DeMarco & Associates
INCORPORATED

Advanced Pay for Performance

Presented to

National Pay for Performance Summit

Los Angeles California

February 2006

DeMarcoHealth.com

DeMarco & Associates
INCORPORATED

Agenda

- Pay for performance, what is it?
- Why now?
- Environment is again shifting
- Health System driven example
- Health Plan driven example
- Physician employer Joint Venture
- Employer Driven example
- Creating a strategy

DeMarco & Associates
INCORPORATED

The AMA's Definition

Pay for Performance (PFP) is a method of linking pay to a measure of individual, group or organizational performance, based on an appraisal system. These types of bonus incentive schemes are based on the idea that work output, determined by some kind of measuring system, varies according to effort and that the prospect of increased pay will motivate improved performance.

DeMarco & Associates
INCORPORATED

Medicare's Goals

CMS is pursuing a vision to improve the quality of care by expanding the health information available through direct incentives to reward the delivery of superior care.

DeMarco & Associates
INCORPORATED

PIPDCG to be instituted 2006

Principal Inpatient Diagnosis Cost Groupings

Several versions of risk adjusters , Medicare version is our example

Example

- Payment = (Beneficiary relative risk factor)*(county rate)
- Beneficiary lives in a county with a monthly rate of $500.00 PMPM has a relative risk factor of 1.10. Medicare pays the managed care plan $550.
- At first 10% of payment is PIPDCG and 90% is historical AAPC but in three to 5 years this changes to 50% risk adjuster and 50% AAPC

DeMarco & Associates
INCORPORATED

2006 is here, this is what the regulations say

- In 2006, MA organizations will continue to be paid on a monthly basis under the new methodology for plan bids. The specific amount of payment for MA organizations (except MSA plans) will depend upon the plan's bid-to-benchmark comparison. CMS will make advance monthly payments to an MA organization for each enrollee for coverage of original Medicare fee-for-service benefits in the plan payment area for the month, using the new bidding methodology
- If the plan's risk-adjusted basic Part A/B bid is less than the risk-adjusted benchmark, the plan's average per capita monthly savings would equal 100% of that difference and the beneficiary is entitled to a rebate of 75% of this plan savings amount. The other 25% remains in the Medicare Trust Fund. The plan is paid its bid amount, subject to adjustments.
- If the plan's risk-adjusted basic Part A/B bid is equal to or greater than the risk-adjusted benchmark, the plan receives no rebates, and payments are made based on the benchmark for the geographic service area, adjusted for risk using the appropriate enrollee risk factor.

DeMarco & Associates
INCORPORATED

Why Now?

- Quality Chasm calling for system redesign
- Overpayment and fraud cases at an all time high (auditors hard at it)
- Current program under-funded due to demographics
- New technologies more prevalent (TPA, drug eluded stints)
- Rising charges (60% overall increase over 5 years)
- Unnecessary care (Hospitalizations and ER that could have been avoided or better handled through physician visits/hospice/home health)
- Social and economic barriers to preventive care that produce expensive admissions

DeMarco & Associates
INCORPORATED

Institute Of Medicine Findings

The IOM Studies Report to the National Business Roundtable on Quality Health Care Says:

"Serious and widespread quality problems exist in American medicine… [They] occur in small and large communities alike, in parts of the country and with approximately equal frequency in managed care and fee-for-service systems of care. Very large numbers of Americans are harmed as a result *(Chassin and Galvin 1998:1000)."*

DeMarco & Associates
INCORPORATED

Institute Of Medicine Findings

- Examples cited include:
  - Fewer than half adults aged 50 and over were found to have received recommended screening tests for colorectal cancer *(centers for Disease Control and Prevention 2001, Leatherman and McCarty 2002)*
  - Inadequate care after a heart attack results in 18,000 unnecessary deaths per year *(Chassin 1997)*
  - In a recent survey, 17 million people reported being told by their pharmacists that the drugs they were prescribed could cause an interaction *(Harris Interactive 2001)*

Market Expansion and Cost of Specialty and Biotech Drugs Will Continue to Accelerate

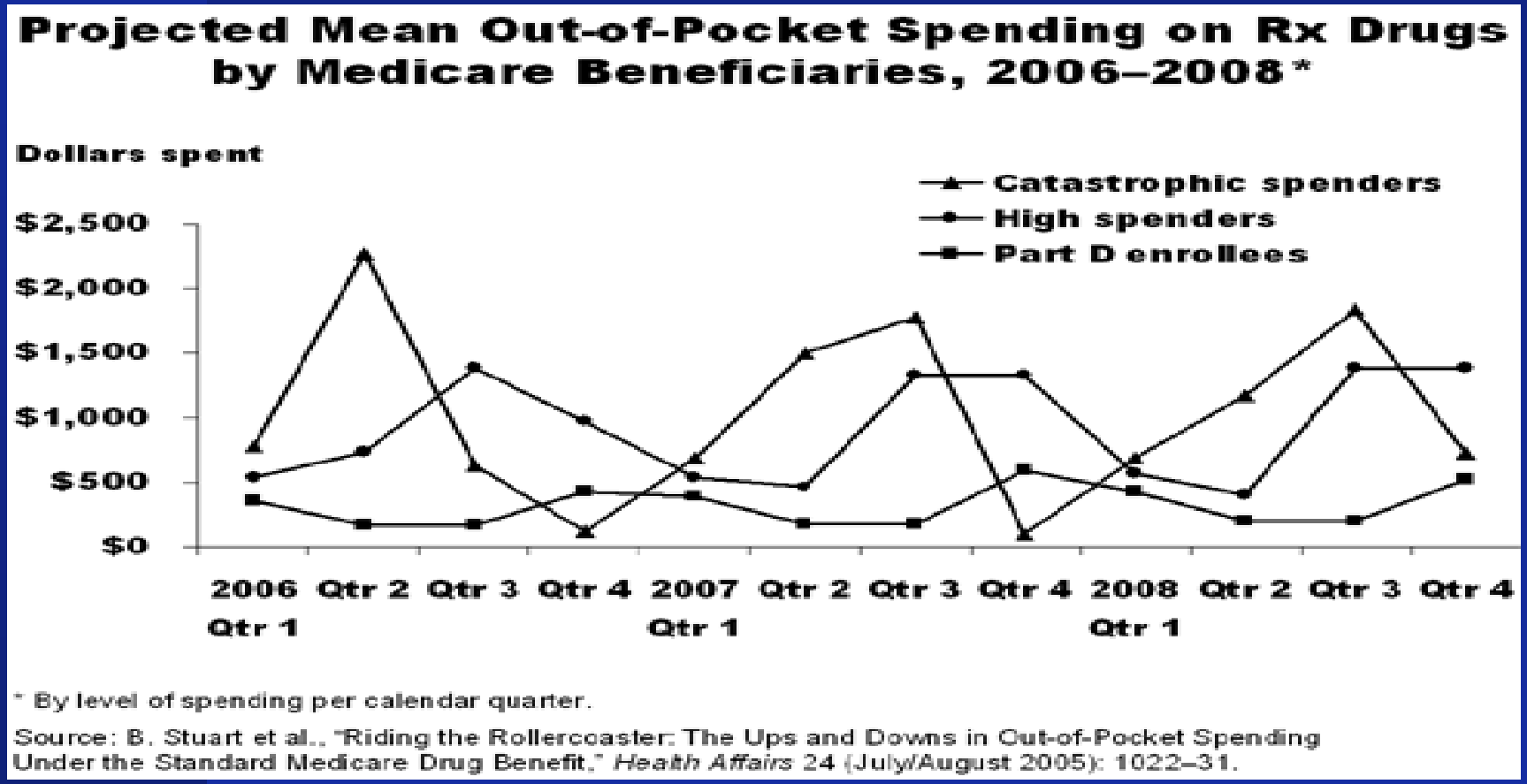
DeMarco & Associates
INCORPORATED

- --Specialty drugs are highly sophisticated protein structures derived from recombinant DNA technologies most often given by injection or infusion.
  –
- ---Nearly 200 of these drugs will be on the market by end of 2005 with estimated product revenues of nearly $50 billion. An additional 600 drugs are in development.
  –
- --The average cost per prescription of the biotech drugs now exceeds $1,000 per month, compared to $45 for other drugs; drugs such as Avastin (colon cancer) costs $50,000 yearly; Cerazyme (Gaucher's disease) costs $250,000 yearly.

Publication: *State of the Union: Industry Overview for Medical Directors*, presented by Samuel R. Nussbaum, M.D., Executive Vice President and Chief Medical Officer, Wellpoint, Inc.,

DeMarco & Associates
INCORPORATED

Roller Coaster of drug costs



* By level of spending per calendar quarter.

Source: B. Stuart et al., "Riding the Rollercoaster: The Ups and Downs in Out-of-Pocket Spending Under the Standard Medicare Drug Benefit," *Health Affairs* 24 (July/August 2005): 1022–31.

DeMarco & Associates
INCORPORATED

Insurance Market changes

- The number of people with health insurance coverage increased by 1.0 million in 2003, to 243.3 million (84.4 percent of the population).

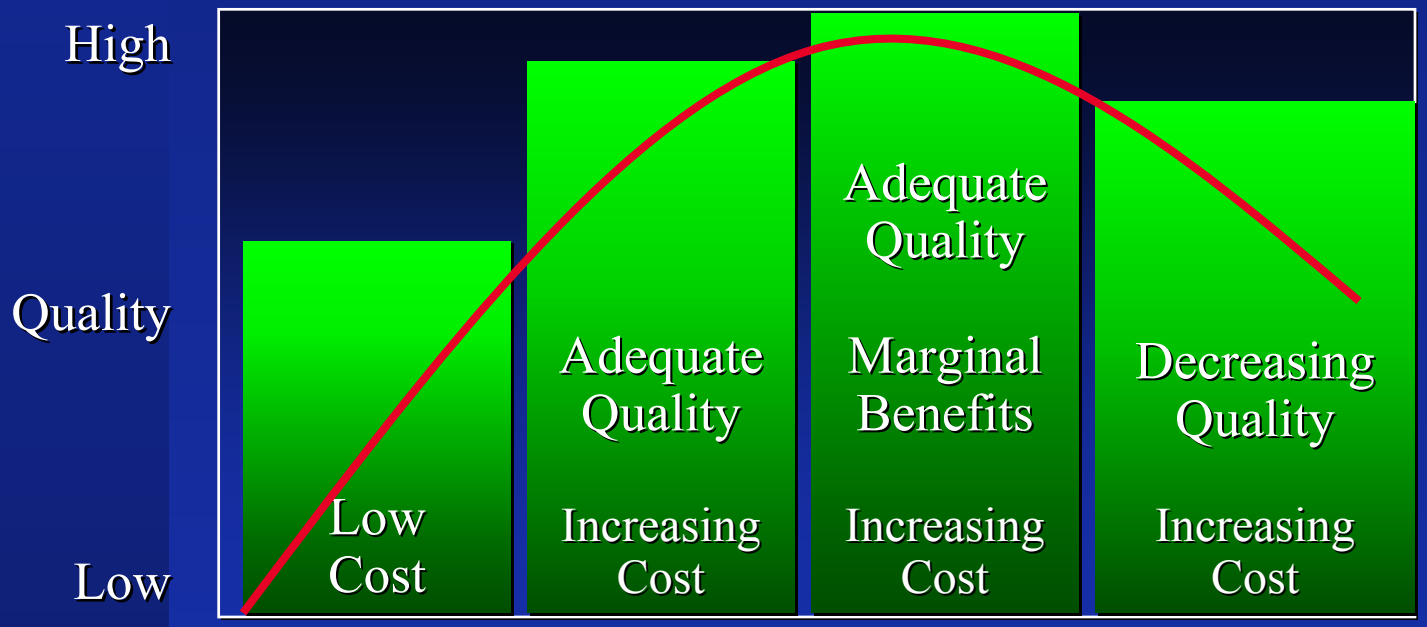
  --An estimated 15.6 percent of the population, or 45.0 million people, were without health insurance coverage in 2003, up from 15.2 percent and 43.6 million people in 2002.

