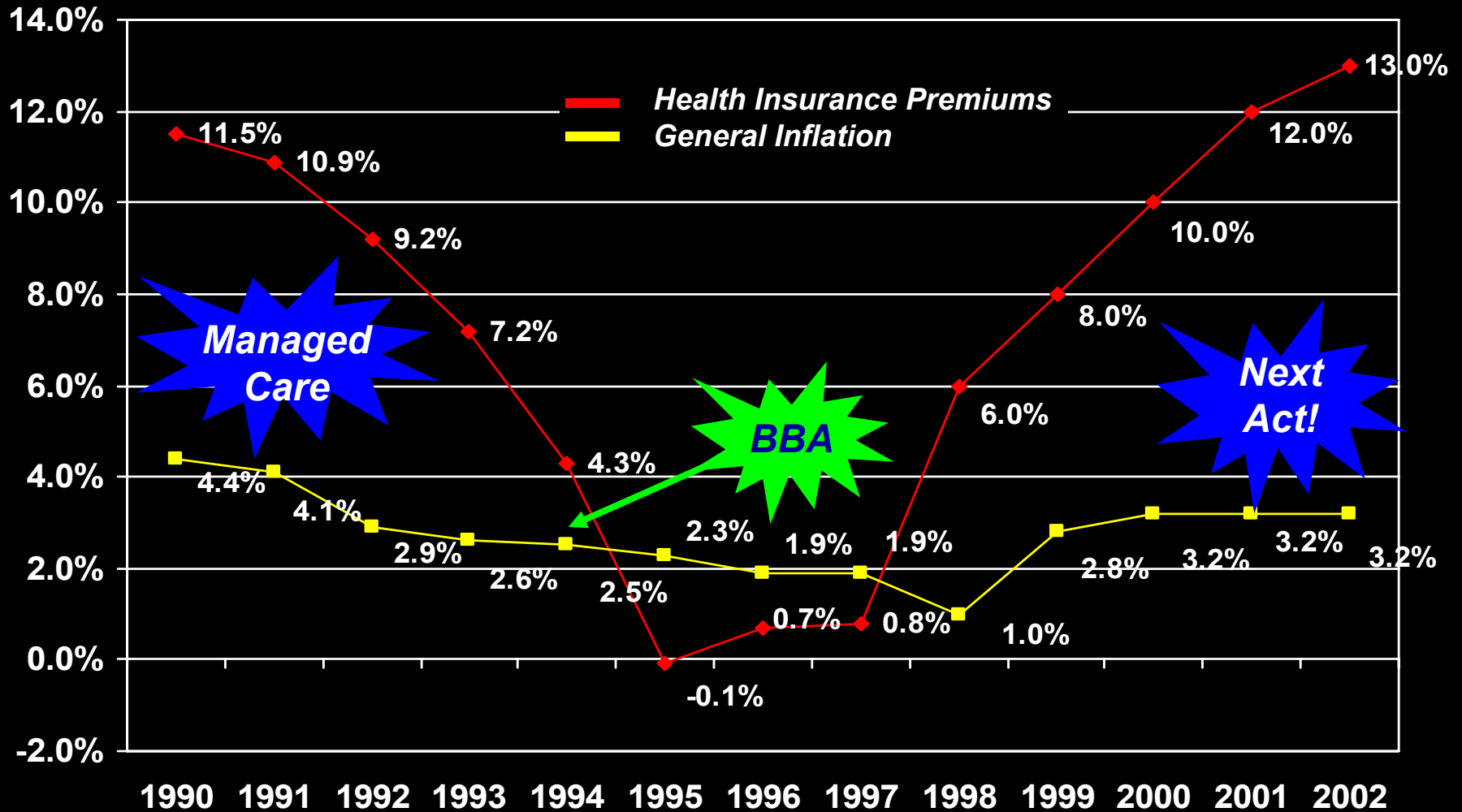


***Responding to the Challenge of
Rising Health Care Costs:
Employer and Health Plan
Strategies***

***Health Policy Audio Conference
Robert S. Galvin, MD
July 30, 2002***

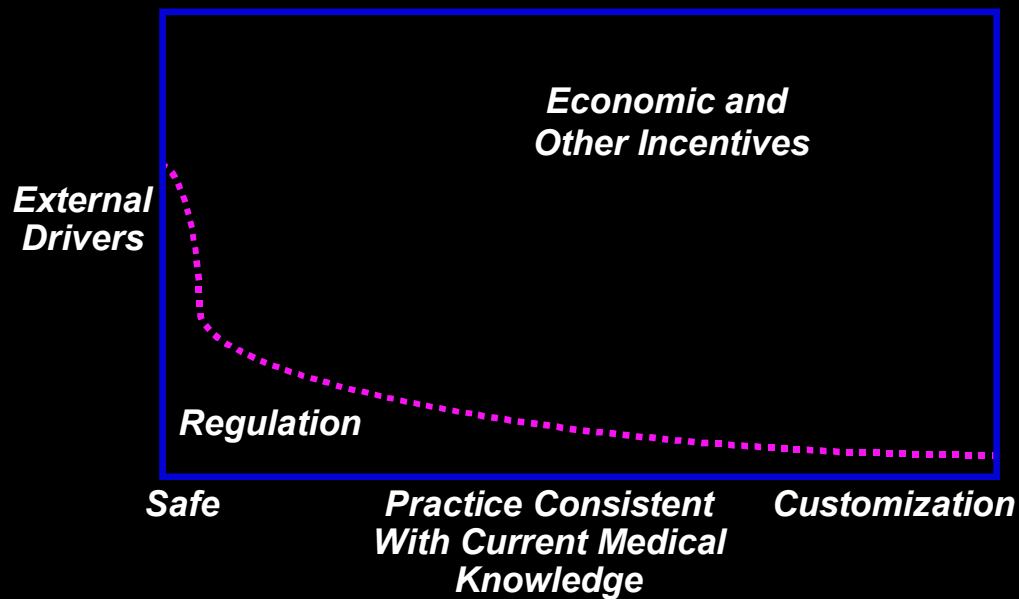
The Market Closes The Gap



