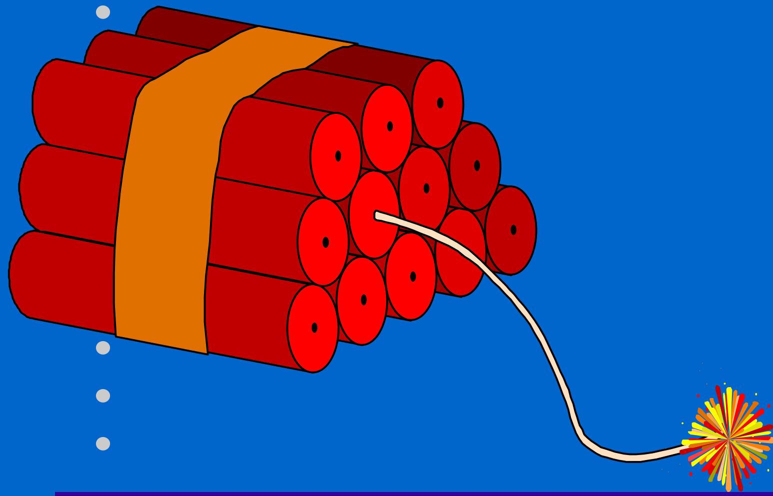

ROI: Exploding the Myths

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ROI: Myths

- **ROI is the right way to look at DM**
- **The ROI from DM is below our "hurdle rate"**
- **"Even if DM vendors say they save money, it's all smoke and mirrors."**
- **"Even if we think they do, our CFO won't believe us"**
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Guaranteed Savings Proposals mean "real" bottom line profit improvement

- ALL four of these are "myths" if you contract on a guaranteed-savings basis
  - If you do DM internally then ROI IS a big issue
  - There isn't a population-wide ROI, period, unless you are using a labor-saver like biometric monitoring or a CMS-type tool
  - "Poster Child" for building programs, Aetna, just went over to the buy side

