

Provider Strategies Required to Succeed in a Consumer Driven Health Care Environment

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Consumer Driven Health Care

- What *is* consumer driven health care and how is it impacting on providers?



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- Consumer driven health care is the latest in a series of attempts to control the cost of health care
- In the late 70's, we experimented with the notion of high deductible/coinsurance plans (RAND Experiment)
 - Plan participants used 25-30 percent less services and had fewer physician visits
 - The debate was whether it resulted in a reduction in necessary or unnecessary care



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- In the 80s and 90s, we added a variety of techniques to our arsenal, including:
 - Prospective payment (squeezing the provider)
 - HMOs (transferring risk through capitation and involving the patient through gatekeepers, pre-cert, etc.)
 - PPOs (incentivizing patients to go in-network where providers have agreed to reduced fee schedules)
 - Disease management (identifying and managing patients with chronic illnesses to improve compliance and reduce admissions)



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- Consumer driven products, such as HRAs and HSAs represent another vehicle to control cost particularly from the employer's perspective
- It is an attempt to combine the impact of increased patient awareness and sensitivity to cost with the use of managed care networks to stem the rise in health care costs
- Disease management and prevention can play a significant role in a consumer driven health care environment



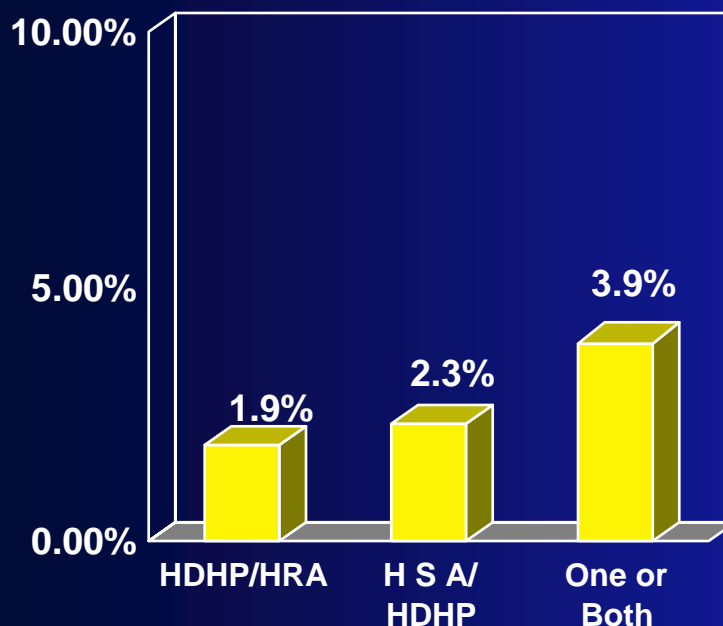
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Is anyone jumping on the bandwagon?



Consumer Driven Health Care Employer Trends

Percent of Firms that Provide Health Insurance Offering an HDHP/HRA or an HSA Qualified HDHP



- In 2005, there were 1.6 million covered workers in a High Deductible Health Plan (HDHP) HRA
- There were 810,000 covered workers in an HSA qualified HDHP

Source: Kaiser/HRET Survey of Employer Sponsored Health Benefits, 2003-2005



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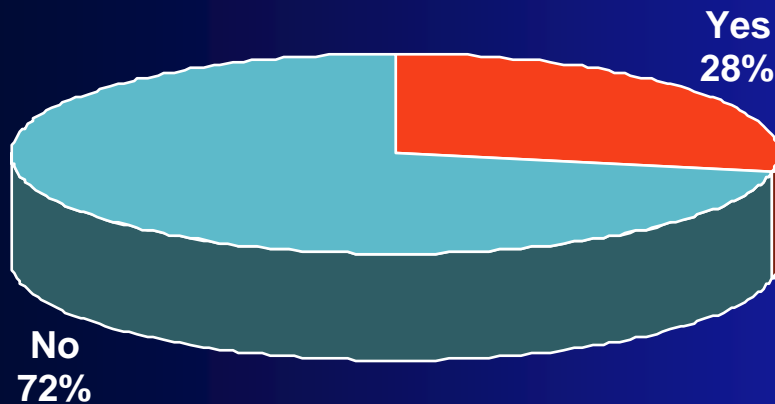
Payer Trends

- Most insurers now have at least one consumer directed product as one of the options for employers/employees, including:
 - Aetna
 - UnitedHealthCare
 - Anthem/Wellpoint
 - Cigna
 - Blue Cross/Blue Shield
- Specialty vendors are also offering CDH products directly to employers
 - Destiny
 - Lumenos
 - Vivius



Consumer Driven Health Care Employer Trends

Does your employer offer a consumer driven health plan option?