Health Care Will Grow Far in Excess of CPI . . . Gap Leads to Payer Actions

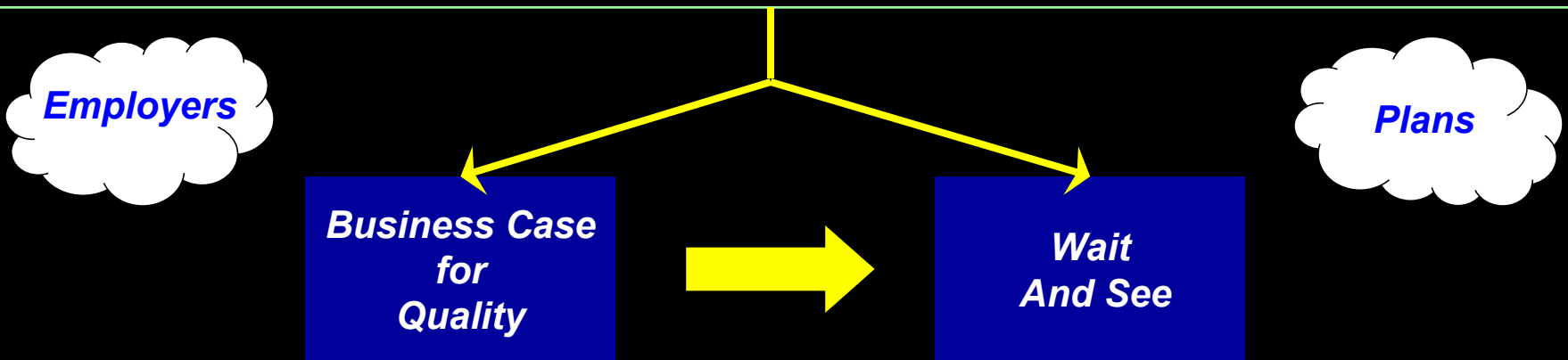
Private Sector Options - 2002

- **Complain**
- **Business As Usual**
- **Tighter Managed Care**
- **Government-Controlled System**
- **Exit Health Care Benefits**
- **Re-Define Market-Based Approach**