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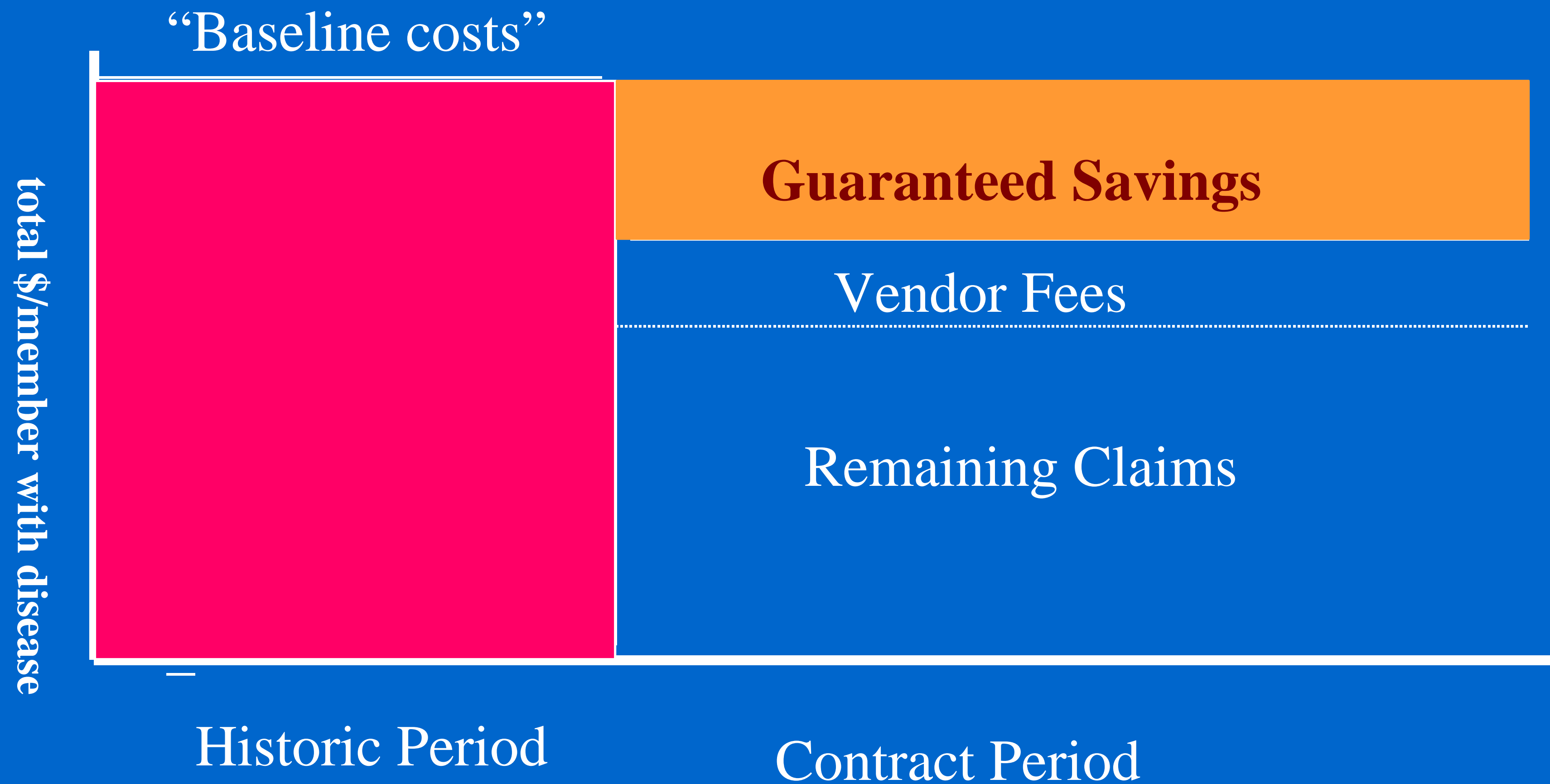
How Guaranteed Savings Deals Work



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ESRD Example: Prevalence * cost * %savings

- Medicare--30,000 members, 81 with ESRD
- Group--150,000 members, 90 with ESRD
- ESRD expense: c $60,000/year
- Total spend: $10-million
- Savings @ 8% ($4800/ESRD member)
- = c. $0.8 MM in guaranteed savings

