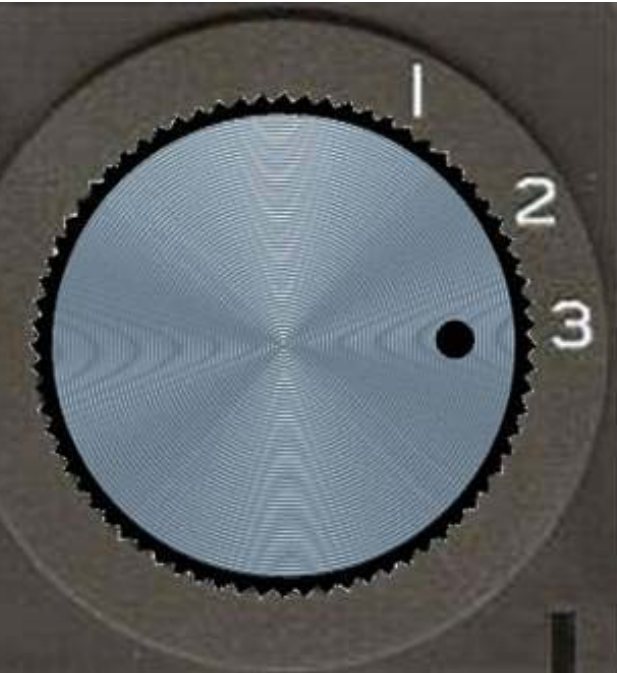


# MERCER

Human Resource Consulting



## Turning Up the Performance Sensitivity Dial:

### How Purchasers Will Make Provider Performance a Stay-in-Business Issue

**Arnold Milstein MD, MPH**

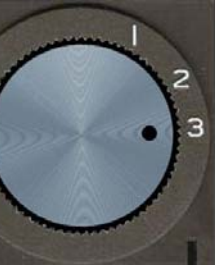
Pacific Business Group on Health

The Leapfrog Group

August 25, 2003

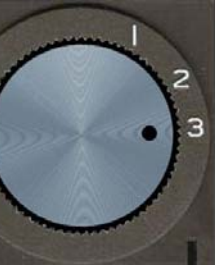


Marsh & McLennan Companies



# **This Will be a Three-Chapter Story**

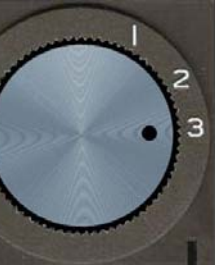
- 1. Reasonable & customary prices (1975-85)**
- 2. Discounts & blunt UM (1985-2005)**
- 3. Performance-sensitizing providers and consumers (>2005)  
(focused on efficiency & quality; aided by CMS & DOJ/FTC)**



# What's Bothering the Purchasers in an Era of Mid-teen Premium Increases?

- 50% quality defect rate<sup>1</sup>
- 40% wasted spending<sup>2</sup>
- 30% user dissatisfaction<sup>3</sup>

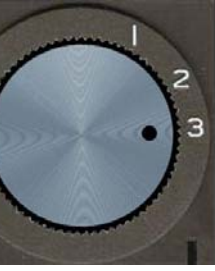
(Rand<sup>1</sup>, Dartmouth<sup>2</sup>, Juan Institute<sup>2</sup>, UC Berkeley<sup>3</sup>)



# What's the Purchasers' Solution?

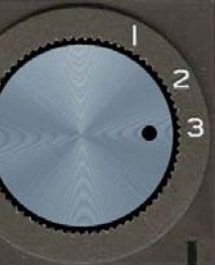
Two flavors of ↑ sensitivity to provider performance

- Pay for performance
- Health care consumerism



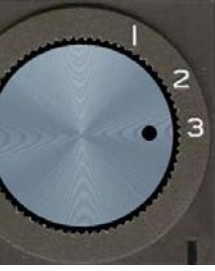
# Pay for Performance

- **Physicians and physician groups**
- **Hospitals**
- **Backstage providers**
- **Via insurers or direct from employers**
- **Focused on offsetting perverse provider incentives and most difficult provider “care redesign imperatives”**