- According to a recent survey, 28% of employers now offer a consumer driven health plan option, up from 22% last year
- 75% of employers with a CDHP began offering the option in 2005 or 2006
- Employers are offering these plans to help control rising costs (38%) and to introduce “consumerism” into the purchasing of health care (48%)
- 30% of employers believe the concept is too new and have adopted a “wait and see” attitude

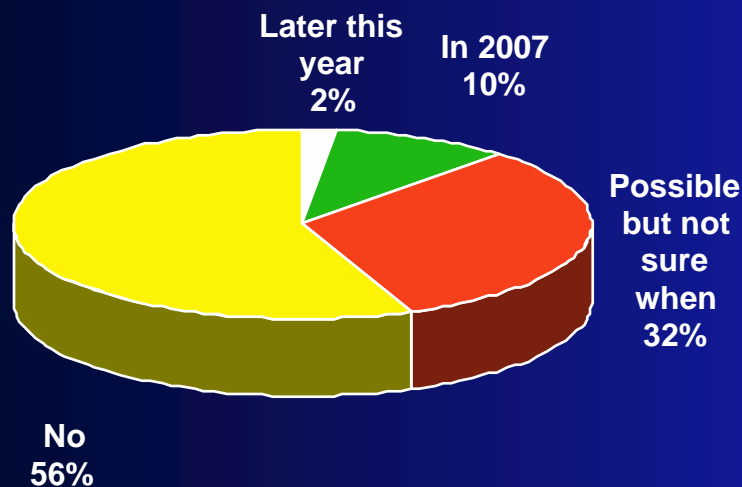
Source: Aon Consulting/ISCEBS Survey
June 2006

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Consumer Driven Health Care Employer Trends

Do you plan to offer a
CDHP in the near future?



Source: Aon Consulting/ISCEBS Survey
June 2006

- Of those employers that do not currently have a CDHP option, 44% are considering it
- Of those employers considering CDHP, 29% are thinking about offering an HSA as an option and 5% are considering it as a total replacement for their existing health plans
- Only 16% are considering an HRA

Why is Consumer Driven Health Care Getting Such a Toehold?

- Who are the players who want CDHC to work?
 - Employers
 - The Bush Administration
 - Entrepreneurs
 - Revolution Health (Steve Case is making a \$500 million bet that CDHC will work)
 - GE Healthcare (bought IDX as a channel)
 - WebMD
 - The entire US banking industry (who are salivating over billion of dollars in deposits)



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Does it work?



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- **The jury is still out**
- From the consumers perspective, the reaction is mixed
 - According to the EBRI/Commonwealth Fund survey, 63% of individuals with comprehensive health insurance are extremely or very satisfied with their health plan compared with only 42% of CDHP enrollees and 33% of high deductible health plan enrollees
 - Individuals with CDHPs (35%) and HDHPs (31%) were significantly more likely to avoid, skip or delay health care because of costs than their counterparts in comprehensive health plans (17%)
 - Other more recent surveys*, however, have reported much higher consumer satisfaction rates, in the 90% range



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- From the employer and the payer's perspectives, it may be too soon to tell, although there have been both encouraging and discouraging signs over the past year
- There have been some reports that CDHPs have begun to encourage healthy behaviors and curb double-digit premium increases
 - A three year Humana study of 13,000 employees found that an increased use of preventive services among the CDHP enrollees led to fewer medical interventions and annual claim cost increases of 5-6% vs. double digit increases for enrollees in the traditional plans



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- Other studies have been much more negative, questioning the very premise on which consumer driven health care rests (i.e. making consumers more sensitive to the cost of health care)
- According to a recent study just published in Health Affairs, high deductible health plans actually reduce cost-sharing for people at the extremes (i.e. those who spend the least and the most amount on health care)
- Specifically, patients who account for half of all medical spending in this country (7.7% of the population) would see no change or a decline in their cost-sharing under an high deductible/HSA



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- Because HSAs are shielded from federal and state income taxes and payroll taxes, consumers receive a subsidy with which they can purchase health care, resulting in a lower overall out-of-pocket cost
- The only way to address this issue is to increase cost-sharing for the highest users of care but this would mean making health care unaffordable for those who need it most



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- So what does this mean for providers and what does it have to do with tiering and pay-4-performance?