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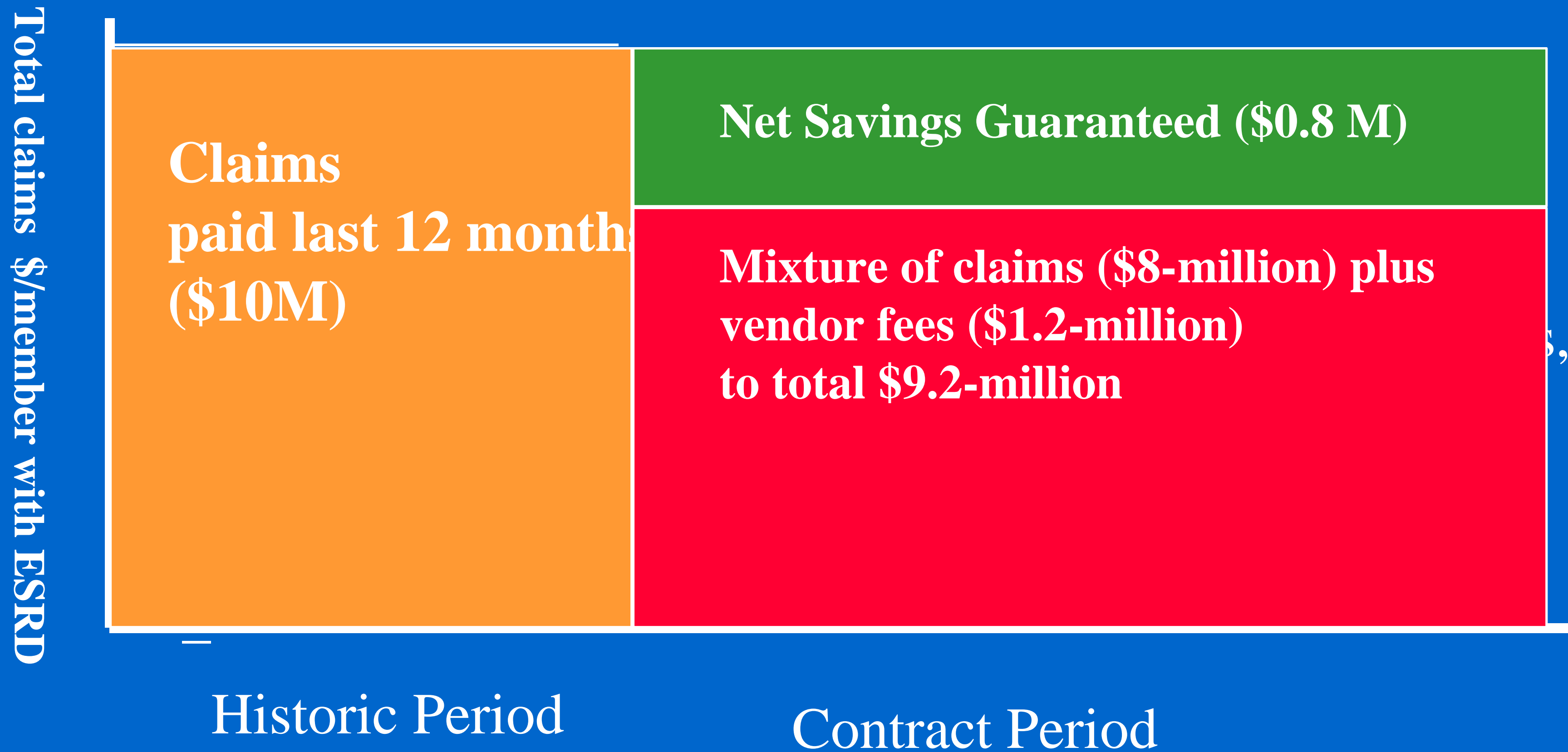
How Guaranteed Savings Works: ESRD example (cont'd)



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FAQ on GS

- TOTAL population of people with the disease
- ADJUSTED for changes in prevalence
- ADJUSTED for PMPM change and (for ESRD) ESRD-specific contractual changes (*eg* Dialysis)
- YOU STILL PAY FEES
- EXCLUDE internal costs, which are about 1% (100 basis points)
- If your vendor doesn't offer guarantees but they have outcomes AND you want guarantees, get vendor to obtain fee reinsurance

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Why ROI isn't the right measure if you use guaranteed savings

- ESRD example:
  - Gross savings: $2-million in claims
  - Vendor fees: $1.2-million
  - Net return $0.8-million, or 67% or 1.67 to 1

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Why ROI isn't the right measure if you use guaranteed savings

- Stock Analogy:
  - Gross sales price $20 per share
  - Your cost $12 per share
  - Increase in stock price $8
  - return = $20/$12, or 67%