  --The percentage and number of people covered by employment-based health insurance fell between 2002 and 2003, from 61.3 percent and 175.3 million to 60.4 percent and 174.0 million.

DeMarco & Associates
INCORPORATED

Managing Cost and Quality is the answer for health Plans including Medicare Plans

Finessing cost and quality of care can be a difficult balancing act. Simply throwing money at the problem isn't always the answer. In fact, there is a point at which spending more does not necessarily improve quality.



Source: Medical Practice Institute 2002.

DeMarco & Associates
INCORPORATED

Where to start

- For every complex problem, there is a solution that is simple, neat, and wrong.

- - HL Mencken

DeMarco & Associates
INCORPORATED

Case Studies

- 2 Hospital Health System
- Health Partners, a provider sponsored health plan. Largest insurer in St Paul Minneapolis
- Gateway, An Employer Coalition driven health plan
- Midwest IPA, an evolving physician /employer MSO

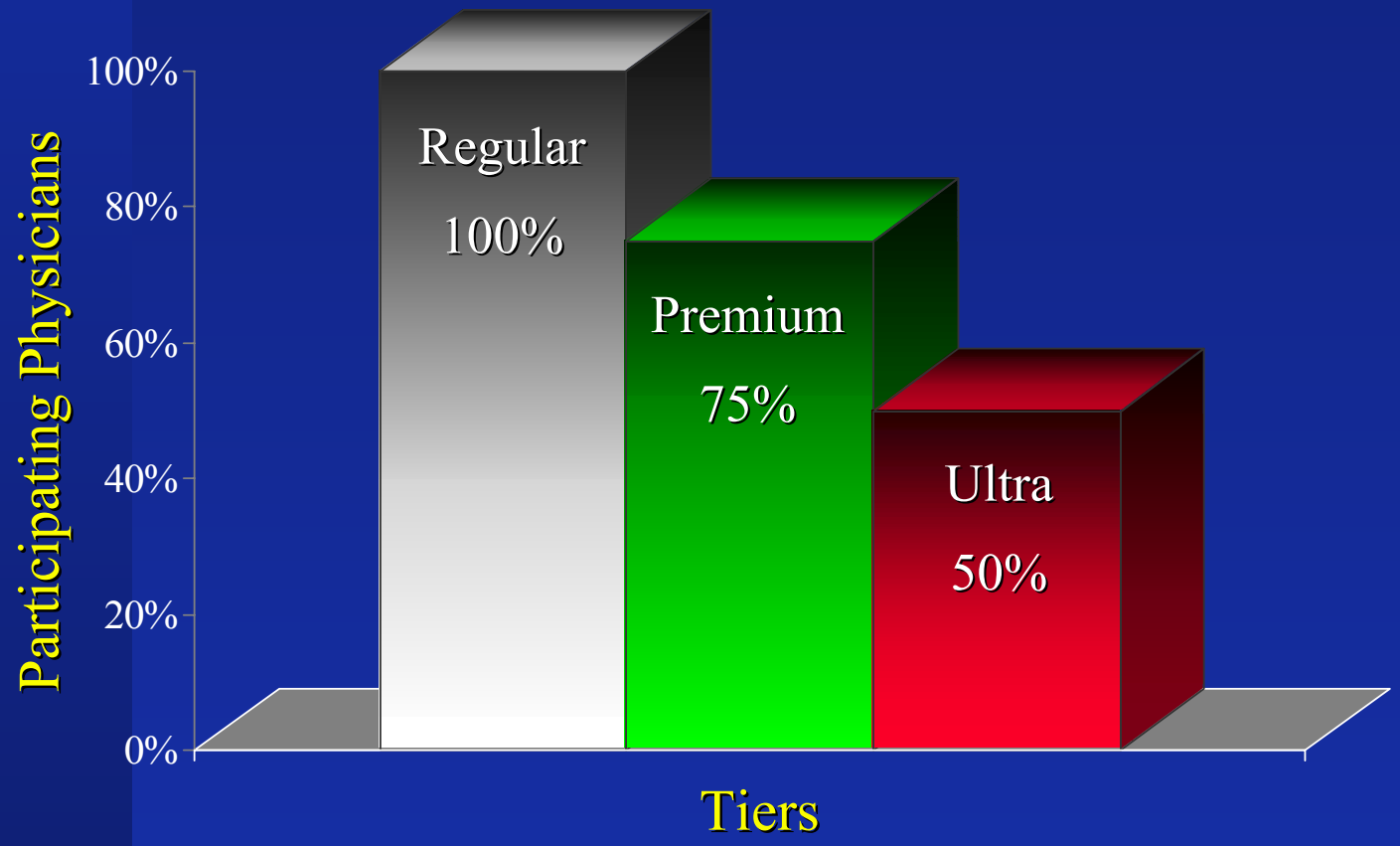
DeMarco & Associates
INCORPORATED

Case Study Health System direct contracting

- 2 hospital system
- 300 physicians
- Employer Coalition already going down the road of developing multiple standards
- Competing hospitals developing quality campaigns
- Hospital needed to create a unique product
- System interested in employer direct contracting using Medicare refined standards
- Managed Care launching multiple standards driving physicians to distraction

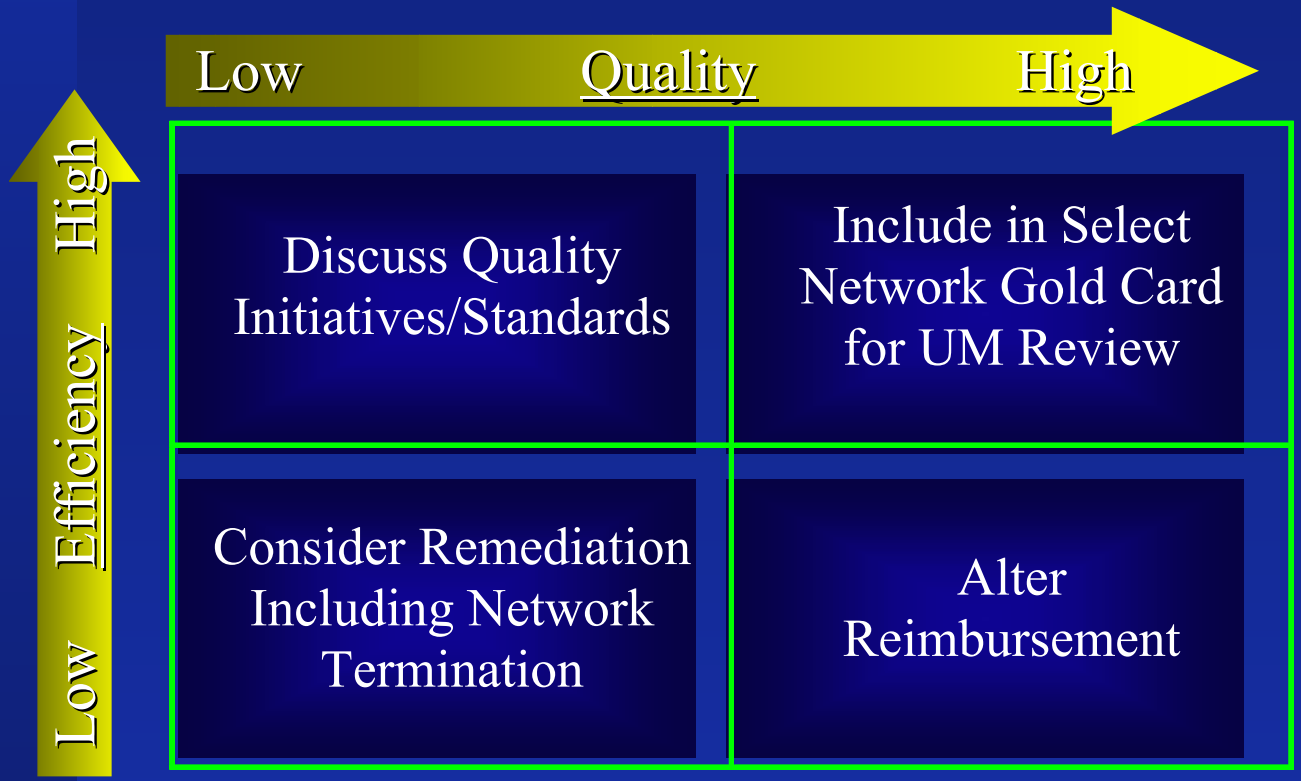
DeMarco & Associates
INCORPORATED

Tiered Network Example



DeMarco & Associates
INCORPORATED

Physician Performance



DeMarco & Associates
INCORPORATED

Develop Tiered Networks
Compare Risk Adjusted Cost

Population Profiling System
Provider Ranking - Total Dollars

Population: The Universe
Benchmark: N/A

PROVIDER					POPULATION			
Rank	ID	Name	Mbrs Seen	Actual Paid Amt	Expected Paid Amt	Diff	Perf Index	phdc ™
3899	6636498	Provider 6636498	183	$127,190	$75,642	$51,547	1.68	0.90
3905	6636492	Provider 6636492	350	$229,000	$166,453	$62,547	1.38	1.03
3876	6631410	Provider 6631410	165	$99,304	$72,703	$26,600	1.37	0.95
3897	6637732	Provider 6637732	354	$214,405	$167,368	$47,037	1.28	1.02
3883	6636491	Provider 6636491	336	$176,154	$141,255	$34,900	1.25	0.91
3813	6637895	Provider 6637895	150	$83,074	$75,027	$8,047	1.11	1.08
3823	6636495	Provider 6636495	232	$120,429	$111,345	$9,084	1.08	1.04
3776	6636242	Provider 6636242	157	$79,036	$74,498	$4,538	1.06	1.03
3387	6637765	Provider 6637765	265	$96,586	$96,279	$307	1.00	0.79
315	6634381	Provider 6634381	219	$111,192	$119,540	-$8,348	0.93	1.18
99	6633835	Provider 6633835	525	$170,727	$211,799	-$41,072	0.81	0.87
147	6633712	Provider 6633712	280	$101,897	$127,628	-$25,731	0.80	0.99

