



**Implications of CDHP for Large
Multi-Specialty MD Groups and
Affiliated Hospitals**

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University HealthSystem Consortium

Consumerism: Back To The Future?

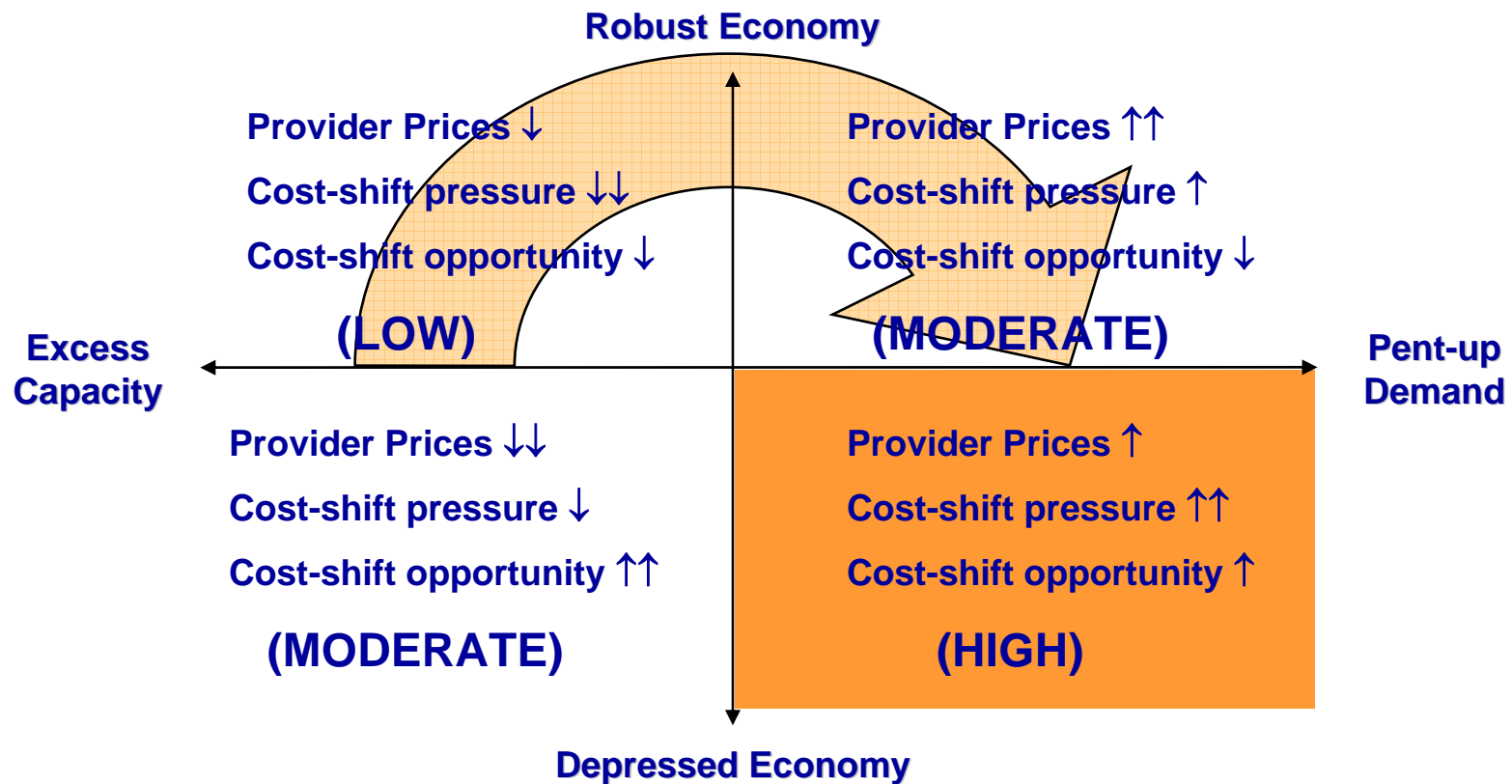
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THE POWER OF COLLABORATION

What Took Wind From Managed Care Sails?

- Unsustainable business model founded on trading outpatient costs for inpatient savings...the lines crossed
- Excess capacity dissipates with increased demand and rate-limiting workforce...discounts harder to come by
- Consumer backlash against restricted access and provider choice...the market voted with its feet
- Nothing to slow technology and Rx explosion...eventually the piper had to be paid
- Fundamental shift in consumer expectations...everything was now supposed to be free
- Insurers and employers ran out of options...next downturn in premium trend will come from cost-shifting to consumers

Cost-Shifting Highest In Weak Economies With Pent-up Demand



Cost shifting maximized when pressure and opportunity converge ... markets with pent-up demand and weakened economies

“Consumer-Directed” Is A Smokescreen

- Shifting costs, not influencing demand, is the real motive
- Actuaries credit consumer plans with very little utilization savings
- Current copayments already have consumer’s attention
- Hospital costs too high for price elasticity to work
- Real quality measures too complex for typical consumer
- HSA tax benefits provide little solace to most employees
- Future employer contributions become discretionary
- Risk for inflation shifts to consumer

High deductible plans most attractive to *healthiest* and *wealthiest*...middle-aged, middle-income employees most vulnerable

Hospital Costs Too High For Price Elasticity To Work

Comparison Of One Patient's Out-Of-Pocket Copayments ("High Cost" vs "Low Cost" Hospitals, In-Network PPO Benefits)

	<u>"Low Cost" Hospital</u>	<u>"High Cost" Hospital¹</u>
Billed Charges	\$17,984	\$31,741
- PPO Discount	<u>- \$5,395</u>	<u>- \$9,522</u>
Allowable Charges	\$12,589	\$22,218
20% Patient Copay	<u>\$3,000*</u>	<u>\$3,000*</u>
(\$1,000 deductible, \$3,000 OOP Max)		

* Assumes patient met none of his/her out-of-pocket limit prior to admission.