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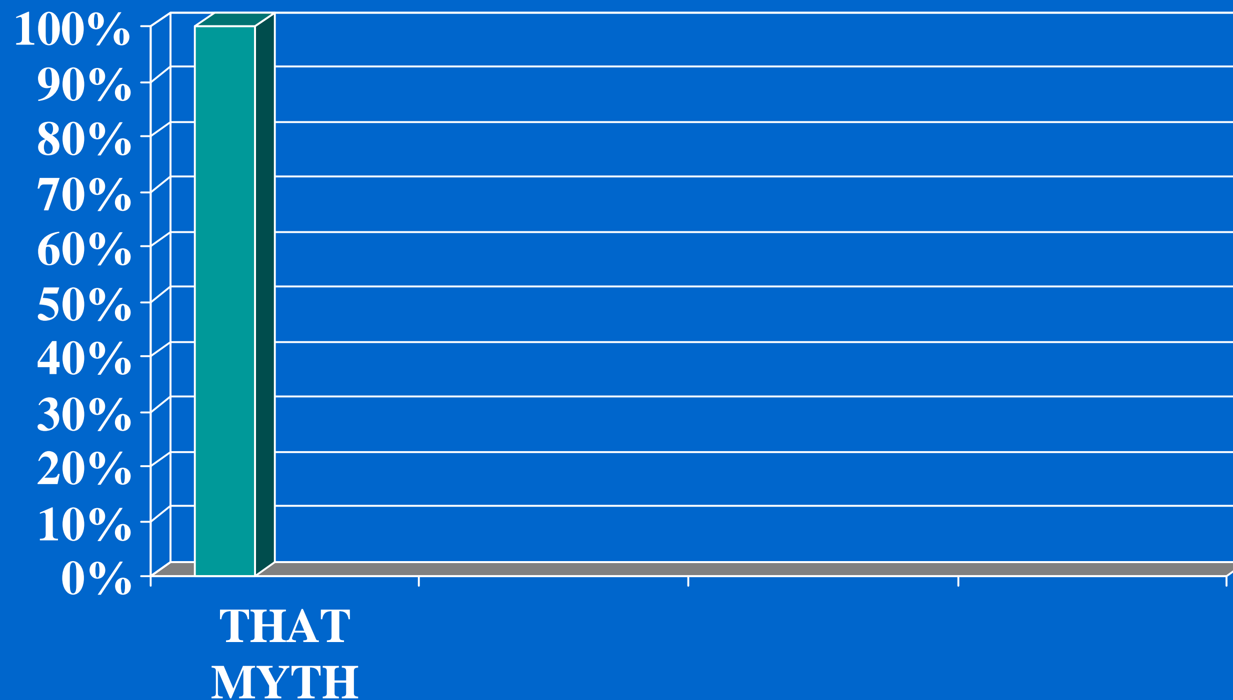
Health Plan “Hurdle Rate”