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Tiering

- Tiered provider networks are often used in conjunction with CDHPs as a way of enabling consumers to differentiate among providers on the basis of quality and cost
- Under this type of arrangement, enrollees pay different cost-sharing rates depending on what tier the provider is in-
 - Tiers are assigned on the basis of cost and/or quality
 - Patients make a point-of-service decision on what provider to see based on the copays as well information provided to them on price and quality



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Provider Networks

- Under pay-4-performance arrangements, providers are incentivized to meet specific quality/clinical criteria (e.g. percent of heart attack patients given aspirin upon arrival and discharge)
 - Typically providers who score in the top percentiles based on these criteria, receive an additional payment or bonus for their performance
 - Medicare has a number of pay 4 performance initiatives underway with both hospitals and physicians



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Pay-4-Performance

- Increasing numbers of commercial payers have adopted some variation of pay-4-performance, including Wellpoint, Anthem, HealthNet and Aetna
- The type of plan varies depending on the payer (“if you have seen one pay-4-performance plan, you’ve seen one”) but they generally fall into one of three categories:
 - Incentives tied to quality of care
 - Incentives tied to patient safety
 - Incentives tied to outcomes (clinical and/or financial)

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Pay-4-Performance

- The incentives may be additive or they may be part of the fee schedule
- In some cases, the plan is physician-based, while in others it is tied to the hospital's payment
- Some payers have adopted plans for both physicians and the hospitals
- One thing that all the plans have in common, is the need for timely and accurate data on which to base performance measurements



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So How are Providers Reacting?

- Many are reacting in the time-honored way by sticking their head in the sand and saying it won't happen *or* it won't happen here *or* if it happens here it won't happen to me - *So let's not do anything until after it's here*
- Unfortunately, most of the pieces needed for consumer driven health care to succeed are already here and in place

Why is Consumer Driven Health Care Getting Such a Toehold?

- It's gone from 0 to 5 million in just a few years
- It has the makings of a “perfect storm”
 - Endless double digit premium increases
 - No end to those increases in sight
 - Legislation, regulation, tax incentives in place- more on the way
 - Employers are increasingly viewing CDHC as their last alternative to dropping health care coverage altogether
 - More employers are doing total replacements
 - Information will get better and more available
 - **Transparency is reaching critical mass**



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So What is Transparency?

- Transparency is a word with which you may not yet be familiar - but get used to it because you are going to hear it a lot
- By virtue of public data collection and the internet, almost everything you do as a provider will be *transparent* to all your various publics (*including your competitors*)
- Congress is getting involved; until it was removed this past July, there was a provision in a health care information technology bill (HR 4157) that would have *required* hospitals to make public some price information
- It is only a matter of time, so make sure you are showing the public what you want them to see in terms of quality, price and cost

Consumer Driven Health Care Transparency

- Many of the major payers, including Aetna, Cigna, Humana, and UnitedHealthCare are already developing web-based pricing tools
- Aetna released the rates it has negotiated with physicians in Cincinnati and is expanding this program to eight additional regions
- Several State governments and hospital associations are planning to launch websites that disclose hospital charges and Medicare has begun listing the range of what it reimburses hospitals for the top 30 procedures

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So what should a provider do?



Strategies Providers Should be Developing

- Short-term:
 - Establish and maintain a culture of customer satisfaction
 - Get the doctors and the hospitals on the same page, integrated and mutually dependent
 - Develop staged managed care contracting strategies:
 - More aggressive pricing can be negotiated on tighter, more highly controlled DRGs for payers with significant patient volume
 - You can afford to be less aggressive for payers that account for more limited volume and with case loads that more unpredictable in terms of cost



Strategies Providers Should be Developing

- Short-term (continued):
 - Rationalize prices
 - Automate and QA the collection and reporting of quality data (don't forgot to look at your competitors)
- Long-term:
 - Vertical integration (one stop shopping - remember the customer satisfaction is now key!)
 - Horizontal integration



Strategies Providers Should be Developing

- Long-term (continued):
 - Cost reengineering - to succeed financially, you need to begin to develop:
 - meaningful clinical pathways that define the protocols and services by diagnosis
 - Cost accounting and clinical information systems that provide you with the data needed to identify your costs, streamline the process and improve quality



Strategies Providers Should be Developing

NOTE: None of this can be accomplished without a first rate IT platform - focus on information rather than bricks and mortar!



What Do You Think is the Very First Thing You Should Tackle?

- Building and maintaining a culture that results in first-rate patient satisfaction
 - Find out what it means
 - Find out where you're short
 - Close the gap
 - Keep it there

Closing Thoughts

- Providers:
 - You're the meat in the sandwich
 - You're going to get squeezed from every direction
 - You need to understand that, embrace it as an opportunity



Closing Thoughts

- The health plans are consolidating and many of them, even the Blues, now have shareholders to feed
- Employers are funding increases in health care from their bottom lines and they've about reached bottom
- Patients armed with information, good and bad, are going to be shopping around for the best service at the best price
- The providers that will survive will be those that invest the time and the resources to improve both process and outcome and figure out how to communicate that to their various publics