Redirect Patients

Include Provider in Select Network

DeMarco & Associates
INCORPORATED

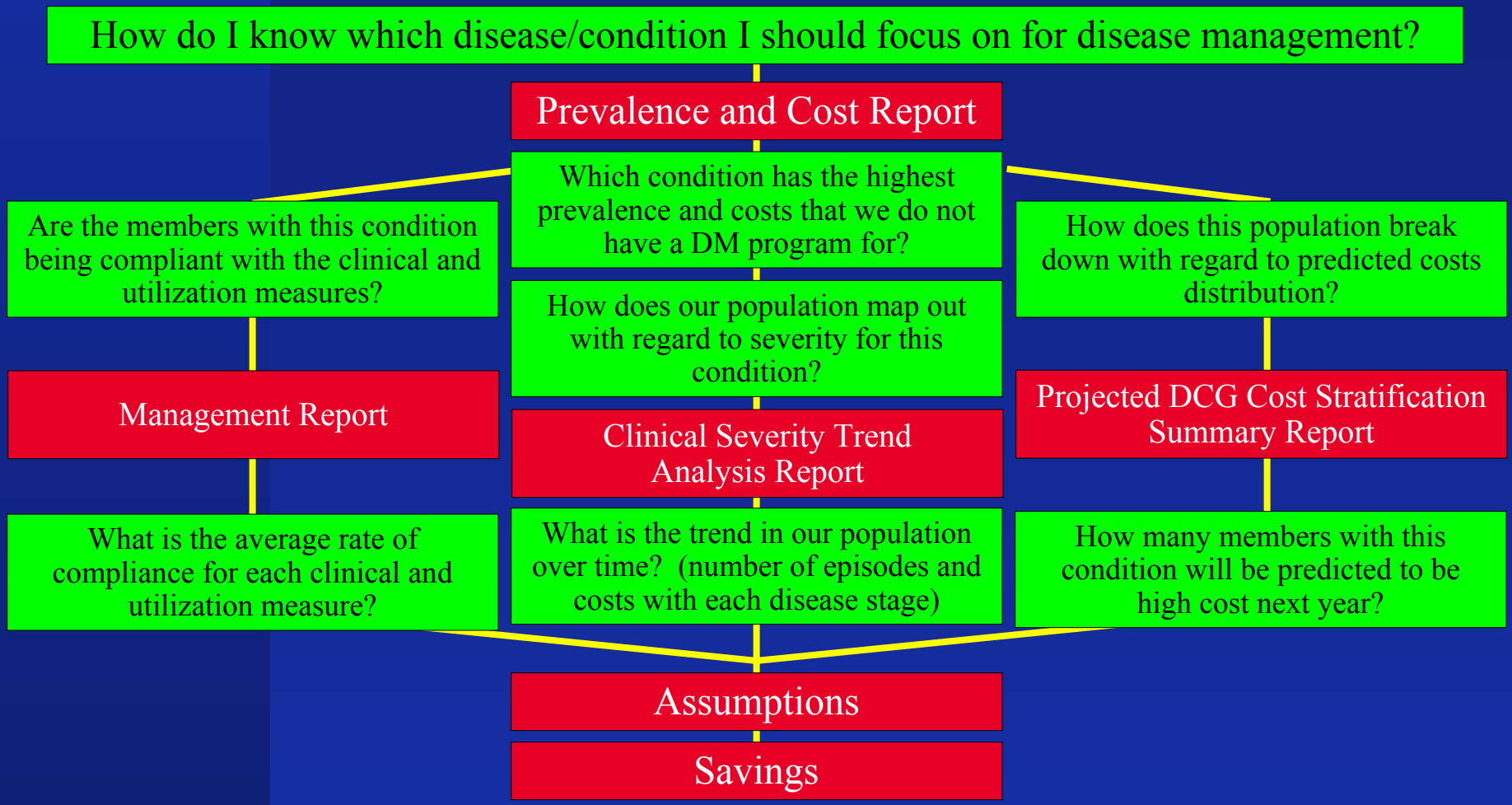
Estimated Savings From Redirection

ID	Name	Mbrs Seen	Actual Paid Amt	Expected Paid Amt	Diff	Perf Index	REDIRECTION 25%	50%	75%	100%
6636498	Provider 6636498	183	$127,190	$75,642	$51,547	1.68	$12,886.75	$25,773.50	$38,660.25	$51,547.00
6636492	Provider 6636492	350	$229,000	$166,453	$62,547	1.38	$15,636.75	$31,273.50	$46,910.25	$62,547.00
6631410	Provider 6631410	165	$99,304	$72,703	$26,600	1.37	$6,650.00	$13,300.00	$19,950.00	$26,600.00
6637732	Provider 6637732	354	$214,405	$167,368	$47,037	1.28	$11,759.25	$23,518.50	$35,277.75	$47,037.00
6636491	Provider 6636491	336	$176,154	$141,255	$34,900	1.25	$8,725.00	$17,450.00	$26,175.00	$34,900.00
					Total Redirection:		$55,657.75	$111,315.50	$168,973.25	$222,631.00

$55,657.75 | $111,315.50 | $168,973.25 | $222,631.00

DeMarco & Associates
INCORPORATED

Successful Health Plans Manage Disease And Costs



Source: HealthLeaders, March 2003.

DeMarco & Associates
INCORPORATED

The Right Care
The Right Time

A recent study of 15,732 short-term disability claims suggests that cost-containment measures by insurance carriers - such as denying or postponing needed surgery - can cost employers more money than it saves them. The study compared musculoskeletal claimants who received surgical intervention with those who did not. Some of the most notable comparisons:

- Surgical patients with a rotator-cuff tear lost 5.3 weeks of work versus 12.2 weeks for nonsurgical patients
- Patients with lower-back stenosis who underwent surgery averaged 10.3 weeks of recovery versus 15.9 weeks for nonsurgical patients
- Patients with a meniscus tar of the knee who had arthroscopic repair lost 5.2 work weeks versus 9.7 weeks for nonsurgical patients

Source: Employers on Health 2002.

DeMarco & Associates
INCORPORATED

Approaches Tried by Hospitals & Health Systems

- Attempts to "make it easy" by creating standards and reporting doctors who do not meet them to health plans
- Waiting for the government to do everything
- Misunderstanding about the value of this data
- Genuine disregard for physician individual differences in treatment and experience

DeMarco & Associates
INCORPORATED

Hospitals Should Be Asking…

- Can I afford to take a 2% hit on my leading specialties?
- If I show up on the watch list what will happen to my other managed care contracts?
- What is the impact of this consumer shift?
- What is the impact on physicians?
- What about antitrust if I drop capitation?

DeMarco & Associates
INCORPORATED

Hospitals can make money at P4P today if they focus

- Health plans in the Integrated Healthcare Association, a California-based coalition of health plans, physicians and others, have seen improvement across the board in quality measures such as breast cancer screening, cholesterol management and diabetes screening and management.
- Blue Cross Blue Shield of Michigan says its hospital-based incentive program has decreased rates of life-threatening infections by 45 percent for patients in the intensive care unit.
- Anthem Blue Cross and Blue Shield in southern Ohio says its P4P program helped increase preventive measures among asthmatic members from 28 percent in 2003 to 84 percent at year-end 2004. And Anthem has paid out $6 million to hospitals in Virginia for meeting performance goals regarding patient safety and health outcomes.
- Hospital system Indianapolis is delighted with a 2% margin above projected in 2002 for Anthem in this growing market.

DeMarco & Associates
INCORPORATED

Revisiting Integration in a Post-Medicare Reform Era

- As capitation is dropped by hospitals and systems the exposure to challenge by health plans increases.
- Why? because without financial or clinical integration providers are NOT permitted under the law to collectively negotiate with insurers.
- To replace capitated contracts with a Pay for Performance approach is a step in the right direction but without clinical integration standards being met the hospital and its physicians are still subject to investigation.
- Can you really prove your intention is to produce better quality?
- Can you really prove that what you are doing has a community benefit?

DeMarco & Associates
INCORPORATED

Promised Benefits

- For consumers, a means to evaluate care effectiveness and efficiency
- For employers a means to determine value of services
- For health plans a method to redirect patients to high quality low cost providers
- For the fed, a way to lay off risk to plans and providers

DeMarco & Associates
INCORPORATED

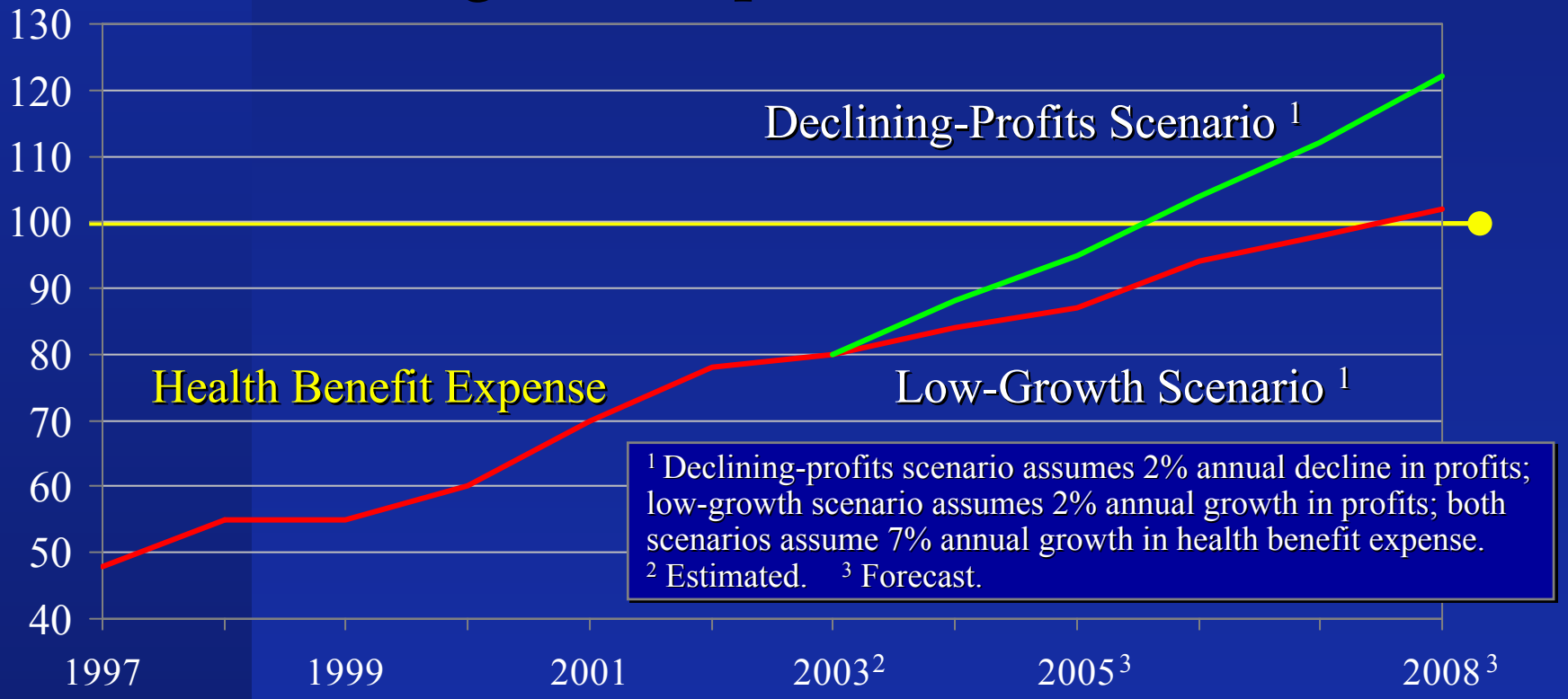
What About the Private Sector?

- Medicare is moving quickly to adopt a Pay for Performance system to improve quality and lower cost
- Will managed care companies do this?
- Will large employers do this?
- Will TPAS and insurers move this way?
- Did the private market adopt DRGs? RBRVS? APCs?
- Then why would they not do this as well?