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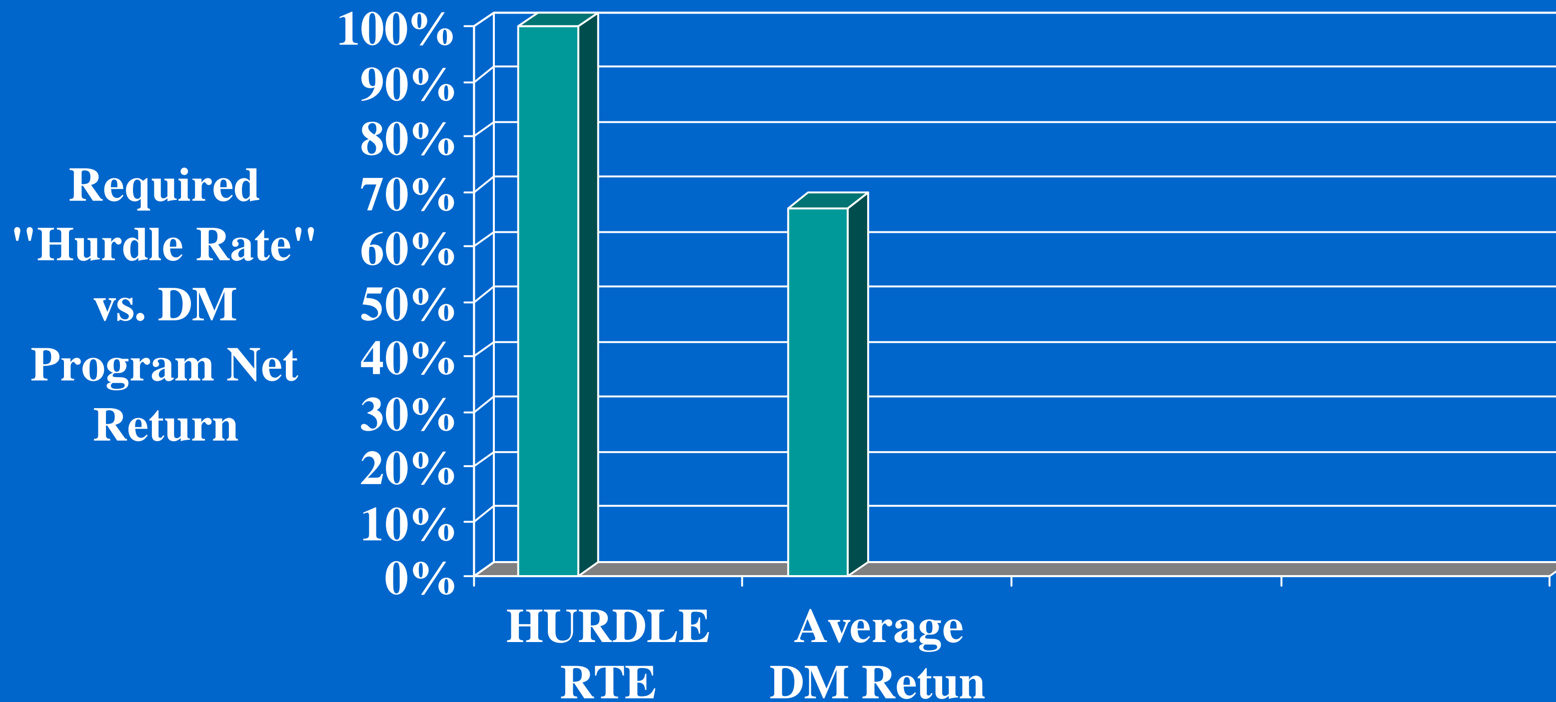
ESRD ROI of spending $1.2MM for a net return of $0.8MM



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Comparing 67% returns

- 67% in a year is a GREAT return for a stock…
- …but for DM it doesn't clear the "hurdle rate" so it will be judged a lousy investment...

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Wait a Sec

- This 67% net DM ROI is *Guaranteed*
- The stock return was not guaranteed
- Therefore DM is a much better investment and because it's guaranteed...
- ...we should really be comparing it to...

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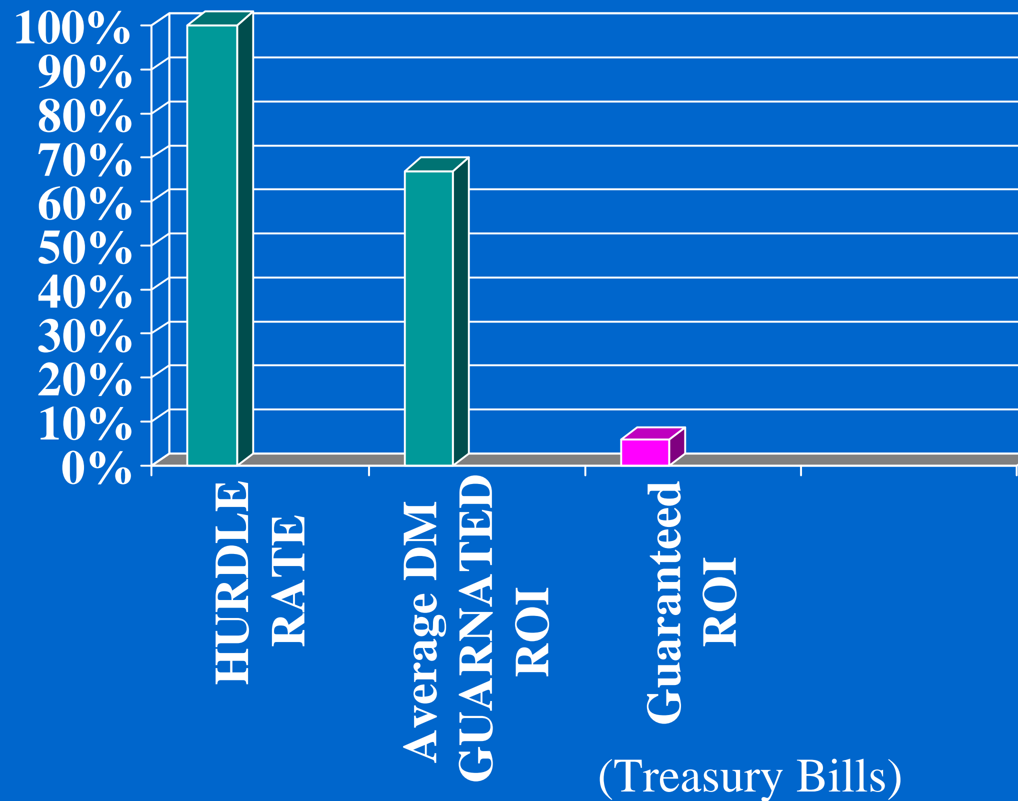
…Treasury Bills