¹ "High Cost" hospital is defined as a hospital in the upper quartile of case mix-adjusted allowable charges developed from more than 300,000 PPO admissions and corresponding outpatient visits modeled through three standard benefit plan designs.

Source: Milliman USA, Consulting Actuaries

New Arrival: “Underinsurance Plans”

Increasingly common benefit plans that look normal on the surface, but have extraordinarily low internal limits that expose covered individuals to catastrophic losses

From Florida:

Nominal Benefit Provisions (on the surface)



- \$100 deductible
- 80% of “covered services” in excess of deductible
- Maximum out-of-pocket for “covered services” = \$2,000/year

Internal Limits (the fine print)



“Covered Services” Limits

- \$600/day inpatient R&B
- \$1,200/day ICU R&B
- \$2,000/year everything else



Patient is uninsured for hospital costs in excess of R&B per diem plus \$2,000/year for all other charges

Think It's Just Small Employers?

	Estimated Patient Financial Responsibility	
	<u>CABG, with Cath</u>	<u>\$100,000 episode of care</u>
National Retailer (240,800 covered employees)	\$20,600	\$67,900
National Retailer (299,000 total employees)	\$15,600	\$62,900
Traditional Major Medical Plan, \$500 deductible, 80% coverage, \$3,000 OOP limit	\$3,000	\$3,000

In 2003, sixty-one million adults (35% of the population ages 19-64) had either no insurance, sporadic coverage, or insurance that exposed them to catastrophic medical costs¹

¹ Schoen, et. al, Health Affairs, June 14, 2005

Medical Spending As % Of Income Almost Doubled

	1970		2003
Per capita medical spending	\$301	→	\$4,866
Employee share of medical spending	34%	→	18%
Employee medical spending/year	\$102	→ (8.6x)	\$876
Average hourly wage	\$3.36	→ (4.7x)	\$15.74
% wages spent on medical	1.5%	→	2.7%

- During last half of 20th century, employers absorbed increasing share of total medical spending
- Over same period, medical spending grew so fast that employee costs (premium contributions and OOP) grew much faster than wages
- In 21st century, for employers offering benefits, their share of medical spending has remained relatively constant, while other employers discontinued coverage
- Between 1997 and 2002, the average family's out-of-pocket medical costs increased twice as fast as their income

A Tale Of Two Industries

GM negotiates landmark \$1 billion concession from UAW, allowing for first-time nominal cost-sharing...

- Retiree medical premiums of \$10/month (single), \$21/month (family)
- Retiree deductibles introduced; \$150 single, \$300 family
- Active UAW employees continue to receive health insurance at no cost

...meanwhile, Wal-Mart fights PR battle over health benefits

- 46% of children of Wal-Mart's 1.33 million employees are uninsured or on Medicaid
- 38% of Wal-Mart workers spent more than one-sixth of their Wal-Mart income on health care last year

“There are government assistance programs out there that are so lucrative, it's hard to be competitive, and it's expensive to be competitive.” – Wal-Mart CEO, April, 2005

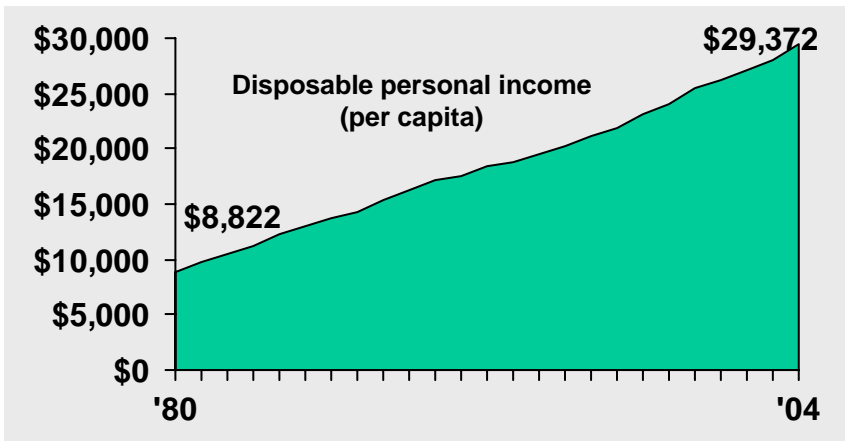
Medical Bankruptcies: How Far To The Tipping Point?

- In 2001, 1.46 million American families filed for bankruptcy, up 360% since 1980
- Medical problems contribute to about half of all bankruptcies; in 2001, between 1.9 million and 2.2 million Americans (filers and their dependents) experienced medical bankruptcy⁽¹⁾
- 75.7% of people whose illness led to bankruptcy had insurance at the onset of the illness...one-third lost coverage during the course of their illness
- In the year prior to bankruptcy, out-of-pocket costs (excluding insurance premiums) averaged \$3,686; out-of-pocket costs since the onset of illness averaged \$11,854
- Medical debtors are primarily middle class, by education and occupation

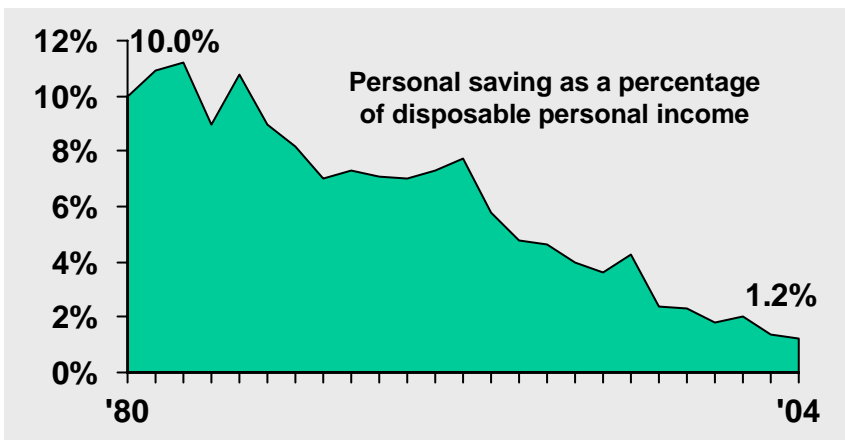
⁽¹⁾ Bankruptcies meeting at least one of the following criteria: Illness or injury listed as specific reason; uncovered medical bills exceeding \$1,000; lost at least two weeks of work-related income because of illness/injury; or mortgaged home to pay medical bills

Americans Are Living On The Edge

Personal income is up...