DeMarco & Associates
INCORPORATED

Will Health Benefit Costs Eclipse Profits?

Health Benefit Expense as Percentage of Corporate After-Tax Profits



Source: US Bureau of Economic Analysis; US Bureau of Labor Statistics; CMS; McKinsey Analysis.

DeMarco & Associates
INCORPORATED

People with Chronic Conditions Account for 83% of All Health Care Spending

- Eighty-three percent of health care spending is attributed to the 48% of the non-institutionalized population that has one or more chronic conditions.
- Seventy-four percent of private health insurance spending is attributed to the 45% of privately insured people who have chronic conditions
- Seventy-two percent of all health care spending for the uninsured is for care received by the 31 percent of the uninsured with chronic conditions
- Eighty-three percent of Medicaid spending is for the almost 40 percent of non-institutionalized beneficiaries with chronic conditions.

Source: Medical Expenditure Panel Survey, 2001. Publication: "Chronic Conditions: Making the Care for Ongoing Care, September 2004 Update," prepared by Partnership for Solutions, a national program funded by the Robert Wood Johnson Foundation, based at Johns Hopkins University.

DeMarco & Associates
INCORPORATED

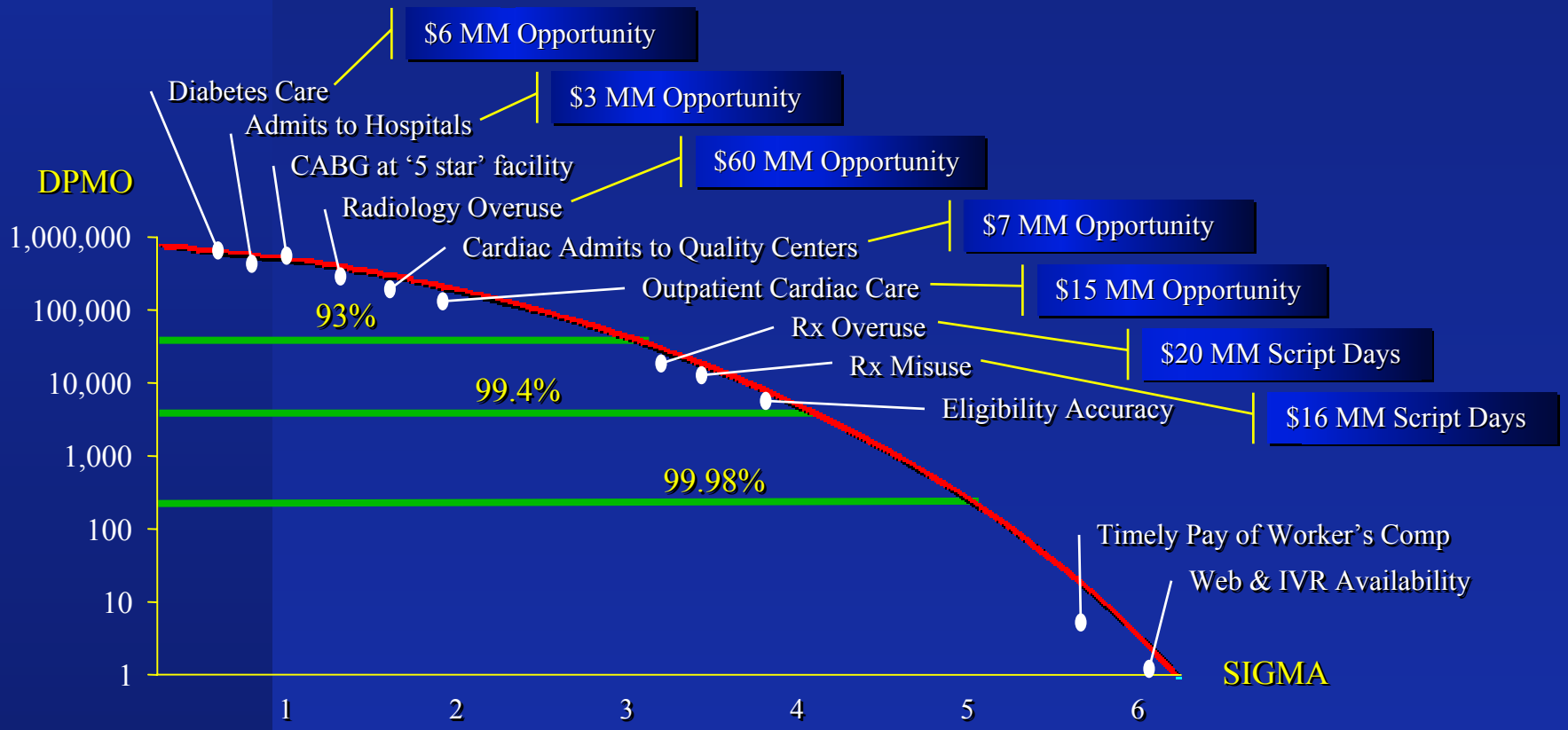
Health Plans & Employers

- Now understanding Chronic Conditions are a key element to manage, and if possible reverse
- Health plans continue to use DM but with uneven results
- Benefit design and network size are tools to correct the problem

DeMarco & Associates
INCORPORATED

Overuse And Misuse …

Yet P4P is a Sweet Spot for Some Employers



Source: Employer Benefits Research estimates.

DeMarco & Associates
INCORPORATED

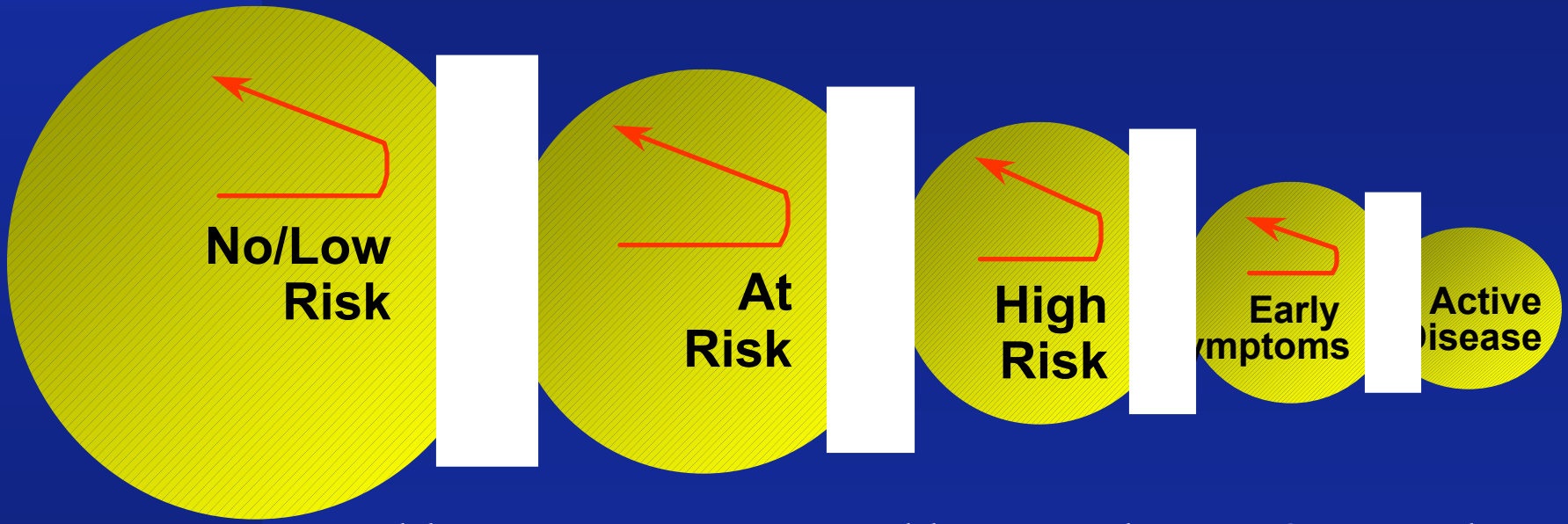
Are Premium Increases Slowing?

- Health Care premiums have risen 73% since 2000
- Annual Premiums for family coverage reached $10,880 in 2005
- Average worker paid $2,713 toward premiums for family coverage in 2005 (26% of total health premium)
- In 2005, Average worker is paying $1,094 more in premiums for family coverage than in 2000

Source: The Kaiser Family Foundation/Health Research and Educational Trust 2005 Annual Employer Health Benefits Survey, September 2005.

DeMarco & Associates
INCORPORATED

The Disease/Health Continuum



Health is a continuous variable, according to George Isham, MD, HealthPartners Medical Director and Chief Health Officer. A person is not simply healthy or sick; there are various degrees of health. The Partners for Better Health program tries to move members along the disease/health continuum, toward lower risk and greater health through prevention.

Source: HealthPartners, Partners for Better Health.

DeMarco & Associates
INCORPORATED

The Hope of Pay for Performance Is That It Will Change the System From Bottom up

- Emotional response by the patient when expectations are not met becomes the motivator of change by physicians.
- Underlying enabler in this process is the data the consumer has available that sets this expectation
- The current gap between consumers and physicians can be filled by offering AUTHORITATIVE data from the health system or the employers health plan.
- These elements represent a dramatic change that has been going on in the market for 10 years. A change from wholesale to retail selection and purchase of health services.

DeMarco & Associates
INCORPORATED

Who Sets the Standards

- United Humana and others have attempted to create standards and set them upon physicians in Missouri, Tennessee, and California
- The compromised version incorporates leading physician representing all specialties, there is a ability to request your data and there is an appeal process if you think you are being unfairly treated
- Of Course there is always litigation
- Continuity of care could be interrupted by standards

DeMarco & Associates
INCORPORATED

Health Plan Examples

- Choice Care Cincinnati Ohio offer P4P to its physicians in 1975 under Dr Bob Ides.
- Cigna Medical group created a P4P process to improve wait times in 1978
- Health Partners created the basis for its recognition and performance plans in 1979

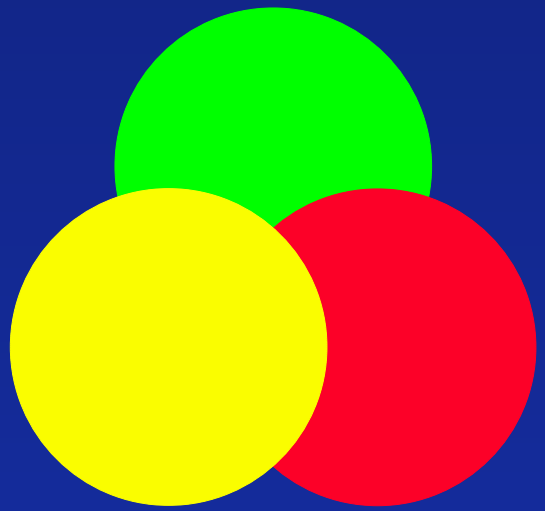
DeMarco & Associates
INCORPORATED

Quality Incentive Programs

Two Programs That Drive Quality Improvement

Outcomes Recognition Program

Pay for Performance Program



Source: HealthPartners, June 2004.

DeMarco & Associates
INCORPORATED

Health Partners

- 2 Incentive plans
- Results of Coronary measurement study
- Results of Child lifestyle
- Overall quality methods and process

DeMarco & Associates
INCORPORATED

Pay For Performance Program

- Introduced in 2002
- Integrates payment for quality into primary care, specialty and hospital contracts
- Pay for Performance is part of the market rate - good value for employers and members
- Administered through pool funded throughout the year
- Administered by determining future year rate increases

Source: HealthPartners, June 2004.