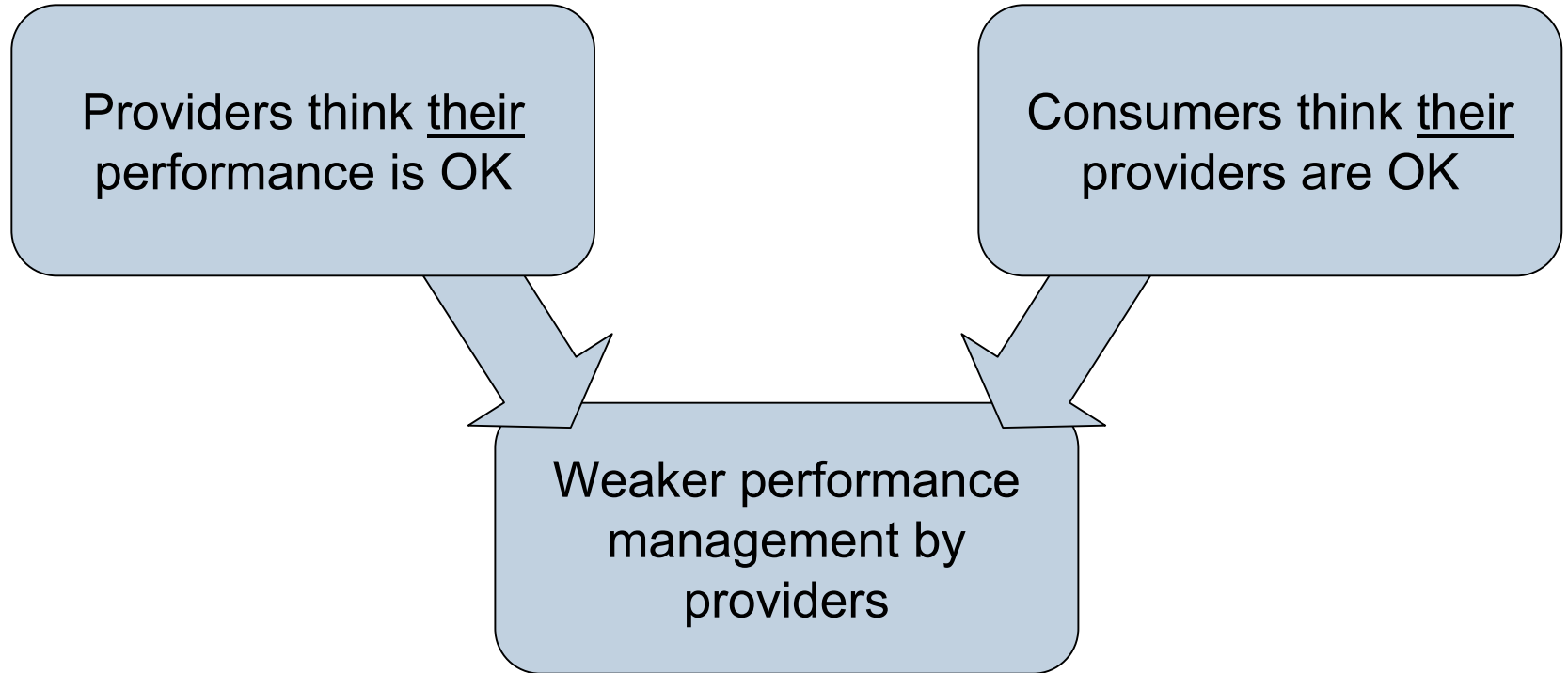


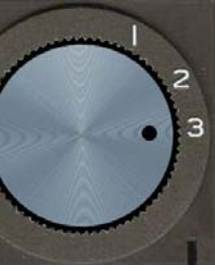
# Health Care Consumerism

- **Hollowed-out insurance coverage (blunt)**
- **Portable spending accounts (blunt)**
- **Performance-tiered out-of-pocket costs (precision-tailored)**