...but savings are down



- Outstanding consumer credit hit \$2.1 trillion in 2004, up 500% from 1980
- Just 25% of people ages 45 to 54 had IRAs as of 2003... median balance was \$13,000
- People earning less than \$20,000/year have median IRA balances of \$8,000; those earning \$50,000 to \$75,000 have \$10,000
- Medical debt far below common notion of “catastrophic” enough to push many over the cliff

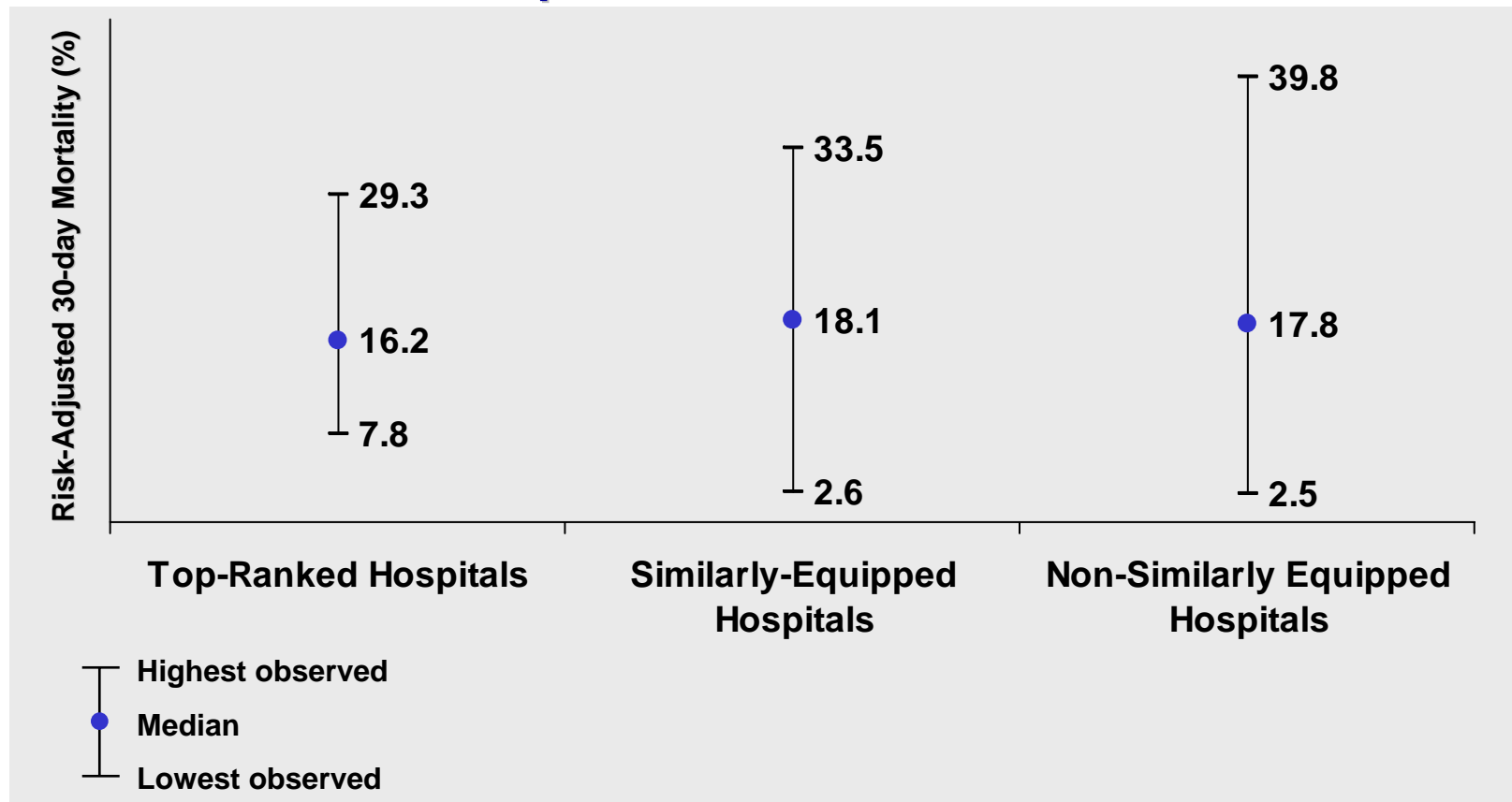
Grading A Health Care Report Card

HealthGrades.com:

- Patients treated in higher-rated hospitals were, on average, more likely to receive aspirin and beta blockers and had lower risk-standardized mortality rates than patients treated in lower-rated hospitals
- Significant variation within rating categories, however, with substantial overlap of high and low ranges
- When hospitals from different ratings categories were compared individually, risk-standardized ***mortality rates were either comparable or even better in the lower-rated hospital in more than 90% of comparisons***
- “Current ratings provide little meaningful discrimination between individual hospital performance in a manner sufficient for making informed hospital choices.” - JAMA

Intra-Rating Variation Is Achilles' Heel

U.S. News & World Report



Source: "Do "America's Best Hospitals" Perform Better for Acute Myocardial Infarction?"
Chen, et. al., NEJM, January 28, 1999