Re-Define Market-Based Approach

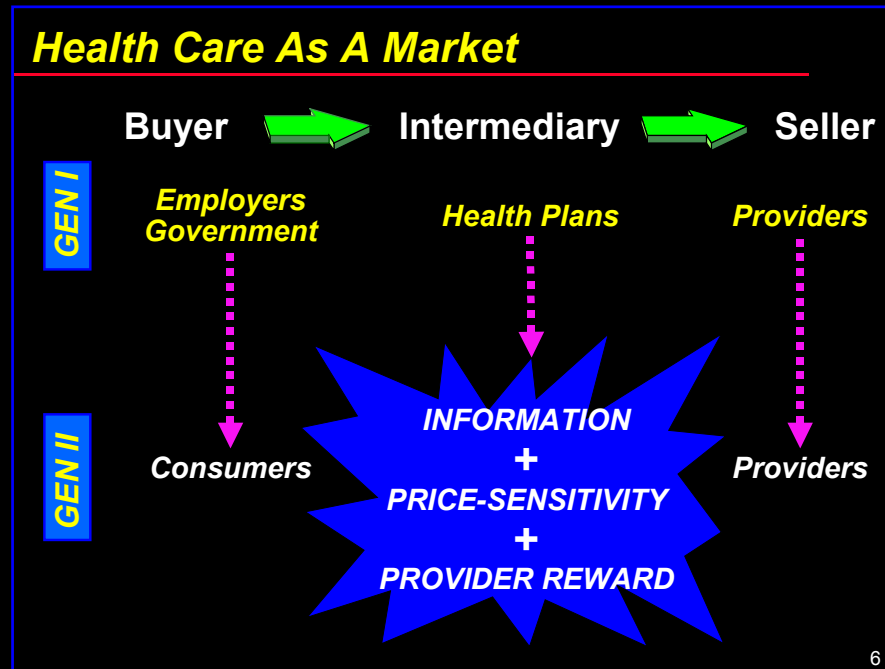
- ❖ **Administrative Efficiency** *Increasing Digitization, Contracting Discipline*
- ❖ **Consolidation** *Employers Select Fewer Plans, Plans Consolidate*
- ❖ **Choice** *Multiple Products; Degrees of Freedom Matched With Consumer Payments*
- ❖ **Disease Management** *Focus on High Cost Conditions*
- ❖ **Cost Shifting** *Beyond Increased Contributions and Co-Pays: Focused Price-Sensitivity, Varieties of 'Defined Contribution'*
- ❖ **Decision Shifting** *Information Strategy*



Next Act: Consumer-Based Market

Consumer-Market

“Employers believe that consumer pressure is a powerful, underutilized lever for improving quality and efficiency. They believe that higher quality and lower cost will result if consumers spend more of their own money for services they believe are high quality, and if providers respond by improving their performance. For this strategy to succeed, consumers will have to be activated to seek more efficient, higher quality care and physicians will have to be rewarded for delivering it.”



Engaging Consumers: Information



- : Fully implemented Leapfrog's recommended safety practice
- ◐ : Good progress in implementing Leapfrog's recommended safety practice
- ◑ : Good early stage effort in implementing Leapfrog's recommended safety practice
- ◒ : Willing to report publicly; did not yet meet Leapfrog's criteria for a good early stage effort
- : Did Not Submit This Information
- N/A : Not Applicable (e.g. IPS Standard does not apply because hospital does not have an ICU.)