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WARNING WILL ROBINSON EXTREME DANGER

- Do not believe anyone who says that they get 4:1 or 5:1 or 20:1 or whatever in DM
- (30-second sales pitch coming)

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ROI in DM

- At the Disease Management Purchasing Consortium we pride ourselves in how ~~high~~ LOW our ROIs are
  - 1.5:1 to 2:1 except in ESRD
- However, they are real
- and they are guaranteed
- …but here is a shocker ****************

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ROI the wrong measure to use

- Return is received in the same year as spending (in some categories the same quarter)
- The only relevant “return” issues are the size of the guarantee and ensuring that the “time value” of cash flows and internal admin cost don’t significantly dent it

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Sidebar: Internal costs of outsourced DM

- Use a 1% (100 basis point) benchmark to be conservative
  - includes all "unallocated expense" (c. 50% of total internal cost) as well as budgeted expense
  - lower for ESRD, rare diseases, combined chronic diseases via a single vendor, larger health plans, subsequent years of first outsource, subsequent outsources
- Vastly higher for "built" programs

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The Budget Freeze

- Two Solutions:
  - Get a program where payment comes at the end (but those programs are rare and you do NOT save anywhere near as much money)
    - May create problems with global capitation
  - Put monthly fees through medical spending (assign provider number to vendor)
    - Argument: Savings are in medical and are guaranteed, so it's OK to put costs through medical
    - Be sure to rewrite or not send EOBs

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Lose control of members???

- Absent DM, you can't even *find* them let alone know how much they cost

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- Outsourced (or PBM/pharma/device-assisted) DM = Information, information = control

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Lose control of members???

- Absent DM, you can't even *find* them let alone know how much they cost
- Outsourced (or PBM/pharma-assisted) DM = Information, information = control
- Is it easier to control a vendor or your own staff?

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Note: Vendors don’t walk on Water either