America's Top 100 Hospitals

Abbott Northwestern Hospital, Minneapolis, MN
Advocate Christ Medical Center, Oak Lawn, Ill.
Advocate Lutheran General Hospital, Park Ridge, IL
Advocate South Suburban Hospital, Hazel Crest, IL
Akron General Medical Center, Akron, Ohio
Albany Medical Center
Alexian Brothers Medical Center, Elk Grove Village, IL
All Children's Hospital, St. Petersburg, FL
Allegheny General Hospital, Pittsburgh, PA
Allen Hospital, Waterloo, IA
Anne Arundel Medical Center, Annapolis, MD
Arkansas Children's Hospital, Little Rock, AR
Augusta Medical Center, Fishersville, Va.
Baptist Hospital East, Louisville, Ky.
Baptist Hospital of Miami, Miami, FL
Barnes-Jewish Hospital, St. Louis
Bay Area Medical Center, Marinette, WI
Bay Medical Center, Panama City, Fla.
Bay Regional Medical Center, Bay City, MI
Baylor University Medical Center, Dallas, Texas
Bayshore Medical in Pasadena, Pasadena, Texas
Baystate Medical Center, MA
Benefis Healthcare, Great Falls, Mont.
Beth Israel Medical Center, New York, N.Y.
Bethesda Memorial Hospital, Boynton Beach, Fla.
Bethesda North Hospital, Cincinnati, OH
Blake Medical Center, Bradenton, Fla.
Boca Raton Community Hospital Inc., Boca Raton, Fla.
Bon Secours Hospital, Grosse Pointe, Mich.
Bon Secours Memorial Regional Medical, Mechanicsville, Va.
Boone Hospital Center, Columbia, MO
Boston Medical Center, Boston, MA
Brandon Regional Hospital, Brandon, Fla.
Brigham and Women's Hospital, Boston, MA
BryanLGH MediCalif.I Center East, Lincoln, Neb.
Butler Memorial Hospital, Butler, PA
C J W Medical Center, Richmond, Va.
CA Pacific Medical Center CA Campus, San Francisco, CA
Caritas Medical Center, Louisville, Ky.
Carondelet St Mary's Hospital, Tuscon, AZ
Cedars Medical Center Inc., Miami, Fla.
Cedars-Sinai Medical Center, Los Angeles, CA
Central Florida Regional Hospital, Sanford, Fla.
Centrastate Medical Center, Freehold, N.J.
Centura Health Porter Adventist Hospital, Denver
Chambers Memorial Hospital, Danville, AR
Charles F. Kettering Memorial Hospital, Kettering, OH
Charleston Area Medical Center, Charleston, W. Va.
Charlotte Regional Medical Center, Punta Gorda, Fla.
Chesapeake General Hospital, Chesapeake, Va.
Children's Healthcare of Atlanta
Children's Hospital and Regional Medical Center, Seattle
Children's Hospital Boston
Children's Hospital Los Angeles
Children's Hospital of Orange County, Orange, CA
Children's Hospital of Pittsburgh
Children's Hospital of Wisconsin, Milwaukee
Children's Mercy Hospitals and Clinics, Kansas City, MO
Children's National Medical Center, Washington, DC
Christ Hospital, Cincinnati
Christiana Care, Newark, DE
Christus Santa Rosa Hospital, San Antonio, Texas
Christus Spohn Hospital Memorial, Corpus Christi, Texas
Clarian Health Partners Inc., Indianapolis
Cleveland Clinic Foundation, Cleveland, OH
Columbus Children's Hospital, Columbus, OH
Community Health Partners Of OH West, Lorain, Ohio
Community Hospital East/ North, Indianapolis
Community Hospital of New Port Richey, New Port Richey, Fla.
Community Hospital, Munster, Ind.
Community Medical Center, Toms River, N.J.
Cooper Health System, NJ
Covenant Health System, Lubbock, Texas
Crawford Long Hospital, Atlanta, GA
Creighton University Medical Center, NE
Crittenton Hospital, Rochester Hills, Mich.
Danbury Hospital, Danbury, Conn.
Deaconess Billings Clinic, Billings, Mont.
Deaconess Hospital, Cincinnati
Deaconess Hospital, Oklahoma City
Del E Webb Memorial Hospital, Sun City West, AZ
Delray Medical Center, Delray Beach, Fla.
Doctor's Community Hospital, Lanham, Md.
Doctors Hospital of Sarasota, Sarasota, Fla.
Doylestown Hospital, Doylestown, Pa.
DuBois Regional Medical Center, DuBois, PA
Duke University Medical Center, Durham, N.C.
E M H Regional Medical Center, Elyria, Ohio
Easton Hospital, Easton, Pa.
Eisenhower Medical Center, Rancho Mirage, CA
El Camino Hospital, Mountain View, Calif.
Ellis Hospital, Schenectady, N.Y.
EMH Regional Medical Center, Elyria, OH
Emory University Hospital, Atlanta, GA
Encino Tarzana Regional MediCalif.I Center - Tarzana, Calif.
Erlanger Medical Center TN
Evanston Northwestern Healthcare, Evanston, Ill.
Fairchild Medical Center, Yreka, CA
Fairview Hospital, Cleveland
Fawcett Memorial Hospital, Port Charlotte, Fla.