Survey Results for Georgia Hospitals Submitting Responses

Hospital Name	City	Information Submitted	Computerized Drug Orders	ICU Staffing	Number of Procedures
Emory Peachtree Regional Hospital	Newnan	09/14/2001	◑	◑	Click here for number of procedures.
Emory University Hospital	Atlanta	12/27/2001	◐	◑	Click here for number of procedures.
Fairview Park Hospital	Dublin	01/29/2002	◑	◑	Click here for number of procedures.
Fayette Community Hospital	Fayetteville	02/21/2002	◐	○	Click here for number of procedures.
Grady Memorial Hospital	Atlanta		○	○	○

Emory University Hospital

Condition/ Procedure	Number of Procedures/ Patients	Leapfrog Standard	Legend	
			Emory University Hospital	Leapfrog Standards
Coronary Artery Bypass	665/year	500/year	665	500 Exceeds Leapfrog Standard
Coronary Angioplasty	1521/year	400/year	1521	400 Exceeds Leapfrog Standard
Abdominal Aortic Aneurysm Repair	99/year	30/year	99	30 Exceeds Leapfrog Standard
Carotid Endarterectomy	170/year	100/year	170	100 Exceeds Leapfrog Standard
Esophageal Cancer Surgery	10/year	7/year	10	7 Exceeds Leapfrog Standard

Engaging Consumers: \$

Defined Contribution: A Model

Employer Pays Above	Individual \$1,500
	Family \$4,500

Co-Insurance In Network 90%
--

Co-Insurance Out-of-Network 70%
--

Employee Pays Above PBA.	Individual \$ 500
	Family \$2,500

Employer Pays Into Personal Benefit Account	Individual \$1,000
	Family \$2,000

Preventive Care 100% Reimbursed

Payroll Contribution	Individual \$1,500
	Family \$4,500

Balance Rolled-Over
Into Following Year

Engaging Consumers: \$

Tiered Co-Pays

Contracted Physicians

Employer Payment

\$50

Low

Medium

High

Employee Co-Payment

\$15

\$25

\$55

Contracted Payment

\$65

\$75

\$105

Doctor A

Doctor B

Doctor C

Q
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A
L
I
T
Y

I
N
F
O
R
M
A
T
I
O
N

Contracted Hospitals

\$1,000 - ?

Low

Medium

High

\$0

\$150

\$350

\$1,000

\$1,000-1,500

> \$1,500

Hospital A

Hospital B

Hospital C

Engaging Providers – Rewarding Quality

Hospitals

Empire Blue Cross – 4 National Companies

Leapfrog:

- Actuarial Model Calculates Savings from Three Leaps and Pays Hospitals 70% of Imputed Dollars
- Employers Pay DRG ‘Surcharge’ Equal to:
 - Year 1 4% Inpatient Payments
 - Year 2 3% Inpatient Payments
 - Year 3 2% Inpatient Payments

**If All Private Payers Did This, 300-
Bed Hospital Could Get \$9 Million
Dollars Over 3 Years**

Physicians

GE-Partners/Lahey Project

Approaching Doctors As ‘Customers’ Not Stakeholders

What Do Doctors Say About Reward?

- Reduce Burden
- Don’t Get Between Me and My Patients
- Measures Must Be Accurate
- Don’t Punish Me for Patient Non-Compliance

Options

- Fee-For-Service
 - Bonus for Meeting EBM Guidelines
 - e.g. Diabetes Recognition Program
 - Bonus for Using Electronic Medical Record
- Pre-Payment
 - Case Rates, Centers of Excellence

Summary

- **Employers Still In The Game**
- **The Market “Experiment” Is Not Over Yet**
- **Consumers Will Pay More and “See” More**
- **Quality Focus Is Serious**
- **Public Performance Measures Will Result**
- **Business Case For Quality Is The Next Big Challenge**
- **Health Policy Researchers Will Be Needed Until Your Kids Are At Retirement Age**