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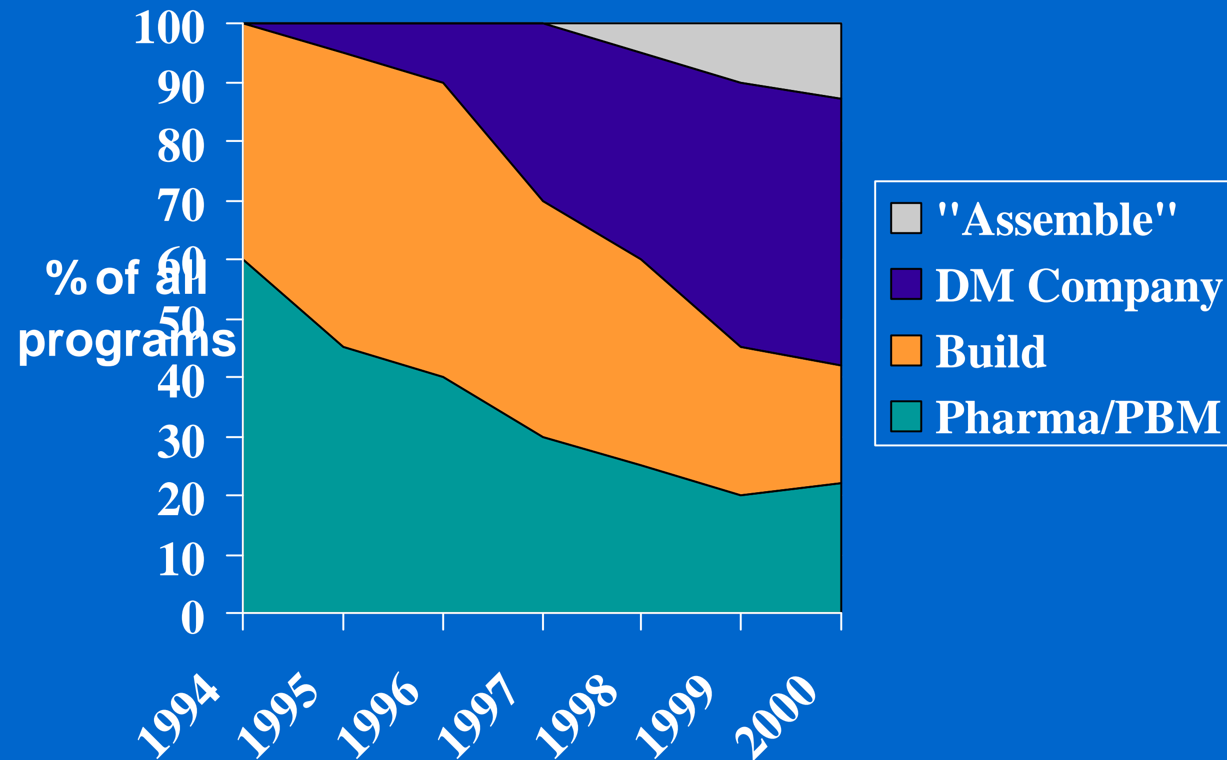
Source of Disease Management



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Why is "Building" declining?

- Freezes on internal staff and admin costs
  - "Buys" are in medical cost, not admin costs
- It doesn't work. Only a few built programs can say "We started out with a population costing us $X and reduced it to __% of $x"
- Better vendor value propositions
- Easier implementation for outsources
- Builds being supplanted by "assembles"

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Myths of “Building”

- “It’s our core competency”

- No--it’s a highly specialized “custom shop” vs. an HMO throughput shop
- *Buying* is itself a core competency

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Myths of “Building”

- “It’s our core competency”
- No--it’s a highly specialized “custom shop” vs. an HMO throughput shop
- *Buying* is itself a core competency
- “Why should we pay someone to do what we can do ourselves?”
- You can also deliver your own packages absolutely, positively overnight

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“We don’t have the data to know our ROI”

- You can count
  - #MIs/angioplasties/CABGs/strokes last year vs. # this year
  - total admissions last year vs. this year (population management program)
  - People with ESRD

