answers to each of the 542 survey questions would be included in specific contracts that were out to bid during the end of 2002. Once the vendors where made aware of this fact, a number of vendors re-submitted their responses, lowering their score in every case.   This simple addition to the survey reinforced the belief that certain vendors may, in certain occasions, over sell their functionality. Luckily most vendors did

not change their responses, even when they were made aware that their responses would be included in formal contracts.

The MCIS/TPA functionally study included a review of 542 operational questions relating to:

- HIPAA and other Regulatory Compliance
- Member Services & Enrollment
- Groups
- Plans/Benefits
- Benefits Administration and Adjudication
- Financial Management and Reporting
- Healthcare Costs
- Third Party Links
- Other
- Deductible Type
- HMO Logic
- PPO Logic
- Dental Features
- Surcharge Feature
- Stop Loss Features

- Other Logic
- Re-pricing Feature
- Pending Feature
- Payment Suspension Type
- Data Element
- Claim Remark Type
- Misc Feature
- Security Element
- Employer System Feature
- Eligibility Feature
- Capitation reimbursement arrangements
- Reports
- System-Wide Features
- Customer Service
- Coding-Related Feature

Each of the 542 questions was assigned a relative value unit (RVU), which was based on the perceived value to a health plan organization. Additionally, a point value was assigned to the type of answer given for each of the 542 questions:

- o 10 points were awarded if the functionality was available today
- o 5 points were awarded if the functionality was available today but provided by a third party
- o 2 points were awarded if the functionality could be provided via a customization of the product which would require an additional cost
- o -5 points were awarded if the functionality was not available and that there was no plans of providing the functionality in the near future.
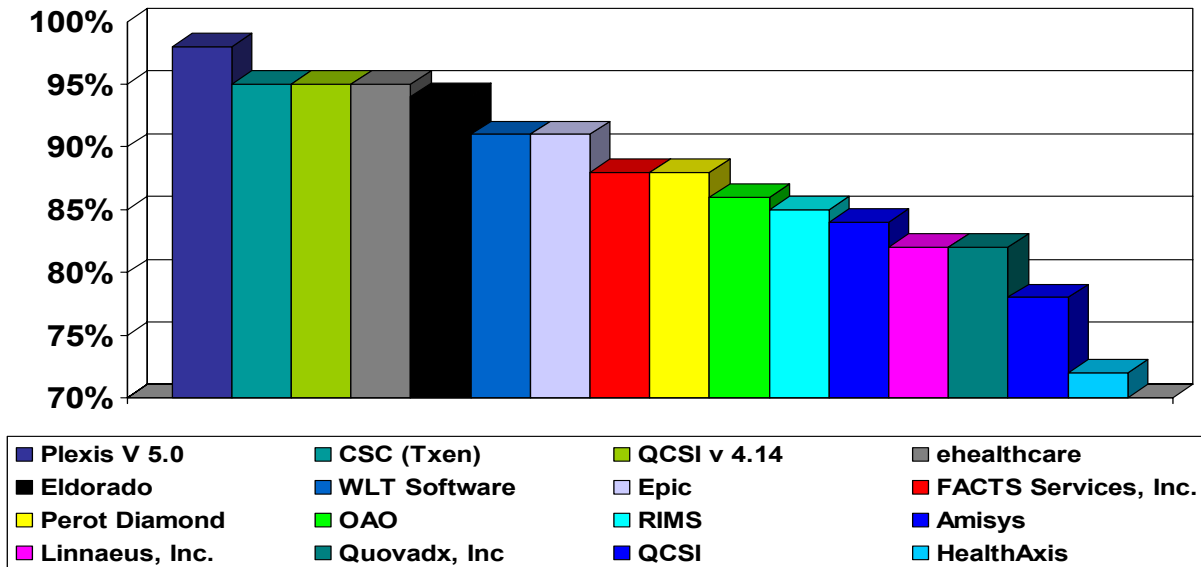
The information contacted in this phase of the report is based on the vendor's responses to each of the 542 questions and has not been verified to insure that the vendor can indeed provide the specified functionality. However, each vendor was aware that the results of this evaluation were to be included in a written contract for the purchase and installation of a comprehensive MCIS/TPA application. Therefore, we believe that the majority of the responses (> 97%) were accurate (90% probability).

Total Functionality Ratings: Healthplans

Based on self reported data which has been included in actual contracts, the top 10 MCIS vendors all rated above 85%. This means that the top 10 vendors provide a minimum of 85% of the required functionality (based on 542 functional questions). The top 5 MCIS vendors all meet over 94% of the required functionality. Therefore, once a healthplan determines that a number of vendors can meet their functional requirements, the next factor is the vendor's financial stability, product price, contract terms, and service and support. For those plans with membership over 500K, the top vendors will remain Trizetto with their Erisco product, QCSI v4.14 (a major improvement over version 4.0), and Perot Healthcare Systems with their outsourcing capability.

