

**Testimony of
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For the

**Special Committee on Aging
United States Senate**

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Thank you Chairman Kohl, Representative Smith, and other distinguished members of the Committee for the opportunity to testify today. I am Peter J. Clarkson, Senior Vice President for Distribution Operations at SecureHorizons, which is a business unit of Ovations, the division of UnitedHealth Group that serves Medicare beneficiaries.

Today's hearing focuses on concerns related to the sales and marketing of health care plans to seniors and others with Medicare. We are committed to continuing to work with Congress, state and federal regulators and others to ensure that Medicare beneficiaries can make informed choices and gain access to appropriate coverage.

In our experience, the overwhelming majority of issues that arose last year involved Private Fee For Service (PFFS) plans – which represent less than 1% of our overall Medicare business. But because the PFFS segment has been the subject of regulatory scrutiny, we welcome this opportunity to discuss our efforts regarding the PFFS Medicare offering.

In late 2005, UnitedHealth Group acquired PacifiCare Health Systems, a large insurer that was ramping up its PFFS efforts. At the time, the entire industry had just over 200,000 PFFS beneficiaries – but the market was about to expand rapidly. PacifiCare had modest enrollment projections for the PFFS business, but unexpectedly enrolled 178,000 new members for 2006 – nearly as many as the entire industry had before.

PacifiCare was using an external vendor to provide customer service, enrollment and claims processing for PFFS, and in the rapid growth environment, it was our view that the vendor was unable to provide the level of service to which members and health care providers are entitled.

Most PFFS plans are sold during an intensive six-week Annual Election Period, from November 15 through December 31 each year, during which members purchase coverage for the following calendar year. There is also an opportunity to switch to a different plan from January 1 through March 31. The plans are sold through a combination of internal sales agents (employees of the insurance company) and external brokers. External brokers are either independent career agents or members of Field Marketing Organizations (FMOs), and typically have contracts to sell products from multiple insurance companies.

After we acquired PacifiCare, we learned of instances of misconduct by a small number of external brokers who were selling these plans. We have zero tolerance for misconduct. We investigate every documented complaint, and require additional training or impose sanctions as appropriate, up to and including termination.

We acquired PacifiCare, and we accept full responsibility for these inherited PFFS issues. We took aggressive action throughout 2006 to improve broker oversight, operational performance, and member and provider services. In May 2006 we began transitioning PFFS administrative support from the vendor to our in-house Shared Services group, which has extensive experience in claims processing, customer service and enrollment. In responding to complaints from members and state Departments of Insurance about broker conduct, we terminated more than 80 external brokers from January to July 2006.

We also began longer-term, member-focused initiatives to improve our policies and procedures. We began to ramp up recruiting for business development infrastructure, and created the position of Senior Vice President for Distribution Operations, with broad responsibility for the operations, training and support of the distribution channel, both internal and external. We created a Broker Support Unit outside of the customer support system to focus on answering broker inquiries and providing information about our plans. We created an FMO Advisory Council to begin to work directly with the FMOs to address areas of concern. All these steps were taken with the goal of improving service to our members and providers.

Subsequently, on August 16, 2006, CMS sent PacifiCare Life and Health Insurance Company (PLHIC) a letter detailing a variety of shortcomings in PFFS sales and operations.

The letter directed PacifiCare to create a detailed Corrective Action Plan (CAP) to address each area of weakness, and to show satisfactory progress in correcting these deficiencies in time for the beginning of the next Annual Enrollment Period. As the successor to PacifiCare, we have been taking aggressive action, working in close cooperation with CMS to ensure that issues were resolved in a timely way. In February 2007 CMS provisionally accepted the remainder of the CAP, and the agency continues to vigorously monitor our performance against it. We welcome this oversight as an external validation of the effectiveness of our policies and procedures and of the added protections we are providing to Medicare beneficiaries.

Early on, we resolved to look at the CAP not just as a mandate to address the issues raised, but also as an opportunity to study the PacifiCare PFFS business closely, and to remake and improve it.

We implemented long-term solutions intended to prevent issues from recurring and to significantly improve sales and marketing functions; agent training and oversight; and claims processing systems.

Distribution/sales – In addition to having zero tolerance for broker misconduct or misrepresentation of our plans, there is also a need to guard against accidental misunderstanding of how PFFS plans work. To prevent these problems, we have:

- Proposed and implemented a new post-sale verification process, consisting of an outbound call to new enrollees to ensure they understand the PFFS product and agree to be enrolled in it. CMS now intends to require all plans to make similar calls in the next Annual Election Period, which we welcome.