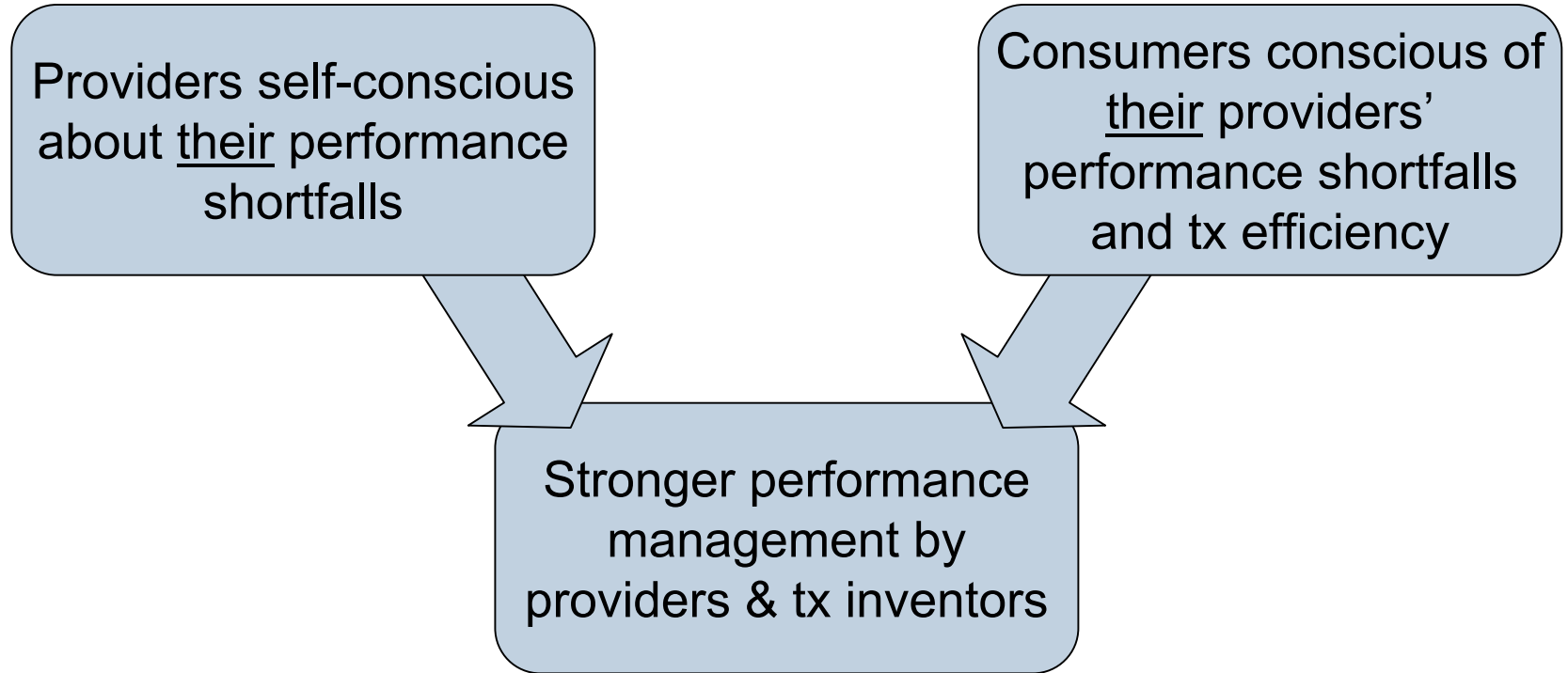


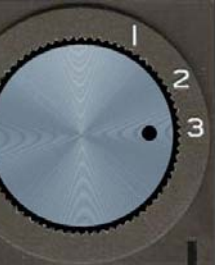
# What We've Got



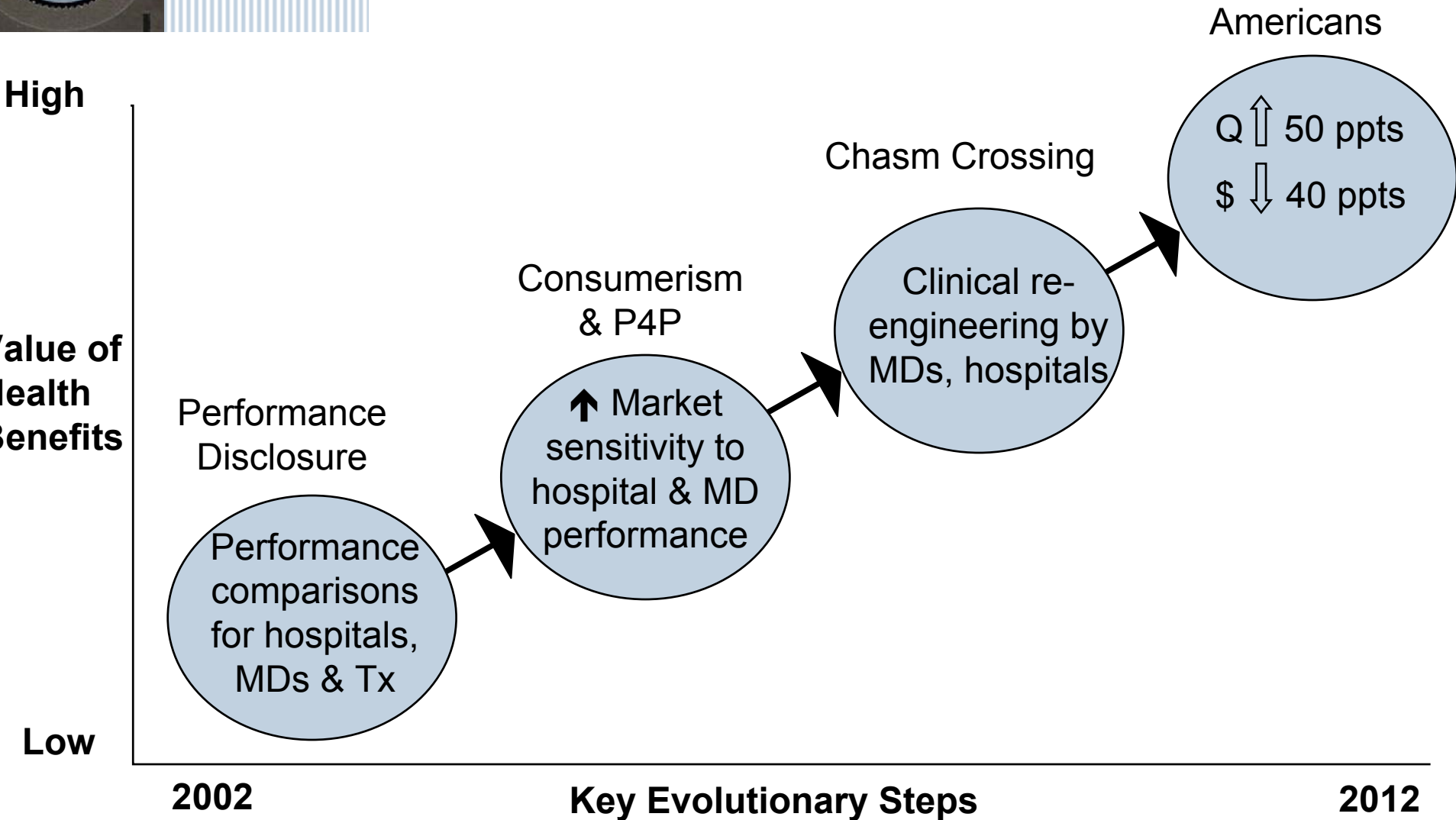


# What We Want



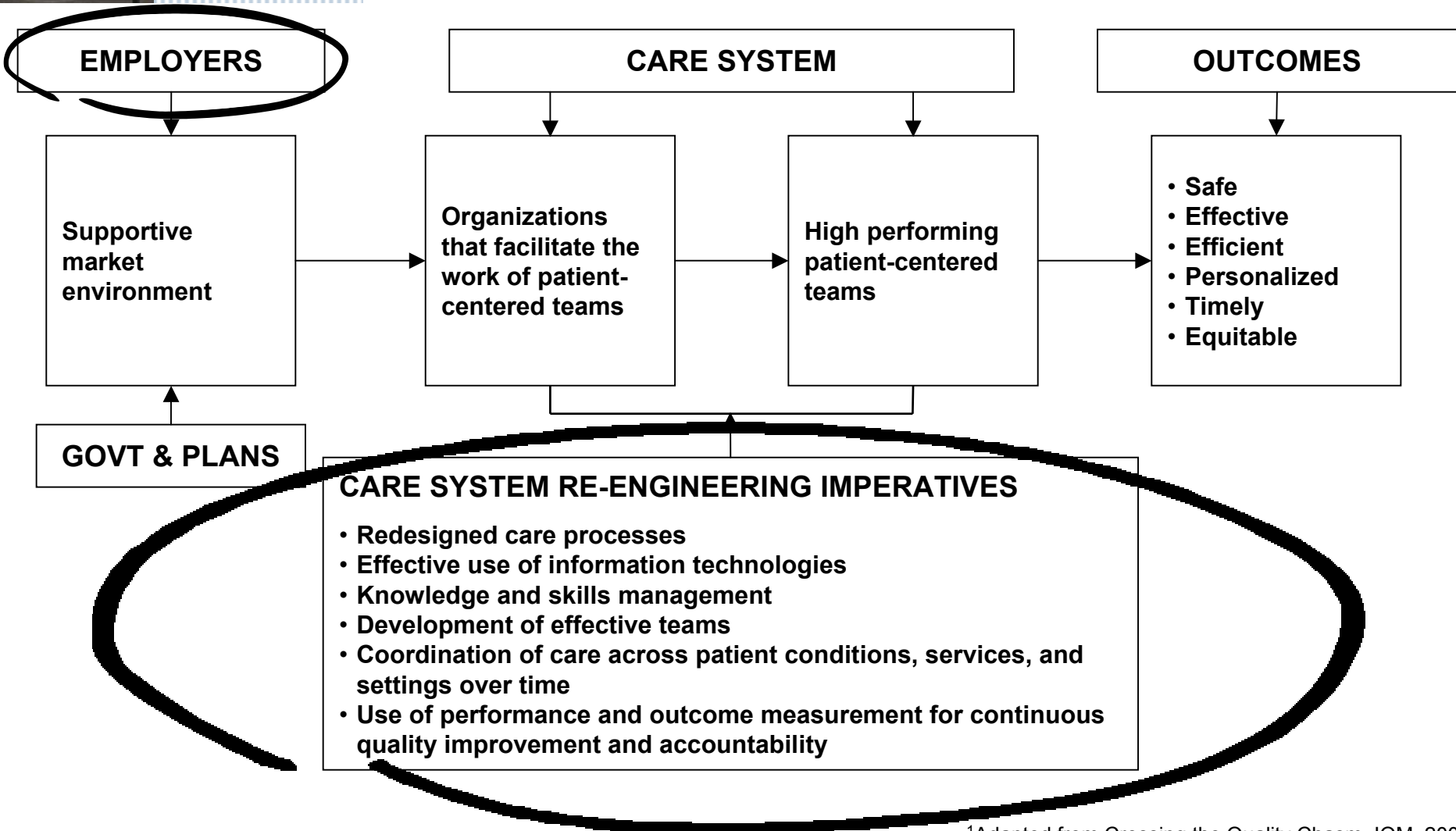


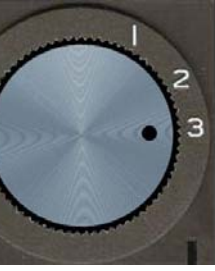