America's Top 100 Hospitals

Firsthealth Moore Regional Hospital, Pinehurst, N.C.
Flaget Memorial Hospital, Bardstown, KY
Flagler Hospital, Saint Augustine, FL
Florida Hospital/Ormond Memorial/Oceanside, Ormond Beach, FL
Florida Hospital Heartland Division, Sebring, FL
Florida Hospital-Flagler, Palm Coast, FL
Florida Medical Center, Lauderdale Lakes, FL
Floyd Valley Hospital, Le Mars, IA
Fort Hamilton Hughes Memorial Hospital, Hamilton, OH
Fort Madison Community Hospital, Fort Madison, IA
Forum Health Trumbull Memorial Hospital, Warren, OH
Franklin Square Hospital, Baltimore, MD
Geisinger Wyoming Valley Medical Center, Wilkes-Barre, PA
Genesys Regional Medical Center, Grand Blanc, Mich.
Georgetown University Hospital, Washington, DC
Gerber Memorial Health Services, Fremont, MI
Glendale Adventist Medical Center, Glendale, CA
Glendale Memorial Hospital and Health Center, Glendale, CA
Glenwood Regional Medical Center, West Monroe, LA
Good Samaritan Hospital, Baltimore, Md.
Good Samaritan Hospital, Dayton, Ohio
Good Samaritan Hospital, Los Angeles, CA
Good Shepherd Medical Center, Longview, TX
Grandview Hospital and Medical Center, Dayton, OH
Grant Medical Center, Columbus, OH
Greater Baltimore Medical Center, Baltimore, Md.
Greenville Hospital Center, Greenville, SC
Greenville Regional Hospital, Greenville, IL
Hackensack University Medical Center, Hackensack, NJ
Hahnemann University Hospital, Philadelphia, PA
Halifax Medical Center, Daytona Beach, FL
Hamot Medical Center, Erie, PA
Harper University Hospital, Detroit, MI
Hartford Hospital, Hartford, CT
Healtheast St. John's Hospital, Maplewood, Minn.
Heartland Regional Medical Center, Saint Joseph, MO
Helen Ellis Memorial Hospital, Tarpon Springs, FL
Henrico Doctors Hospital Forest Calmpus/ Parham Campus, Richmond, VA
Henry Ford Hospital, Detroit, MI
Henry Ford Wyandotte Hospital, Wyandotte, MI
Hillcrest Hospital, Mayfield Heights, OH
Holmes Regional Medical Center, Melbourne, FL
Holy Cross Hospital, Fort Lauderdale, FL
Holy Name Hospital, Teaneck, NJ
Hospital of St. Raphael, New Haven, CT
Hospital of the University of Pennsylvania, Philadelphia, PA
Huntington Memorial Hospital, Pasadena, CA
Ingalls Memorial Hospital, Harvey, IL
Inova Alexandria Hospital, Alexandria, VA
Inova Fairfax Hospital, Falls Church, VA
Inoquois Memorial Hospital, Watseka, IL
Jellico Community Hospital, Jellico, TN
Jewish Hospital, Cincinnati, OH
Jewish Hospital, Louisville, KY
JFK Medical Center, Atlantis, FL
Johns Hopkins Hospital, Baltimore, MD
Jupiter Medical Center Inc., Jupiter, FL
Kimball Medical Center, Lakewood, NJ
King's Daughters' Medical Center, Ashland, KY
Lahey Clinic Medical Center, Burlington, MA
Lakeland Regional Medical Center, Lakeland, FL
Lancaster General Hospital, Lancaster, PA
Lankenau Hospital, Wynnewood, PA
Laredo Medical Center, Laredo, TX
Lawnwood Regional Medical Center, Fort Pierce, FL
LDS Hospital, Salt Lake City, UT
Lee Memorial Health System, Ft. Myers, FL
Lehigh Valley Hospital, Allentown, PA
Lenoir Memorial Hospital, Kinston, NC
Lenox Hill Hospital, New York, NY
Lewis-Gale Medical Center, Salem, VA.
Little Company of Mary Hospital, Evergreen Park, IL
Los Robles Regional Medical Center, Thousand Oaks, CA
Lutheran Hospital of Indiana, Fort Wayne, IN
Maimonides Medical Center, Brooklyn, NY
Main Line Hospitals Inc. Lankenau, Wynnewood, PA
Margaret Mary Community Hospital, Batesville, IN
Martin Memorial Medical Center, Stuart, FL
Marymount Hospital, Garfield Heights, OH
Massachusetts General Hospital, Boston, MA
Mayo Clinic - Saint Marys Hospital, Rochester, MN
Mayo Clinic Hospital, Phoenix
Mc Allen Heart Hospital, Mc Allen, Texas
Mease Hospital Countryside, Safety Harbor, FL
Mease Hospital Dunedin, Dunedin, FL
Medical College of Ohio, Toledo, OH
Medical University of SC Children's Hosp, Charleston, SC
Memorial Hospital and Health Care Center, Jasper, IN
Memorial Hospital of Carbondale, Carbondale, IL
Memorial Hospital System, Houston, TX
Memorial Hospital, Belleville, IL
Memorial Hospital, Chattanooga, TN
Memorial Hospital, Chattanooga, TN
Memorial Medical Center of East Texas, Lufkin, TX
Memorial Sloan-Kettering Cancer Center, New York, NY
Mercy Hospital Anderson, Cincinnati, OH
Mercy Hospital, Coon Rapids, MN
Mercy Hospital, Scranton, PA
Mercy Medical Center - Des Moines, Des Moines, IA
Mercy Medical Center Inc., Roseburg, OR