DeMarco & Associates
INCORPORATED

Pay For Performance Principles

- Measures are valid, reliable, reproducible, and well-accepted in the community, 4 health plans invested 1.4 million each to establish ICSI
- Specific measures for primary care, each specialty and hospitals
- Design goals collaboratively with the primary care and specialty groups and hospitals
- Goals to be attainable
- Strengthen trust between the providers and the health plan to work together collaboratively

Source: HealthPartners, June 2004.

DeMarco & Associates
INCORPORATED

Outcomes Recognition Program (ORP)

- Introduced in 1997
- Offers bonus rewards to medical groups who achieve superior results
- 26 medical groups in ORP care for 90% of our members
- Bonus pools $100,000 - $300,000

Source: HealthPartners, June 2004.

DeMarco & Associates
INCORPORATED

Outcomes Recognition Program Principles

- Same method will apply to all medical groups
- Payment methodologies will be easily understood
- Measurement system is valid and reliable
- Reward so that there is true motivation for, and recognition of, improved performance
- Program will continuously evolve

Source: HealthPartners, June 2004.

DeMarco & Associates
INCORPORATED

Optimal Coronary Artery Disease Care

Primary Care: January-December 2002

- Description: The rates represent the percentage of members with a diagnosis of coronary artery disease (CAD) age 18 through 75 who have optimally managed modifiable cardiovascular risk factors (LDL cholesterol <130 mg/dl, blood pressure <140/90 age ≤60, <160/90 age >60, taking one aspirin per day, lipid medication for members with LDL ≥130 mg/dl and documented non-tobacco use).

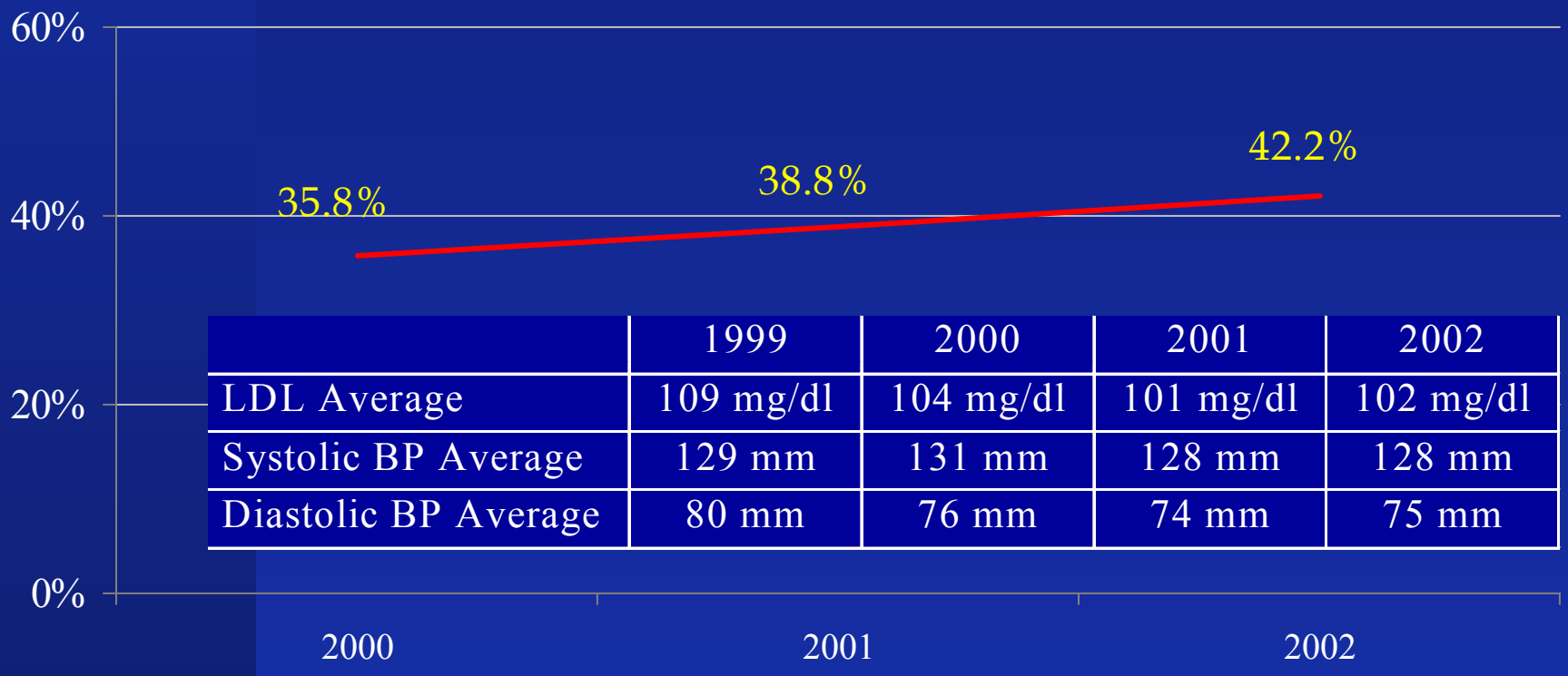
- Methodology: The study population includes members from all products who were continuously enrolled from January 1 to December 31, 2002, and who had a visit with a CAD diagnosis between 1/1/01 and 12/31/02. Population identification is based on encounter, claim and membership databases. All members within the population who have risk factors assessed and are in control during the reporting year are included in the rate calculation. This measure includes a statistically significant sample of up to 92 members (80 + 15% oversample) for each medical group. The members optimally managed rate reflects a combination of administrative and chart abstracted data.

Source: HealthPartners Clinical Indicators Report , 2002 Results.

DeMarco & Associates
INCORPORATED

Optimal Coronary Artery Disease Care

Historical Rate Comparison
Optimally Managed Rate: 2002 Goal 65%



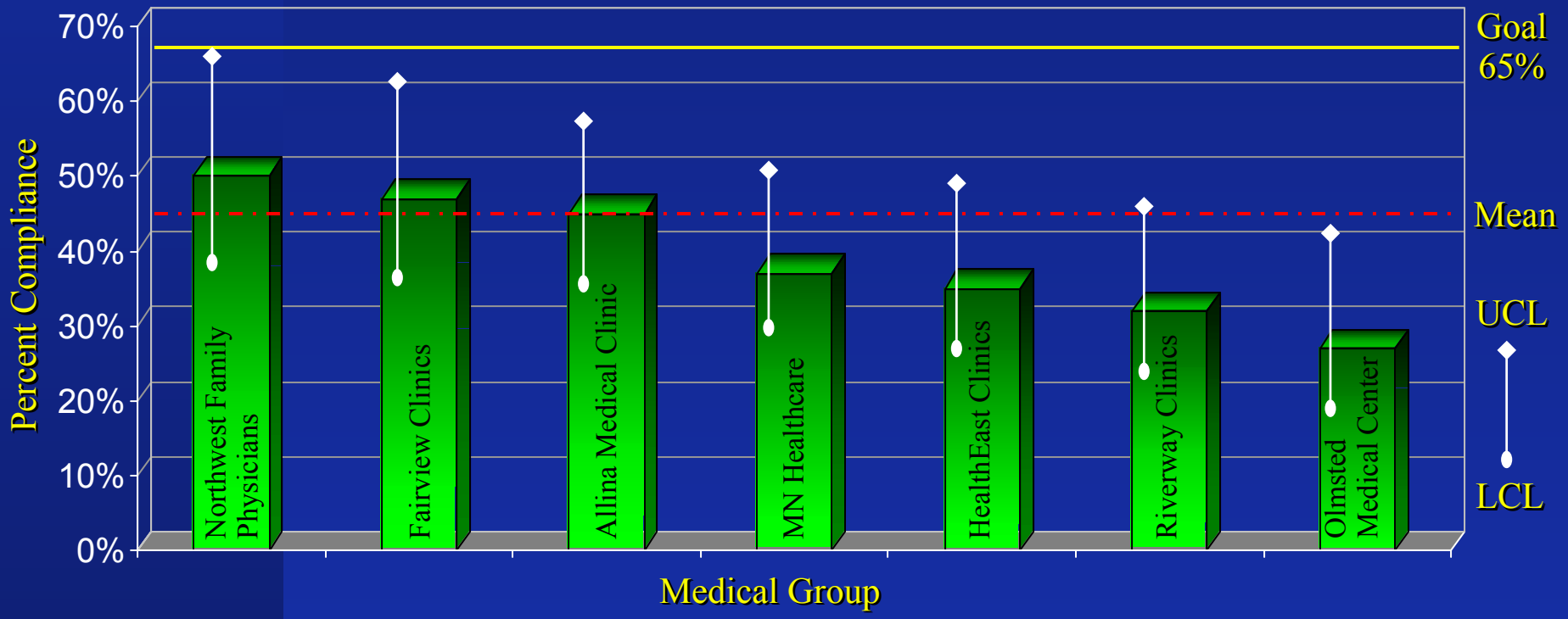
	1999	2000	2001	2002
LDL Average	109 mg/dl	104 mg/dl	101 mg/dl	102 mg/dl
Systolic BP Average	129 mm	131 mm	128 mm	128 mm
Diastolic BP Average	80 mm	76 mm	74 mm	75 mm

Source: HealthPartners Clinical Indicators Report , 2002 Results.

DeMarco & Associates
INCORPORATED

Optimal Coronary Artery Disease Care

Members Optimally Managed
Primary Care: January - December 2002



Source: HealthPartners Clinical Indicators Report , 2002 Results.

DeMarco & Associates
INCORPORATED

Optimal Coronary Artery Disease Care

Results (Weighted HealthPartners Rates)

Tobacco Prevalence Rate: 13.0% (± 3.9)

LDL Level Average for CAD Population:	102 mg/dl
Systolic BP Average for CAD Population:	128 mm
Diastolic BP Average for CAD Population:	75 mm

Source: HealthPartners Clinical Indicators Report , 2002 Results.

DeMarco & Associates
INCORPORATED

Optimal Coronary Artery Disease Care

Results (Weighted HealthPartners Rates)

Total Eligible Members: 11,674 Members Sampled: 1,560

Members with Managed Risk Factors: 608

Members Optimally Managed: 42.2% (± 5.8)

Members Optimally Managed (proposed targets): 22.0% (± 4.9)

Rate by Risk Factor:

LDL Screening in 2002	86.2% (± 3.8)	Aspirin Use in 2002	87.3% (± 3.6)
LDL <130	68.6% (± 5.4)	Tobacco Non-user	83.0% (± 4.1)
Lipid Rx Use in 2002 (LDL ≥130)	91.5% (± 2.6)	Blood Pressure Control (<140/90 age ≤60, <160/90 age >60)	80.4% (± 4.5)

Source: HealthPartners Clinical Indicators Report , 2002 Results.

DeMarco & Associates
INCORPORATED

Healthy Lifestyle Advice: Children

Member Survey - October 2003

- Description: The rates represent the percent of surveyed members who recall receiving healthy lifestyle advice for their child regarding exercise, nutrition and second-hand smoke exposure during the past year.

