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

Health Policy Audio Conference
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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
“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

Survey Results for Georgia Hospitals Submitting Responses

<table>
<thead>
<tr>
<th>Hospital Name</th>
<th>City</th>
<th>Information Submitted</th>
<th>Computerized Drug Orders</th>
<th>ICU Staffing</th>
<th>Number of Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emory Peachtree Regional Hospital</td>
<td>Newnan</td>
<td>05/14/2001</td>
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<td>Emory University Hospital</td>
<td>Atlanta</td>
<td>12/27/2001</td>
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<td>Fairview Park Hospital</td>
<td>Dublin</td>
<td>01/29/2002</td>
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<td>Fayette Community Hospital</td>
<td>Fayetteville</td>
<td>02/21/2002</td>
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<td>Grady Memorial Hospital</td>
<td>Atlanta</td>
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</tbody>
</table>

Emory University Hospital

<table>
<thead>
<tr>
<th>Condition/Procedure</th>
<th>Number of Procedures/Patients</th>
<th>Leapfrog Standard</th>
<th>Legend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coronary Artery Bypass</td>
<td>665/year</td>
<td>500/year</td>
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<tr>
<td>Coronary Angioplasty</td>
<td>1521/year</td>
<td>400/year</td>
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<tr>
<td>Abdominal Aortic Aneurysm Repair</td>
<td>99/year</td>
<td>30/year</td>
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<tr>
<td>Carotid Endarterectomy</td>
<td>170/year</td>
<td>100/year</td>
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</tr>
<tr>
<td>Esophageal Cancer Surgery</td>
<td>10/year</td>
<td>7/year</td>
<td></td>
</tr>
</tbody>
</table>

Legend:
- ▶ Emory University Hospital
- Leapfrog Standards

N/A: Not Applicable (e.g., IPS standard does not apply because hospital does not have an ICU.)
Engaging Consumers: $

**Defined Contribution: A Model**

- **Employer Pays Above**
  - Individual: $1,500
  - Family: $4,500

- **Co-Insurance**
  - In Network: 90%
  - 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**
  - Low: $50
  - Medium: $25
  - High: $15

- **Employee Co-Payment**
  - $15
  - $25
  - $55

- **Contracted Payment**
  - Doctor A: $65
  - Doctor B: $75
  - Doctor C: $105

**Contracted Hospitals**

- **Quality Information**
  - Low: $0
  - Medium: $150
  - High: $350

- **Hospital Payment**
  - Hospital A: $1,000
  - Hospital B: $1,000-1,500
  - Hospital C: > $1,500
**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