America's Top 100 Hospitals

Mercy Medical Center North Iowa, Mason City, IA
Mercy Medical Center of Springfield, Springfield, OH
Mercy Medical Center, Oshkosh, WI
Mercy Medical Center, Springfield, OH
Meridia Euclid Hospital, Euclid, Ohio
Methodist Hospital of Southern California, Arcadia, CA
Methodist Hospital, Saint Louis Park, MN
Middlesex Hospital, Middletown, CN
MidMichigan Medical Center-Midland, Midland, MI
Miriam Hospital, Providence, RI
Mission Hospitals, Asheville, NC
Monroe Carell Jr. Children's Hospital at Vanderbilt, Nashville, TN
Montgomery General Hospital Inc., Olney, MD
Morgan Stanley Children's Hospital of New York-Presbyterian, NY, NY
Morton Plant Hospital, Clearwater, FL
Mount Sinai Medical Center, Miami Beach, FL
Munroe Regional Medical Center, Ocala, FL
Munson Medical Center, Traverse City, Mich.
Naples Community Hospital Inc., Naples, FL
Nebraska Health System NE
New England Medical Center, Boston, MA
New York-Presbyterian Hospital, NYC, NY
New York-Weill Cornell Campus, New York, NY
Newton-Wellesley Hospital, Newton, MA
North Shore University Hospital, Manhasset, NY
NorthEast Medical Center, Concord, NC
Northside Hospital, St. Petersburg, FL
Northwest Community Hospital, Arlington Heights, IL
Northwest Hospital Center, Randallstown, MD
Northwest Medical Center, Tucson, AZ
Northwestern Memorial Hospital, Chicago, IL
NYU Medical Center, New York, NY
Oak Hill Hospital, Spring Hill, FL
Oakwood Hospital and Medical Center, Dearborn, MI
Ocala Regional Medical Center, Ocala, FL
Palm Beach Gardens Medical Center, Palm Beach Gardens, FL
Paoli Hospital, Paoli, PA
Parma Community General Hospital, Parma, OH
Pennsylvania Hospital, Philadelphia, PA
Penrose - St Francis Health Services, Colorado Springs, Colo.
Piedmont Fayette Hospital, Fayetteville, GA
Piedmont Hospital, Atlanta, GA
Poudre Valley Hospital, Ft. Collins, CO
Prairie Lakes Healthcare System, Watertown, SD
Primary Children's Medical Center, Salt Lake City, UT
Putnam Community Medical Center, Palatka, FL
Rainbow Babies & Children's Hospital, Cleveland, OH
Rapides Regional Medical Center, Alexandria, LA
Regional Medical Center Bayonet Point, Hudson, FL
Rex Hospital, Raleigh, NC
Riley Hospital for Children, Indianapolis, IN
Rio Grande Regional Hospital, Mc Allen, TX
Riverside Medical Center, Waupaca, WI
Riverside Methodist Hospital, Columbus, Ohio
Riverview Regional MediCalif.I Center, Gadsden, AL
Robert Wood Johnson University Hospital, New Brunswick, NJ
Rochester Methodist Hospital, Rochester, MN
Rockford Memorial Hospital, Rockford, IL
Rockingham Memorial Hospital, Harrisonburg, VA
Rush North Shore Medical Center, Skokie, IL
Rush-Presbyterian-St. Luke's Medical Center, Chicago, IL
S S M Depaul Health Center, Bridgeton, MO
Saint Elizabeth Regional Medical Center, Lincoln, NE
Saint Francis Hospital and Medical Center, Hartford, CT
Saint Johns Health System, Anderson, IN
Saint Josephs Hospital of Atlanta, Atlanta, GA
Saint Lucie Medical Center, Port Saint Lucie, FL
San Juan Hospital, Monticello, UT
Sarasota Memorial Hospital, Sarasota, FL
Sauk Prairie Memorial Hospital & Clinics, Prairie du Sac, WI
Schneider Children's Hospital, New Hyde Park, NY
Scott and White Memorial Hospital, Tempe, TX
Scottsdale HealthCalif.re Shea, Scottsdale, AZ
Scripps Green Hospital, LaJolla, CA
Scripps Mercy Hospital, San Diego, CA
Sentara Leigh Hospital, Norfolk, VA
Sentara Norfolk General Hospital, Norfolk, VA
Seton Medical Center, Austin, TX
Shands Hospital at the Univ. of FL, Gainesville, FL
Sharp Chula Vista Medical Center, Chula Vista, CA
Shawnee Mission Medical Center, Shawnee Mission, KS
Sherman Hospital, Elgin, IL
Sibley Memorial Hospital, Washington, D.C.
Sierra Nevada Memorial Hospital, Grass Valley, CA
Silver Cross Hospital, Joliet, IL
Sinai Hospital, Baltimore, MD
Sioux Valley Hospital, Sioux Falls, SD
South Austin Hospital, Austin, TX
South Bay Hospital, Sun City Center, FL
Southwest General Health Center, Middleburg Heights, OH
Speare Memorial Hospital, Plymouth, NH
Spectrum Health Hospitals, Grand Rapids, Mich.
St. Barnabas Medical Center, Livingston, NJ
St. Davids Hospital, Austin, TX
St. Elizabeth Health Center, Youngstown, OH
St. Elizabeth Hospital, Appleton, WI
St. Elizabeth Medical Center, Covington, KY
St. Francis Hospital & Health Centers, Beech Grove, IN
St. Francis Hospital and Health Center, Blue Island, IL
St. Francis Hospital of Evanston, Evanston, IL