- Methodology: Healthy lifestyle advice status was determined through a mail survey conducted by HealthPartners Research Foundation in October, 2003. The measures include a random sample of up to 100 commercial members, 18 through 64 years of age from 38 primary care medical groups. For the children's survey, the adult most knowledgeable about the children's medical care was asked to complete the survey. The data were weighted to equal sample sizes of 85 for children and to control for self-reported health status.

Source: HealthPartners Clinical Indicators Report Supplement, 2003 Survey Results.

DeMarco & Associates
INCORPORATED

Healthy Lifestyle Advice: Children

Member Survey - October 2003

- Measurement 1 - Members Up to Date: The percentage of members who recall receiving all components of healthy lifestyle advice: exercise advice, nutrition advice and second-hand smoke advice for their child.

- Measurement 2 - Completion Rate by Service: The completion rate for each specific healthy lifestyle advice component.

Source: HealthPartners Clinical Indicators Report Supplement, 2003 Survey Results.

DeMarco & Associates
INCORPORATED

Healthy Lifestyle Advice: Children

Results (Weighted HealthPartners Rates)

Total Members Sampled: 2,554 Total Members Up to Date: 1,403

Members Up to Date: 54.9% (± 4.5)

Rate by Service:

1. Exercise Advice 59.5% (± 3.9)
2. Nutrition Advice 69.3% (± 4.0)
3. Second-hand Smoke Advice [1] 62.5% (± 13.6)

[1] Graphic display of medical group rates for this measure is included in the Tobacco Rates - Member Survey section.

Survey Questions: During the past year, did any health

3. ... advise you about the dangers of second-hand smoke for your children (among those whose children you about the importance of healthy eating for your child? professional at your clinic ...
1. …advise you about the importance of your child being physically active or exercising?
2. ... advise have been exposed to second-hand smoke during the past year)?

Source: HealthPartners Clinical Indicators Report Supplement, 2003 Survey Results.

DeMarco & Associates
INCORPORATED

Healthy Lifestyle Advice: Children

Results (Weighted HealthPartners Rates)

Total Members Sampled: 2,554 Total Members Up to Date: 1,403

Members Up to Date: 54.9% (± 4.5)

Rate by Service:

1. Exercise Advice 59.5% (± 3.9)
2. Nutrition Advice 69.3% (± 4.0)
3. Second-hand Smoke Advice [1] 62.5% (± 13.6)

[1] Graphic display of medical group rates for this measure is included in the Tobacco Rates - Member Survey section.

Survey Questions: During the past year, did any health professional at your clinic ...

1. …advise you about the importance of your child being physically active or exercising?
2. ... advise you about the importance of healthy eating for your child?
3. ... advise you about the dangers of second-hand smoke for your children (among those whose children have been exposed to second-hand smoke during the past year)?

Source: HealthPartners Clinical Indicators Report Supplement, 2003 Survey Results.

DeMarco & Associates
INCORPORATED

Health Improvement Model

Source: HealthPartners, June 2004.

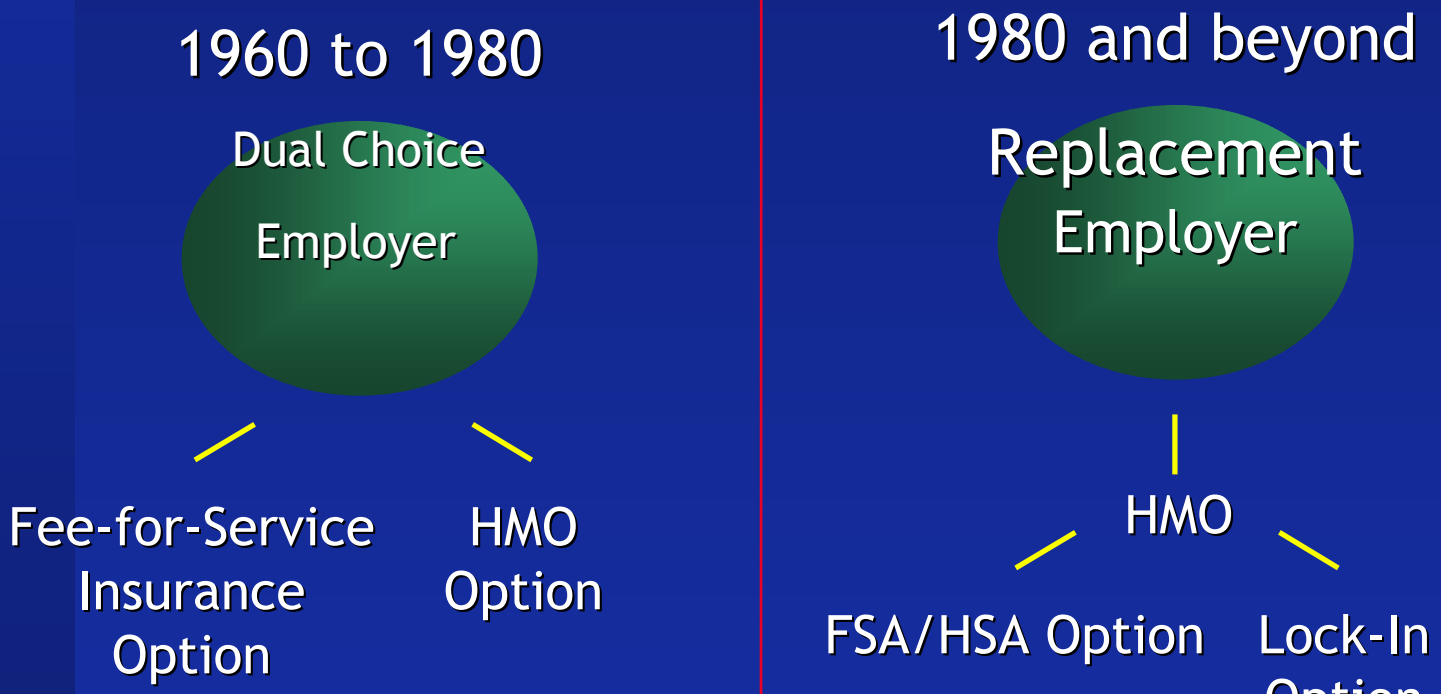
DeMarco & Associates
INCORPORATED

Physicians Are Asking

- We better find the best hospital to affiliate with
- Where can I get the data I need to demonstrate my proficiency?
- If I build or join a high performance network what will be the advantages and disadvantages?
- Can manage care consolidation eventually close my practice?

DeMarco & Associates
INCORPORATED

Most Health Systems Looking to Fewer Managed Care Contracts



DeMarco & Associates
INCORPORATED

Midwest MSO

- Strengthening an IPA medical staff relationship through direct contracting with employers who have become dissatisfied with local third party controls
- Recasting physicians in their new role as managers of quality standards and review
- Direct linkages to employers who have joined the community organization to share data and have a better understanding of how care can be delivered
- Gives employers a "Go to" source for help with care management and billing questions.
- Collaborative approach between buyer and physician earns more trust and sets expectations for patient and employers as to what is reasonable care versus excessive or unnecessary

DeMarco & Associates
INCORPORATED

New Structure of Community- based Health Plan

DeMarco & Associates
INCORPORATED

Performance Based Reimbursement

Example of a Cardiovascular Department

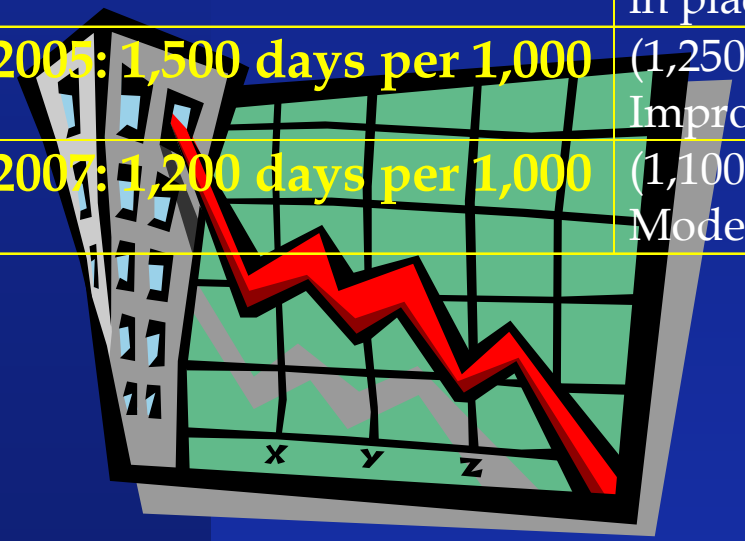
	Excessive	Expected	Superior
$32 per Office Visit x 50,000 Members	$1,600,000	$1,600,000	$1,600,000
Units of Service (RV units)	58,000	23,476	16,800
Unit Value/Conversion Factor	$27.58	$68.18	$95.23

DeMarco & Associates
INCORPORATED

Performance Based Reimbursement

Hospitalization Goals

2000: 2,400 days per 1,000	No managed care utilization review or capitation at all
2003: 1,800 days per 1,000	Minimal managed care utilization management in place. FHP capitated
2005: 1,500 days per 1,000	(1,250 acute) Improved utilization
2007: 1,200 days per 1,000	(1,100 acute, 100 skilled nursing facility) Moderate managed care controls are in place



DeMarco & Associates
INCORPORATED

Performance Based Reimbursement

Criterion	Measurement Tool
Primary care physician voluntary referral rates	Voluntary referrals/1,000 members per year
Physician specific grievance complaint rates	Incoming complaints/1,000 members per year
Clinical process measures	Hedis clinical indicators
PSO	
Timely and accurate eligibility reporting	Variance between monthly eligibility reports and monthly capitation reports is no less than 5%
Member complaint resolution	Complaints resolved within 10 working days
Medicare enrollee satisfaction	Percentage of Medicare renewals

Payment Schedule

Tier 1 – 0.80	Tier 2 – .90	Tier 3 – 1.00
33rd Percentile Performance Score	34 – 84 Percentile Performance Score	85th Percentile Performance Score

Source: DeMarco & Associates.