For healthplans with a membership between 50K and 350K, the top functional application is PLEXIS Healthcare Systems v 5.0 (97%) and QCSI v 4.14 (95%). Other vendors, including Trizetto with their ASP model, could also meet the needs of the mid-size healthplans, but PLEXIS and QCSI should be considered front runners.

Top MCIS Applications
Based on 542 Functional Questions

■ Plexis V 5.0	■ CSC (Txen)	■ QCSI v 4.14	■ ehealthcare
■ Eldorado	■ WLT Software	■ Epic	■ FACTS Services, Inc.
■ Perot Diamond	■ OAO	■ RIMS	■ Amisys
■ Linnaeus, Inc.	■ Quovadx, Inc	■ QCSI	■ HealthAxis

One of the up-and-coming MCIS vendors is **PLEXIS Healthcare Systems**, based in Ashland, OR. (http://www.PLEXISweb.com/) Their new version 5.0 is a fully integrated product suite using Windows 95/98/NT/2000, SQL Server technology. PLEXIS provides powerful software solutions delivering critical information to payors and healthcare providers. Their fiscal year ending 2002 revenue increased 98 percent over the previous year, and pre-tax profits exceeded $1,000,000 for the first time in the company's history. Outstanding debt was also reduced by 75 percent. Additionally, total installation of PLEXIS Healthcare products increased over 50 percent and the company increased staffing by 50 percent.

The second strong contender for the mid-size healthplans is **QCSI;** headquartered in Phoenix, Arizona. QCSI's award-winning software (MSHUG ISA Award for 2000-2003) and e-Business applications include QMACS, aQDen, aQHealth, aQTrans, and aQServ. Their web site is http://www.qcsi.com. The QMACS product is sold by QCSI, but can also be hosted under an ASP or outsourced model with Synertech, Trizetto, and QCSI. QCSI's new version (4.14) includes over 200 enhancements and improved QCSI's overall rating from a 78% rating (version 4.0) to a 95% rating with version 4.14. The increase shows that QCSI's development team is building a product based on customer needs and, not on functionality that does not drive value back to their clients.

Another relatively new company is Electronic Health Plans, Inc. (EHP), http://www.ElectronicHealthPlans.com, based in Dallas, Texas. Electronic Health Plans, Inc. was created from the ground up to apply the full force of technology to improve and simplify health care administration and produce the lowest administrative costs in the industry. Electronic Health Plans provides American Association of Health Plans (AAHP) members with outsourced claims adjudication and other health care administrative services that significantly improve profitability, increase productivity, and enhance the plan's performance. Overall EHP received a 95% rating.

MCIS applications that were considered strong back in the 1990's have not kept up with new developments that are being engineered by more progressive companies. The AMYSIS product that once was sold by HBOC and latter purchased by McKesson was sold to Platinum Technologies last year. The AMYSIS product development is currently monitored by Synertech, one of Platinum Technologies other companies. Their new product AMYSIS Advance is scheduled for general Release (GA) in the 2nd or 3rd Q of 2003. Until the new product is released, the AMYSIS product is NOT currently being marketed to new clients. Another strong contender during the 1990's was Health Systems Design (HSD) Diamond MCIS Application. A few years ago, Perot Healthcare Systems purchased the entire company. Perot has been very successful in converting current HSD clients to an ASP model with strong Business Process Outsourcing (BPO) initiatives. For those plans with administrative cost ratios above 18%, Perot Healthcare Systems might be the right company.

Other companies like OAO have increased their client base by purchasing products from other companies. OAO recently purchased EZ-Cap from QuadraMed and increased their client based by over 50%. The product is still strong for small IPA's and Physician organizations. Their MCIS product received an overall rating of 85%.

Finally one of the top vendors, **Trizetto's Erisco MCIS** was not included in the evaluation. They elected not to participate.