# A Frog (and Consumer) Vision





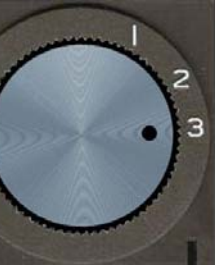
# A Nearly Identical IOM Vision



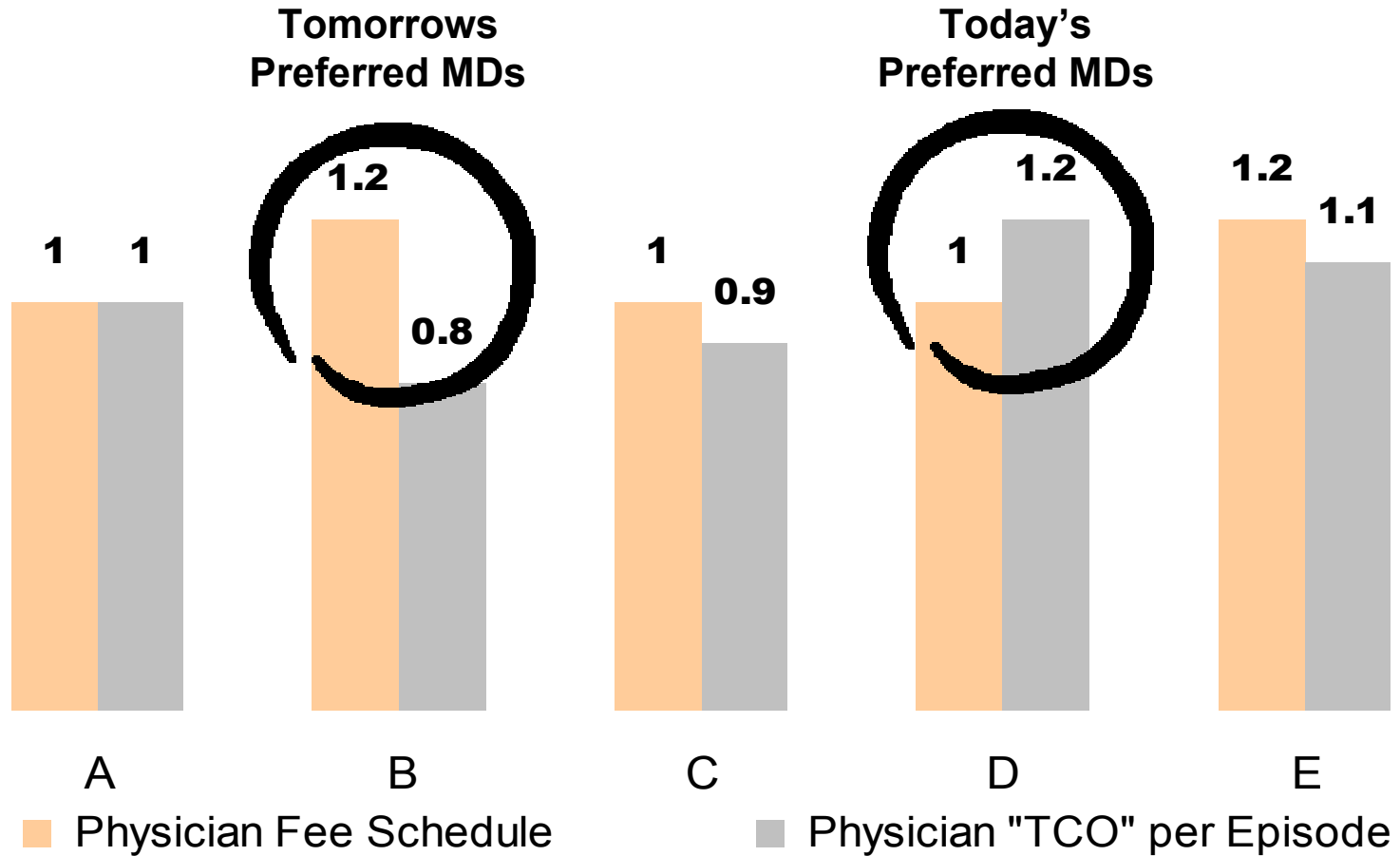


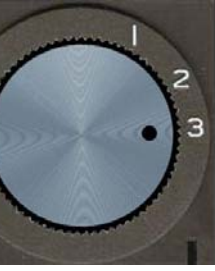
# A Likely Pivot Point

- Purchasers measure and raise each health plan's PPSI ("Provider Performance Sensitivity Index")
- "How performance sensitive is a health plan's revenue stream to each network provider's quality and efficiency?"



# Efficiency is not the Same as Low Price





# Closing Thoughts

- Our common enemy is non-ownership of performance failure
- Purchaser and plan response will be to “count provider performance” and to “make performance count”
- Economic downturns allow bolder strokes
- It's not *whether*, its *when* we got across the chasm