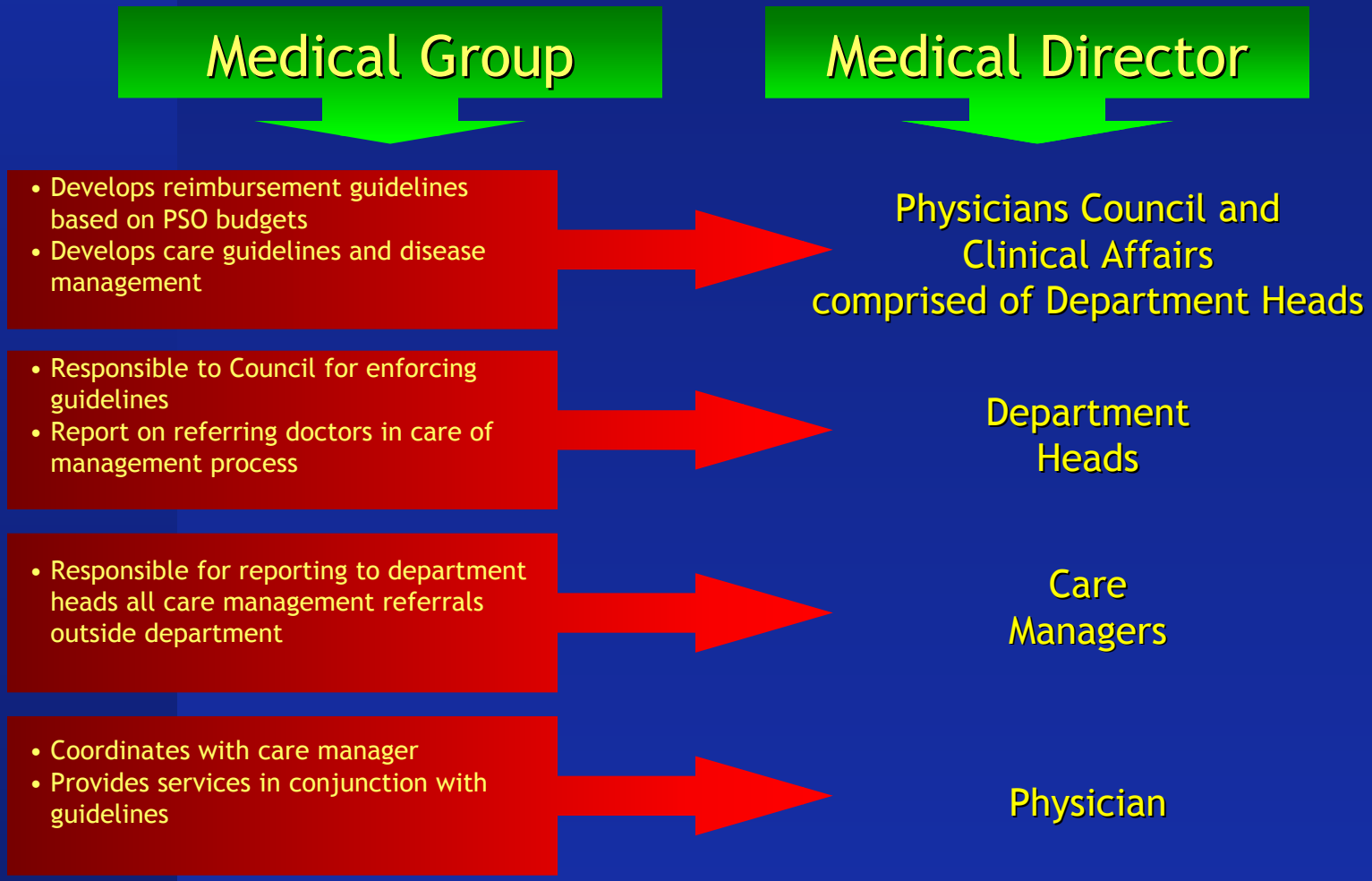
DeMarco & Associates
INCORPORATED

Performance-based Reimbursement

- First 8,500 members group is paid 90% of RBRVS
- Difference between paid and billed funds performance pool
- Specialty modified FFS and can globally pay select specialties
- Primary Care $35.00
- $32.00 plus $3.00 PMPM as Care Manager
- Care guideline driven admissions review

DeMarco & Associates
INCORPORATED

Medical Management Structure



DeMarco & Associates
INCORPORATED

Medical Management

- Care managers accountable to manage care against peer driven guidelines are paid to do the encounter management regardless of specialty. Successful diagnosis leads to reimbursement increase
- Guidelines and outcomes decided by departments tied to reimbursement
- Hospitalists tied to length of stay performance tied to reimbursement
- Physician profiling tied to credentialing tied to reimbursement

DeMarco & Associates
INCORPORATED

Medical Management Work Plan

- Determine current trends
- Obtain specific data on top 25 DRGs
- Research data and break down components of DRG
- Develop evidenced based guidelines
- Research hospitalists results using new guidelines
- Enforce guidelines through compliance audits, fines, payment adjustments or decredentialing

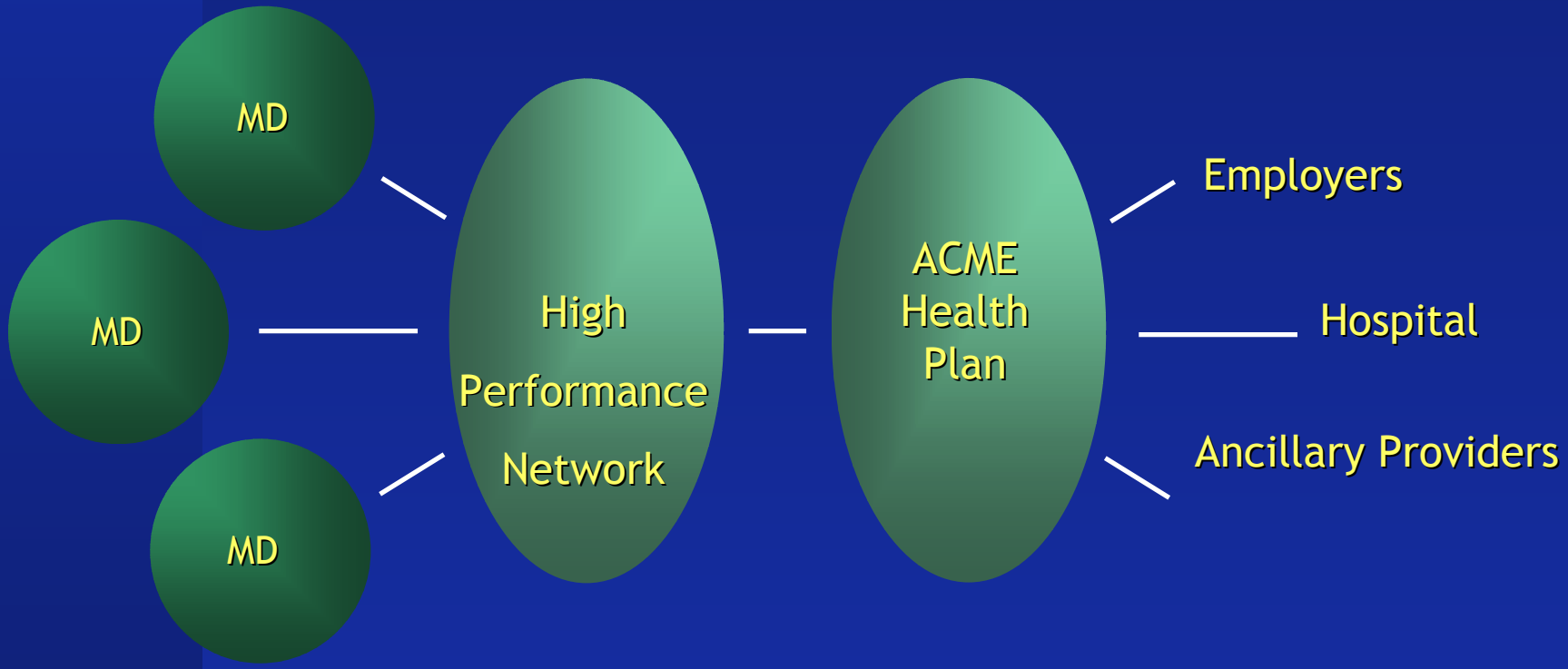
DeMarco & Associates
INCORPORATED

Performance Based Reimbursement

- Disease Management Committee of medical group
- Implement results oriented workplan
- Apply guidelines on physician and department basis
- Enforce guidelines through education, communication and, if necessary, economic sanctions
- MIS Committee
- Outsource major data needs not now present in MSO
- Upgrade specifications to fit medical management model

DeMarco & Associates
INCORPORATED

"Premium Network" Is Leveraged to Obtain P4P at Existing Health Plans



DeMarco & Associates
INCORPORATED

What Employers Want

- Cheap Insurance
- No hassles
- A “go to” person at the hospital to resolve issues
- Regular updates on efforts to improve care
- Input into the process to the extent that they see accountability and leadership
- Some tangible way to measure value

DeMarco & Associates
INCORPORATED

What Employers Do Not Want (and Are Getting)

- Expensive insurance with no cause or justification
- Insurers telling the employers the physicians and hospitals are overpriced and buying technology "like a drunken sailor"
- Employers are tired of the blame game
- They want a quality leader to emerge and ***Prove*** they are getting value

But this is changing

DeMarco & Associates
INCORPORATED

Employer Strategy As a Means to Pay for Performance-based Contracting

- An example of a collaborative approach by independent physicians in Indianapolis
- Physicians and employers working together keeps hospital politics to a minimum
- New products are helping to expose consumers to the need for data

DeMarco & Associates
INCORPORATED

The Gateway – Indiana Employers Quality Health Alliance

A Physician – Employer Partnership

August, 2005

DeMarco & Associates
INCORPORATED

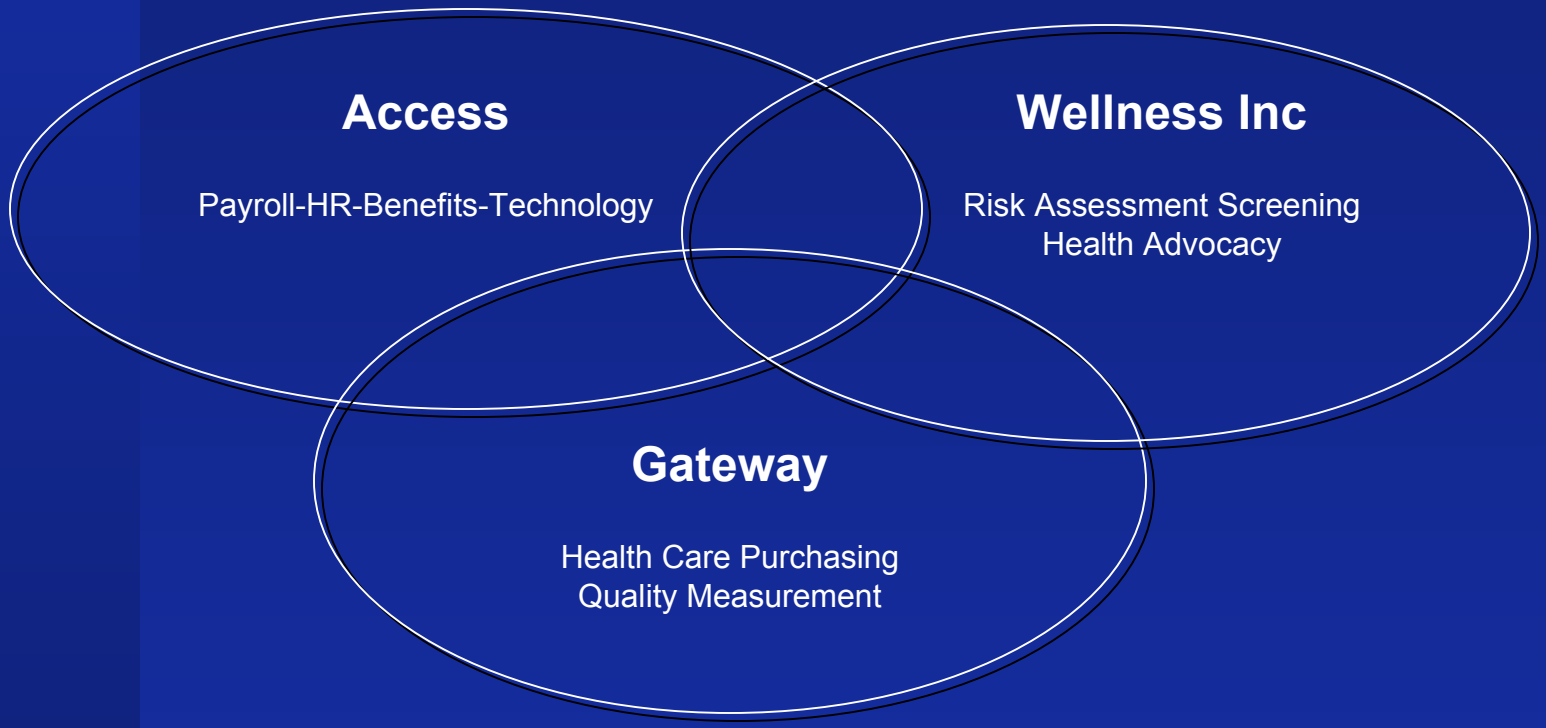
Mission

- Improve the health of community.
- Bring physicians and employers together to create community-based reform.
- Increase the quality and efficiency of health care.
- Reduce annual increases in healthcare costs through development of an informed partnership of patients, employers, physicians, hospitals, and others with a vested interest by aligning economic incentives and measuring clinical and financial performance.