America's Top 100 Hospitals

St. Francis Hospital, Roslyn, NY
St. Francis Medical Center, Monroe, LA
St. Francis Regional Medical Center, Shakopee, MN
St. John Hospital and Medical Center, Detroit, MI
St. John Macomb Hospital, Warren, MI
St. John West Shore Hospital, Westlake, OH
St. John's Health Center, Santa Monica, CA
St. John's Hospital, Maplewood, MN
St. John's Hospital, Springfield, MO
St. Joseph Health Center, Saint Charles, MO
St. Joseph Hospital Port Charlotte, Port Charlotte, FL
St. Joseph Mercy Oakland, Pontiac, MI
St. Joseph's Hospital and Medical Center, Phoenix, AZ
St. Joseph's Hospital, St. Paul, MN
St. Josephs Hospital, Tampa, FL
St. Josephs Mercy Hospital/Health Services, Clinton Township, MI
St. Louis Children's Hospital, St. Louis, MO
St. Louis University Hospital, St. Louis, MO
St. Luke's Episcopal Hospital, Houston, TX
St. Luke's Episcopal-Presbyterian Hospital, Chesterfield, MO
St. Lukes Hospital of Kansas City, Kansas City, MO
St. Lukes Hospital, Bethlehem, PA
St. Luke's Hospital, Cedar Rapids, IA
St. Luke's Medical Center, Milwaukee, WI
St. Luke's Regional Medical Center, Boise, ID
St. Marks Hospital, Salt Lake City, UT
St. Mary Mercy Hospital, Livonia, MI
St. Marys Hospital, Rochester, MN
St. Marys Medical Center, Duluth, MN
St. Thomas Hospital, Nashville, TN
St. Vincent Hospital and Health Services, Indianapolis, IN
St. Vincents Medical Center Inc., Jacksonville, FL
Stanford Hospital and Clinics, Stanford, CA
Suburban Hospital Association, Bethesda, MD
Summa Health System, Akron, Ohio
Tampa General Hospital, Tampa, FL
Texas Children's Hospital, Houston, TX
Texoma Medical Center, Denison, TX
The Children's Hospital of Philadelphia, PA
The Children's Hospital, Denver, CO
The Ohio State University Hospital, Columbus, OH
The University of Chicago Comer Children's Hospital, Chicago, IL
The University of MI C.S. Mott Children's Hospital, Ann Arbor, MI
Theda Clark Memorial Hospital, Neenah, WI
Thomas Jefferson Univ. Hosp., Philadelphia, PA
Torrance Memorial Medical Center, Torrance, CA
Tucson Medical Center, Tucson, AZ
UC Davis Medical Center, Sacramento, CA
UCI Medical Center, Orange, CA
UCLA Medical Center, Los Angeles, CA
UCSD Medical Center, San Diego, CA
UCSF Medical Center, San Francisco, CA
Union Hospital, Elkton, MD
United Hospital Center, Clarksburg, WV
United Hospital, Saint Paul, MN
Univ. of Iowa Hospital & Clinic, Iowa City, IA
Univ. of Michigan Hospitals & Health Centers, Ann Arbor, MI
Univ. of Maryland Medical System, Baltimore, MD
University Health System, San Antonio, TX
University Hospital at Syracuse, Syracuse, NY
University Hospital and Medical Center, Tamarac, FL
University Hospital, Cincinnati, OH
University Hospital, Lexington, KY
University Hospitals of Cleveland, Cleveland, OH
University of Alabama Hospital, Birmingham, AL
University of Colorado Hospital, Aurora/Denver, CO
University of Kansas Hospital, Kansas City, KS
University of North Carolina Hospital, Chapel Hill, NC
University of Utah Hospital & Clinic, Salt Lake City, UT
University of Virginia Medical Center, Charlottesville, VA
University of Washington Medical Center, Seattle, WA
University of Wisconsin Hospital & Clinics, Madison, WI
UPMC Northwest, Seneca, PA
UPMC Presbyterian, Pittsburgh, PA
UPMC St. Margaret, Pittsburgh, PA
Valley Medical Center, Renton, WA
Valley View Hospital, Glenwood Springs, CO
Vanderbilt University Medical Center, Nashville, TN
VCU Health System Authority, Richmond, VA
Virginia Baptist Hospital and Lynchburg General, Lynchburg, Va.
Virginia Mason Medical Center, Seattle WA
WakeMed, Raleigh, NC
Washington Adventist Hospital, Takoma Park, MD
Washington County Hospital, Hagerstown, MD
Washington Hospital Center, Washington, DC
Wausau Hospital, Wausau, WI
Wellington Regional Medical Center, West Palm Beach, FL
Westchester Medical Center, NY
Western Pennsylvania Hospital, PA
Westside Regional Medical Center, Plantation, FL
William Beaumont Hospital, Royal Oak, MI
William Beaumont Hospital-Troy MI
William W Backus Hospital, Norwich, CN
Willis Knighton Bossier Health Center, Bossier City, LA
Winchester Medical Center Inc., Winchester, VA
Winneshiek Medical Center, Decorah, IA
Winthrop University Hospital, Mineola, NY
Yale-New Haven Hospital, New Haven, CT
York Hospital, York, PA

Is Pay-For-Performance A Long-Term Strategy?

- Current demonstration programs focus on process over outcomes - medical literature agrees
- Medical literature suggests process focus most appropriate
- Financial incentives may be a tool to get market's attention
- When quality ultimately understandable, do normal economics apply?
- Will demand exist for lower quality at lower prices?
- Why use a carrot when you can use a stick?
- Are P4P programs just a transition vehicle?

End Game? One View...

- ✓ Predictable, elective expenditures borne by consumers, risk of catastrophe returns as basis for insurance premiums
- ✓ Lower friction costs as high volume/low dollar claims disappear
- ✓ Commercial market contracts to large ERISA employers and cream of small employer risk pool
- ✓ Federal takeover of Medicaid and the uninsured...but it will take a “Health Care Katrina” and no time soon
- ✓ Consumer preference for quality, but only when they can understand it
- ✓ Two-tiered access proportionate to means – it’s nothing new, we’ve always had it

Fundamental Problems Will Persist

- Shifting everyone to \$1,000 deductible plans would yield one-time savings of less than 10%
- Cost curve drops down by 5%, but the slope may actually increase
- Limited elasticity of demand for non-elective medical care
- Nothing to slow the proliferation of new technology, Rx
- Failed to address tough cost/benefit questions at end of life, or for emerging technology

Implications For Employers, Policymakers

- Global competition leaves no room for runaway costs
- No magic bullet for next premium run-up
- Wages back on table when benefits fully leveraged
- Mobile uninsured/underinsured make patchwork Medicaid unworkable
- Increasing pressure for safety net insurance
- Public policy crossroads: technology, Rx, and end-of-life spending