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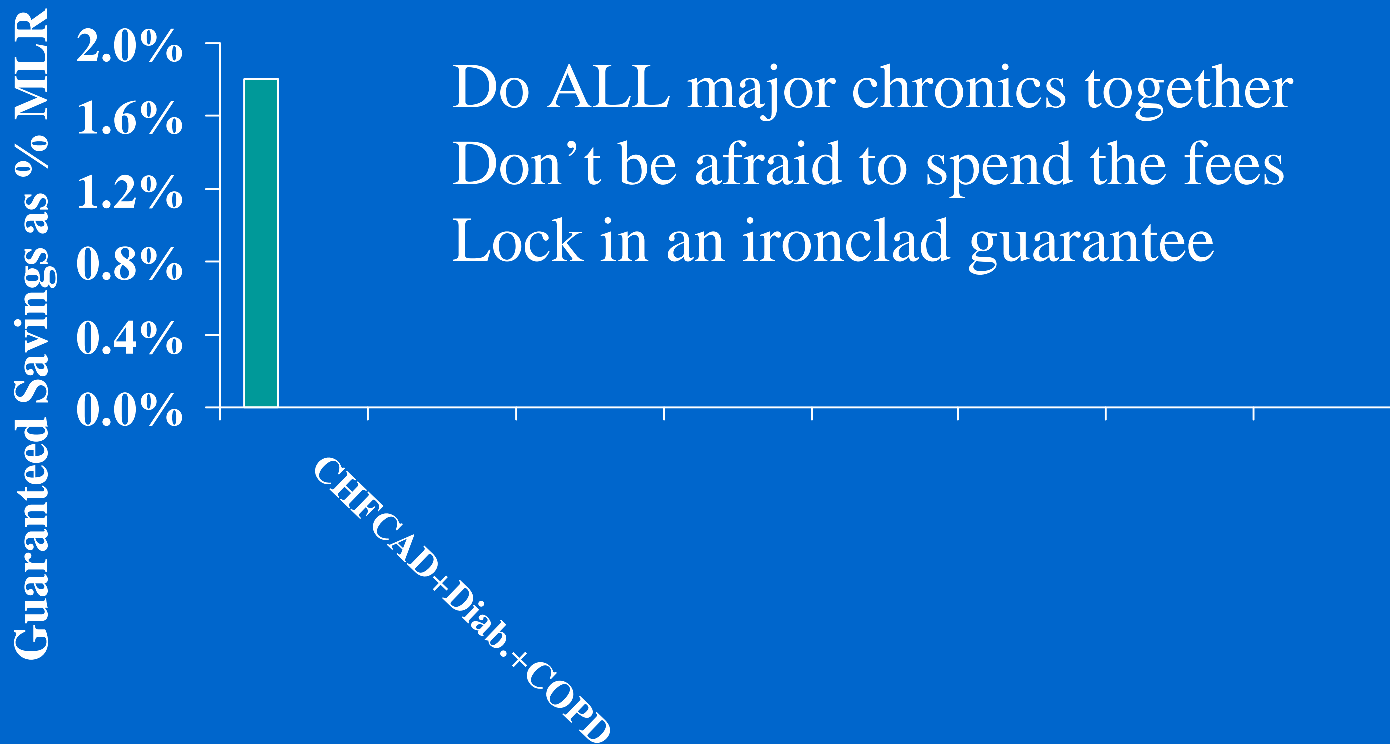
% of medical losses "locked in" as savings by 14,000-member health plan in ONE contract



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ROI: Myth and Fact

- No CFO should doubt the powerful returns from outsourced/assembled DM (and population management) with guarantees

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Getting CFOs on Board: The State Secret

- Consortium "batting average" for putting first programs in place WITH CFO/CEO in room during major meetings with vendors and with Consortium: 3 for 3= 1.000
- Consortium "batting average" for putting first programs in place with NO ACCESS to CFO/CEO: c. 25 for 60= .416

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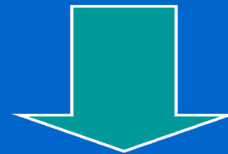

Solution is to get CFOs to the table early

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Conclusion for health plans: It's the Economics, Stupid

- Pick the right vendor
- Get a good LOW "ROI"
- Focus on total savings in PMPM, not ROI
- Measure it Right in the Contract
- Adhere to your own contractual requirements

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