Gateway
MEDICAL RESOURCE ALLIANCE

DeMarco & Associates
INCORPORATED

A Fully Integrated Solution



DeMarco & Associates
INCORPORATED

- **Measuring Quality:**
- Physicians Determine Quality Measures by Specialty
  - Specialty Specific Quality Committees
  - Multi-Specialty Coordinating Committee
- Separate quality measures for chronic disease management.
- Quality ratings measured and adjusted annually
- Quality Criteria Posted to the Gateway web site
- Physician Tier or Ranking Posted to the Gateway Web Site

Indiana Employers Quality Health Alliance

Gateway
MEDICAL RESOURCE ALLIANCE

DeMarco & Associates
INCORPORATED

Benefit Plan Design Tiered to Reward Higher Quality:

Reimbursement adjusted by market for cost of living differences using MSA data.

First Tier

- Gateway's current case rate or equivalent – 10% more than the Current Market
- Initially estimated to be the top 20% to 30% of physicians by specialty in the local market defined by metropolitan statistical area.
- No patient out-of –pocket expense to create steerage.

Second Tier

- Current Market reimbursement - Ninety Percent of the Case Rate
- Cost Sharing Applies – Patient Pays 20% of the Allowable
- The middle 60% of physicians sorted by specialty.

All Others not included in Tier 1 or Tier 2

- Seventy Percent of the Case Rate – Approximately 15% Less than the Market
- Higher Patient Cost Sharing, most likely 50%, with Balance Billing
- All physicians, hospitals and facilities which are not contracted and those who do not fall in Tiers 1 and 2. This group will also include physicians, hospitals and facilities whose volumes are less than minimal thresholds defined by literature and professional societies; and, facilities which do not meet safety criteria defined by literature and professional societies, i.e. Cardiac catheterization labs without on-site, surgical back-up.
- Physicians and hospitals not reporting quality data

Indiana Employers Quality Health Alliance

Gateway
MEDICAL RESOURCE ALLIANCE

DeMarco & Associates
INCORPORATED

Benefit Plan Design:

Employers encouraged to offer wellness programs

Use Incentives, along with 100% coverage, to encourage participation in screenings, risk assessments and programs to reduce risk.

Plan design to discourage inappropriate access of the healthcare system through higher patient cost sharing

Indiana Employers Quality Health Alliance

Gateway
MEDICAL RESOURCE ALLIANCE

DeMarco & Associates
INCORPORATED

Employer Costs:

	Plan 1	Plan 2	Plan 3	Plan 4	Plan 5
Access Fees	$2.50	$2.75	$3.00	$3.25	$3.50
Wellness Program*	100% Participation				No Screening
Adjustments to Access Fees	Low Risk				High Risk
Plan Design	Incentives to Steer Business & Support Patient Compliance			Absence of Incentives	

* Screening/Risk Assessment/ Health Advocacy Coaching

Indiana Employers Quality Health Alliance

Gateway MEDICAL RESOURCE ALLIANCE

DeMarco & Associates
INCORPORATED

Gateway Physician Tiers

Quality Index is reference for Gateway Physician Tiers

Tier 1	Superior Clinical Skills
Tier 2	Clinical competence
Tier 3	Not yet completed Quality Assessment or Quality Issues Identified that need resolution

DeMarco & Associates
INCORPORATED

Reimbursement

Physician Reimbursement Determined by Physician Quality Ranking

Case Rates Apply to top 200 procedures

Some Office Based Care Paid by Case rates

All other care which is not case rated paid fee-for-service

Tier	Case Rate	Office Calls Not Case Rated	Non-Hospital Specialty Care Not Case Rated
1	100%	135% Medicare	160 to 200% Medicare
2	90%	130% Medicare	150 to 160 % Medicare
3	70%	120% Medicare	140 to 150 % of Medicare

DeMarco & Associates
INCORPORATED

Reimbursement

Hospital Reimbursement Determined by Quality Ranking

of the Attending Physician

Case rates for the top 200 DRG's and ACG's

- These DRG's and ACG's account for 80% of Claims Cost
- Outliers based upon Total Cost
- Three Year Agreements
- Discounts Increase Proportionate to the Percentage Increase in the Facility Chargemaster less the Percentage Increase in the CPI

Per Diems for all other Inpatient Stays

Discount off Charges for all other Outpatient Procedures

DeMarco & Associates
INCORPORATED

Cost to Physicians for Quality Assessment

Number of Physicians	Chart Review Using Milliman & Robertson Guidelines	Members of the Indiana Choice Alliance	Self Reported Data Defined by Peer Committee	Members of the Indiana Choice Alliance
1 to 10	$1250 per physician	$600	$750	$400
11 to 20	$1000 per physician	$500	$600	$350
21 to 40	$800 per physician	$400	$500	$300
41 or more physicians	$600 per physician	$300	$400	$250

DeMarco & Associates
INCORPORATED

Optional Ownership Aligns Incentives

Small Business (<100) $7,500

Business (100 to 250) $15,000

Business (250 to 500) $20,000

Business (500 to 1,000) $28,000

Business (>1000) $36,000

Physician $2,500
- $1300 for physicians in the Indiana Choice Alliance
- $1000 for Quality Choice Alliance Members who furnish self-reported data

Rural Hospital $15,000

Suburban Hospital $25,000

Urban Hospital $35,000

DeMarco & Associates
INCORPORATED

Examples of Year-End Profit Distribution:

Accept Gateway Health History in lieu of Completing Form in office: Faster Turnaround in the physician's office, more complete data regarding the patient's health.

File Claims Electronically: Lower cost to Gateway and the employer, better tracking of claims, hopefully faster payment.

Refer to Affiliated Physicians based upon quality: Lower cost to the patient and employer, better outcomes.

Participate in on-line Scheduling: Lowers cost to the physician and increases access for the patient.

(Employer) Reduced health Risk in Enrolled Population

Indiana Employers Quality Health Alliance

Gateway
MEDICAL RESOURCE ALLIANCE

DeMarco & Associates
INCORPORATED

Enrollment Pool

- Current Gateway Enrollment
  - 1,100 Employers in Indiana, Kentucky, Ohio, & Illinois
  - Current growth at about 10 to 15 per cent annually
  - Approximately 50,000 employees (130,000 Lives)

- Indiana Employers Quality Health Alliance
  - 12 Employers representing 70,000 lives

- Leapfrog Sponsors
  - 155 employers representing 500,000 lives

DeMarco & Associates
INCORPORATED

Source of Distribution/Enrollment Projection

- Distribution through existing broker, insurance company, and TPA relationships. Expanded distribution through new relationships, particularly with insurance companies.

- Projected Enrollment (Employees Count)

Year	Conservative	Aggressive
2006	12,573	14,798
2007	23,946	28,846
2008	36,919	44,494

DeMarco & Associates
INCORPORATED

Promotes and Rewards Clinical Excellence

Assumes that clinical excellence should be promoted & rewarded

- Pay for Performance (P4P)
- Eliminate pre-authorization & pre-certification

Clinical Excellence is measurable and can/should be promoted

Measurable by reference to Quality Metrics

- Defined by Specialty Physician leadership serving on Gateway Quality Committees (17)

DeMarco & Associates
INCORPORATED

Physician Self-Management

- Medical Leadership for defining Quality Standards and Metrics from within Gateway Physician Network
- Gateway Quality Committees, by Specialty, define Quality Metrics and interpret Quality Information/Data describing a physician's medical practice pattern
- Quality Committees direct efforts to reduce variation, among Gateway physicians, from optimum medical practice patterns

DeMarco & Associates INCORPORATED

Sources of Quality Metrics

Physician Self-Reported Quality data

- Routinely captured by a medical practice
- Abstracted from focused samples of patient charts

Gateway Chart Review

- Required of more cognitive specialties
- RN abstracts pre-defined medical information
- Random selection *within* focused samples
- Physician Reviewers from Quality Committees interpret the abstracted chart review information
- Physician being reviewed not identified to Reviewer

DeMarco & Associates INCORPORATED

Sources of Quality Metrics

Medical Outcome Studies

- Quality Specialty Committee confirms design of Outcome Survey instrument
- Quality Specialty Committee interprets Outcome Survey results

Patient Experience Surveys

- Conducted by Gateway
- Patient Experience Survey results interpreted by Quality Specialty Committee

DeMarco & Associates
INCORPORATED

Quality Index

- All Quality Metrics are converted to a numeric value
- Relative importance of each Quality Metric is determined by the Quality Specialty Committee (weighting)
- Individual Physicians completing the Gateway Quality Assessment are assigned a Quality Index reflecting the Quality Score of that Physician relative to the ambient medical community

DeMarco & Associates
INCORPORATED

What Are the Barriers

- Dueling measures
- Misunderstanding about what is good performance
- Limitations of most data systems that are focused on revenue maximization and billing or claims data that is limited in focus and application
- Employers view that hospitals excessive charges and lack of cooperation are still the problem
- Lack of delivery system cooperation and leadership, lack of true integration creates further distortion of what excellence is and represents a liability as Antitrust rules are enforced

DeMarco & Associates
INCORPORATED

Disadvantages of Pay for Performance

- What are the guidelines for physician and hospital use and are these severity adjusted so we do not get stuck with bias measurements? Do we have input?
- Are the payers using unpaid or paid claims experience and are they comparing this performance to a national or regional database? Can we trust these plans?
- Do we, as providers, have a data system that can track these physicians and hospital and pharmacy and ancillary encounters and events into a single episode of care ? We cannot even get docs to cooperate with APC billing!
- Is there an incentive for physicians to keep scores high by turning complex patients away?

DeMarco & Associates
INCORPORATED

Advantages to Pay for Performance

- Less denials for medical necessity because guidelines are establish up front based upon evidence based protocols and adjusted for severity.

- Less denials for payments because outcomes are tied to groups of services tied to diagnosis so the provider has the advantage of having the diagnosis approved and therefore the budget of services for that diagnosis is clear-cut

- Some serious incentives here to get some accurate coding, documentation and billing done versus today's extra hassle factor mentality.

DeMarco & Associates
INCORPORATED

What's Next?

If

- Physician performance improvement is going to propel the P4P movement and consumers individual needs are going to outweigh insurance companies capabilities

Then

- Employers and physicians need to get together to create the performance based system of the future

- Hospitals greatest opportunity is to facilitate this change

DeMarco & Associates
INCORPORATED

Questions
DeMarcohealth.com

DeMarco
HEALTHCARE