Implications For Consumers

- Already paying higher percentage of income on health care than 20 years ago...and it will get worse
- Even higher rate of personal bankruptcies
- Utilization tightrope as cost-shifting continues
- Din of sloppy health care report cards pointing in every direction
- Tougher cash at time of service expectations
- Access problems for the underinsured



www.StrangeCosmos.com

Implications of CDHP for Large Multi-Specialty MD Groups and Affiliated Hospitals



**Marc J. Dettman
Chief Executive Officer**

The University of Virginia Health Services Foundation

**So, is consumerism going to be
a big deal or not?**

**One more time – let's quickly look at
the facts as highlighted by some
important players.**

Facts as seen by Commonwealth Fund in Testimony to Congress

- Early experience with HSA-Eligible High-Deductible Health Plans Reveals:
 - Low enrollment
 - Low satisfaction
 - High out-of-pocket costs, and
 - Cost related access problems
- Evidence that high out-of-pocket costs lead patients to decide against getting health care they need
- HSAs will not solve our uninsured problem
- Patients' use of information alone is not likely to dramatically reduce health care costs or improve quality

The Facts As Viewed by Insurers

- A UnitedHealth Group report says high-deductible health plans encourage use of preventive services and drive down employer costs
- A report by AHIP says
 - Number of people covered by HSA/HDHPs has tripled from 3/05 to 1/06
 - 31% of new enrollees in HSA/HDHPs were previously uninsured

OK, Then,

**What Do You Do if the Facts Point in
Different Directions?**

**Do We Jump on the Consumerism
Bandwagon or Not?**

**How About Using a Rule of Thumb to
Decide?**

So, What Do You Mean By “A Rule of Thumb?”

**A rule based on experience or
practice rather than on scientific
knowledge**

**Example: Don't Cross the Bridge
Before You Come to It**

Some Other Rules of Thumb and Sayings to Guide How You Should React

- He who hesitates is lost
- A good beginning makes a good ending
- If you can't beat 'em, join 'em
- Actions speak louder than words

But Beware: Many Rules of Thumb and Sayings Conflict With Each Other

- Compare
 - Don't cross the bridge before you come to it
 - ✓ With
 - Forewarned is forearmed

Other Comparisons

- He who hesitates is lost
 - ✓ Compared to
- Look before you leap
- A good beginning makes a good ending
 - ✓ Compared to
- It's not over until it's over

And

- If you can't beat 'em, join 'em
 - ✓ Compared to
- If you lie down with dogs, you'll get up with fleas

- Actions speak louder than words
 - ✓ Compared to
- The pen is mightier than the sword

**So What Do You Do When the Facts
and the Rules of Thumb All Seem to
Point in Different Directions?**

Guess

My Best Guesses

- Increasing employer costs will drive Consumerism regardless of whether CDHP materially constrains or reduces overall costs
 - ✓ What we are likely to hear from employers:
“My mind is made up – don’t confuse me with the facts – We need to control our costs.”
 - ✓ Consumerism = Cost Shifting to Patients

Best Guesses-Continued

- In the long run we end up with a tiered medical system – a base level of care for everyone, with additional and faster care available to those with the ability to pay
 - ✓ A prediction that is not particularly helpful for planning today's and tomorrow's actions – akin to saying “In the long run we are all dead.”

We've Got Consumerism!

- So Let's Assume We Get Consumerism
 - New Administrative Infrastructure Needs
 - ✓ Pricing Transparency Delivery Mechanisms
 - ✓ Pre-service Financial Arrangements
 - ✓ Quality Monitoring and Reporting
- Pricing Transparency – Who is Going To Tell People What Services Cost?
 - Probably not your front desk personnel
 - ✓ Why?

We've Got Consumerism!-Continued

- Why the Front Desk Won't Be Up to It
 - Faulty assumption that it is easy to look up a price
 - ✓ There is one price per CPT code – *Not True*

We've Got Consumerism!-Continued

- ✓ Analysis of 585 most active CPT codes billed to one payor – How often was the most common allowable the actual allowable?

% of Claims Allowed

at Mode

100%

90-99%

80-89%

70-79%

60-69%

< 60%

CPT Codes

4%

15%

37%

18%

12%

14%

We've Got Consumerism!-Continued

- Why are there different allowables for the same CPT code? A variety of reasons;
 - Modifiers (professional only, bilateral procedures, multiple procedures, two surgeons, repeat procedure by same physician, etc.)
 - Place of service (treatment room vs. exam room)
 - Provider type (MD, PhD, NP, PA, Social Worker)
 - Limit on number of procedures per day

We've Got Consumerism!-Continued

- Who is going to know the rules for one payor, much less all payors?
 - Probably not your front desk personnel
- Lets assume you have a price. Who is going to make the pre-service financial arrangements with the patient?
 - Probably not your front desk personnel
 - ✓Why?

We've Got Consumerism!-Continued

- Why your front desk won't be up to it
 - They won't know how much to ask for
 - Your patients won't want to talk about big dollar arrangements in the waiting room
 - The front desk has other things to do
- Why the front desk won't know how much to ask for
 - They will need immediate access to deductible and co-insurance status – not available
 - Even if it were accessible, you have the “6 terminals on the desk” problem

We've Got Consumerism!-Continued

- Why people won't want to talk about their payment obligation in a public room
 - In a large deductible environment they won't have the money
- If our existing infrastructure isn't up to it, what's stopping us from adding infrastructure capable of doing the job?
 - Little or no money – existing expenses aren't going away
 - We focus on what we're good at – our expertise lies on the back end of the cycle, not the front end

The Challenge!

- The Consumerism Challenge –

Will it be:

- Don't cross the financial bridge before you come to it, or
- Forewarned is forearmed – start building your infrastructure now