- Tightened quality control procedures to enable us to more effectively identify and retrain or sanction the historically small number of brokers who are responsible for the vast majority of enrollee complaints.
- Developed and implemented a National Quality Assurance team dedicated to our distribution channel. These employees work full-time to ensure our policies, procedures and training are accurate and updated; monitor performance of brokers and FMOs; and make certain generally that the Company delivers what it promises to beneficiaries.
 - Their activities are tightly coordinated with the results of the post-sale verification calls. When post-sale calls raise concerns about an individual broker, a member of the Quality Assurance team will conduct site visits and ride along with the broker to look for appropriate disclosures and conduct.

We believe this is the first Quality Assurance effort of this type in the industry.

- Established a Distribution Oversight Committee to review the performance results of brokers on a monthly basis, reporting to an Executive Distribution Oversight Committee that meets at least quarterly and has authority to take action at an executive level.
- Refined and expanded training programs for brokers, to reiterate and underscore proper communications with beneficiaries and appropriate handling of enrollment. Before being certified to sell SecureHorizons products, brokers must successfully complete a training course specific to that product. Brokers must then recertify on an annual basis. We monitor the performance of both brokers and FMOs, and work with the FMO leadership to address any issues that arise.

Our training for external brokers has evolved beyond a primarily on-line process to include distribution of printed material and a greater emphasis on face-to-face training, proctored examinations and refresher training where necessary.

Operations – While more progress needs to be made, we have enhanced our information technology systems to improve enrollment, eligibility, record-keeping and claims processing. In addition to bringing administrative support in-house as previously described, we have:

- More than doubled our PFFS Customer Service Unit staff to more than 200 people.
- Created a dedicated operations management Command Center to ensure that urgent inquiries, outstanding claims and complaints are resolved.
- Hired a nationally known expert in call center operations to begin re-engineering our processes from end to end.

Provider programs – We have taken a host of steps to improve the experience for providers and educate them about the benefits of PFFS plans – for both their patients and for them. These include:

- Significantly increasing staff dedicated to handling providers' questions, claims resolution and complaints, as well as enhancing staff training.
- Revising and enhancing our provider education materials and education process, including routine outreach to hospitals, provider groups and medical associations by market managers at the local level.

- And, in conjunction with our systems transitions and upgrades, expediting payment of claims, escalating complaints and improving claims processing.

In addition to these specific actions, we have been working closely with America's Health Insurance Plans (AHIP) and its members on a series of proposals to strengthen processes and policies across the industry. We support AHIP's efforts, and I'm pleased to be here while AHIP outlines its plan to this Committee today.

There are two other specific areas where we believe legislative or regulatory changes could help improve the PFFS program.

1. "Deeming"

From a member's point of view, the greatest weakness of PFFS plans lies in the rules governing "deemed" providers. The concept is confusing, and leaves beneficiaries uncertain about whether their ongoing care will be covered.

In a PFFS plan, members can use any Medicare-eligible provider who agrees to accept the payment rates, terms and conditions of the plan. Such a provider is known as a "deemed" provider. Because no advance contractual relationship is required between the provider and the insurer, a member does not need to choose a provider from a network – so the model becomes practical in rural areas and other places with relatively few providers.

Providers can decide unilaterally whether to be deemed – and they can exercise that choice with every patient visit, regardless of whether they have previously agreed to be deemed with that very same patient. This flexibility may make providers more willing to agree to be deemed on any given day, because they are not locked in to a year-long contract. However, that same flexibility means that a member has less certainty about whether a particular visit or service will be covered.

Deeming is necessary for PFFS plans to be able to operate without a provider network. But a mechanism for requiring or encouraging providers to "stick with the program" would increase beneficiary satisfaction, ensure better access and continuity of care, and reduce complaints. We understand that change in this area could be complex, but we feel that it is important to begin discussing these issues and to look for appropriate solutions.

2. National Registry of Brokers

Some people have questioned why plans need to use external brokers. There are a few reasons PacifiCare structured the business that way. Independent brokers can help match each beneficiary with the most suitable available plan, regardless of which company offers it.

Furthermore, the short annual selling season creates a need for additional distribution capacity for a short period of time. This additional capacity is particularly important in rural areas, which PFFS plans were largely designed to serve, but where it would be difficult to sustain full-time employees.

However, we believe there would be merit in a national registry of sanctioned brokers (coupled with an appeal process to guard against unfair accusations), to stop brokers who are terminated for misconduct at one plan from going on to sell for another. We want only well-trained and highly ethical brokers selling our plans. We believe federal regulation with high standards, better information-sharing and better communication with the states would help achieve this goal.

In conclusion, we are fully committed to safeguarding the rights of people with Medicare. We will continue to work closely with Congress, CMS and other state and federal regulators, health advocates, as well as others in the industry, to identify and implement best practices in the PFFS marketplace.

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