Top MCIS Applications by Functional Area:

As shown on page 8, the top MCIS application vendors meet the majority of the functional requirements by subcategory. Our study indicated that at a minimum, a product should meet 80% of the required functionality. Based on these requirements, PLEXIS received only 1 low rating, QCSI and El Dorado received 3, WLT Software and Txen received 5 and the remaining vendor applications received more than 5 low ratings. Once again, the detailed functionality by sub-category shows that PLEXIS Healthcare should be considered among the richest applications on the market today

Total Functionality Ratings: Third-Party Administrator (TPA):

Based on self reported data which has been included in actual contracts, the top 10 TPA application vendors provide more than 85% or the required functionality (based on 542 functional questions). The top 5 TPA application vendors all meet over 93% of the required functionality. Therefore, once again, once a TPA determines that a number of vendors can meet their functional requirements, the next factor is the vendor's financial stability, product price, contract terms, and service and support. For Third-Party Administrators (TPA), the top vendors will remain *Healthaxis* based in Irving, Texas (www.healthaxis.com), *Eldorado Computing, Inc*., based in Phoenix, AZ, (www.eldocomp.com), *CSC TXEN*, (www.csc.com), and *Electronic Health Plans, Inc*., located in Dallas, TX. (www.electronichealthplans.com).

TPA Functional Rating Matrix

Vendor	% of Required Functionality	TPA Points	TPA Rating	Market Segment
Eldorado	95.7%	4,163	1	< 200 K
HealthAxis	95.7%	4,163	1	TPA
CSC (Txen)	95.7%	4,162	1	< 100K
ehealthcare Plan	95.7%	4,159	1	< 200K
WLT Software	93.4%	4,059	5	< 100K
Epic (**Tapestry**)	92.7%	4,029	6	< 100K
FACTS	91.8%	3,990	7	< 250K
Perot (Diamond)	89.6%	3,896	7	100 K to 800K
RIMS (Trizetto)	88.4%	3,842	9	< 100K
OAO	87.9%	3,822	10	> 50 < 300K

Bottom-Line:

The company names may change, but healthplans can still upgrade their older, less-efficient, MCIS/TPA applications with newer applications that can help cut administrative costs. We believe that by 2004, healthplans with administrative costs above 13% (as a percentage of total revenues), will lose market share and will not be capable of meeting the needs of a more demanding market. Healthplans must strive for a 90% first time adjudication rate and must deploy self-serve applications to members, plan sponsors, and to their provider clients. Once accomplished, healthplans can spend more of their time and resources on Care Management and will win business based on their ability to reduce their client's Medical Loss Ratios.

Final Draft
MCIS/TPA Vendor Marketplace – 2003

Vendor Summary	PLEXIS 5.0	QCSI v 4.14	CSC (Txen)	Eldorado	WLT Software	EPIC	Perot	FACTS Service	OAO	RIMS
Member Enrollment	98%	95%	98%	93%	83%	98%	98%	95%	93%	82%
Groups	100%	100%	97%	98%	89%	92%	96%	86%	94%	80%
Plans/Benefits	100%	88%	96%	86%	92%	94%	91%	63%	83%	71%
Benefits Admin	96%	100%	97%	100%	95%	96%	91%	99%	90%	91%
Financial Mgt	96%	91%	81%	79%	67%	73%	80%	57%	73%	69%
Healthcare Costs	100%	95%	69%	73%	89%	63%	31%	68%	89%	59%
Third Party Links	67%	93%	100%	100%	77%	66%	100%	89%	59%	59%
Other	97%	94%	93%	96%	91%	96%	100%	96%	91%	91%
Deductible Type	100%	88%	100%	100%	100%	95%	98%	98%	88%	100%
HMO/PPO Logic	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Dental Features	100%	100%	100%	100%	100%	40%	60%	80%	50%	100%
Surcharge Feature	100%	0%	47%	100%	50%	20%	100%	100%	20%	100%
Stop Loss Features	100%	100%	100%	100%	100%	50%	20%	100%	47%	73%
Coding Feature	86%	79%	100%	100%	100%	64%	50%	79%	71%	71%
Other Logic	100%	100%	100%	100%	100%	100%	100%	80%	60%	88%
Repricing Feature	100%	75%	100%	100%	100%	100%	100%	100%	50%	100%
Pending Feature	100%	100%	100%	100%	100%	100%	100%	84%	100%	100%
Payment Suspension	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Data Element	93%	93%	81%	93%	93%	93%	93%	87%	89%	81%
Claim Remark Type	100%	100%	80%	100%	100%	100%	100%	100%	80%	100%
Misc Feature	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Security Element	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Employer Feature	100%	100%	100%	96%	92%	96%	79%	96%	83%	92%
Eligibility Feature	95%	100%	95%	93%	95%	91%	97%	93%	82%	77%
Capitation	93%	97%	100%	100%	97%	93%	93%	97%	87%	100%
Reports	92%	92%	87%	87%	82%	84%	69%	85%	84%	82%
System-Wide Features	86%	82%	92%	81%	86%	92%	33%	77%	86%	69%