

Changes in
**HEALTH CARE
FINANCING &
ORGANIZATION**

Defining “Defined Contribution” 2002: Research and Practice

May 15, 2002
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AcademyHealth



Defining "Defined Contribution" 2002: Research & Practice
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Breakthroughs in Health Care Value: Making Consumer-Driven Care a Reality

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Pacific Business Group on Health

- Founded in 1989
- Public/private sector purchasers
- 45 Large employers with at least 2,000 employees in California
- 18 Large employers joint-purchase through Negotiating Alliance
- Small group – PacAdvantage with over 11,000 small (2-50) employers
- Spend \$4 billion annually on health



PBGH Member Companies

- | | |
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PBGH Goals and Initiatives

<p>Quality Measurement & Improvement</p> <p><i>Seeking accountability at all levels: health plan, medical group, hospital, physician</i></p>	<ul style="list-style-type: none"> ▪ CCHRI Member Satisfaction and HEDIS Reporting ▪ Consumer Assessment Survey of Provider Group Performance ▪ PPO Consumer Experience Survey (CAHPS) ▪ Coronary Artery Bypass Graft Surgery Mortality Report ▪ Provider Group Oversight and Pay for Performance Initiatives ▪ Diabetes CQI Initiative/Clinical Guidelines ▪ National and statewide partnering and policy coordination
<p>Value-purchasing</p> <p><i>Promoting value, affordability, choice and access</i></p>	<ul style="list-style-type: none"> ▪ Negotiating Alliance (large group > 2000) ▪ PacAdvantage (small group 2-50) ▪ Health Plan Performance Guarantees ▪ Health Plan "Users Groups"
<p>Consumer Engagement</p> <p><i>Helping consumers use performance information to "buy right"</i></p>	<ul style="list-style-type: none"> ▪ www.HealthScope.org – on-line performance information on health plans, medical groups and hospitals ▪ HealthScope electronic physician directory ▪ Leapfrog: educate and activate consumers about patient safety and avoiding medical errors ▪ PacAdvantage web tools – plan chooser, cost and quality calculator

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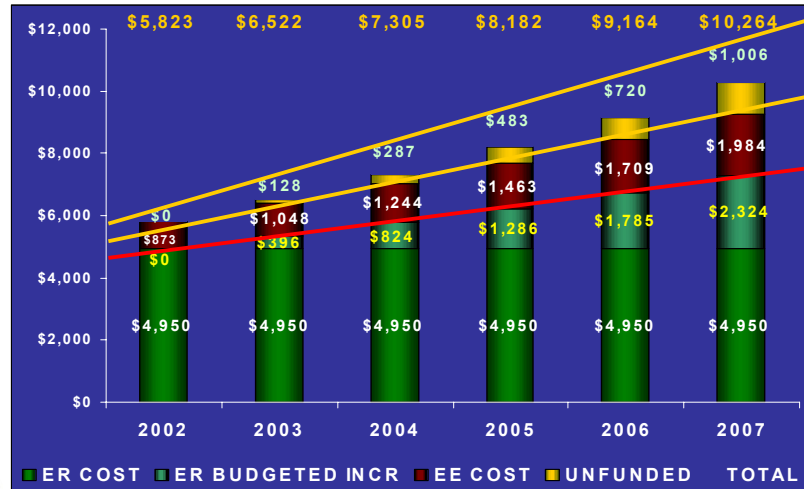
Path to Breakthrough Strategy



Need for a Better Approach

- Premiums likely to double in five years
- Members shielded from cost, no incentive to change behavior
- Providers shielded from quality accountability
- Higher premiums not invested in needed clinical and service re-engineering
- Root causes intensifying
 - Consolidation of plans and providers
 - New technology and burgeoning drug costs
 - Aging population

Rising Costs – Who Pays?



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Care -- The Need for Change

“What is perhaps most disturbing is the absence of real progress toward restructuring health care systems to address both quality and cost concerns, or toward applying advances in information technology to improve administrative or clinical processes.”

-- Crossing the Quality Chasm: A New Health System for the 21st Century, Institute of Medicine, 2001

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Consumers – New Drivers

- Consumers insulated from price increases
 - From 1993 to 2001 employee share of premium **declined** by 25%
- Ready to spend
 - Americans spend over \$27 billion on complementary therapies
- Ready to use quality information for choice
 - 70 million Americans on the Internet for health information
 - Many would use quality data to switch doctors or hospitals

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Strategy to Move the Market

- **Launch** an innovative Breakthrough Strategy
- **Implement** breakthroughs in existing benefits/plans
 - Encourage adoption of consumer tools
 - Partner with health plans to implement “breakthroughs” – move beyond the incremental

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Breakthrough Plan Architecture

- Support and incent consumers
 - Best self-management
 - Encourage prudent buyer behavior through design, contribution and tools
- Support and incent providers
 - Best care delivery
 - Best care management practices
- Select and incent a partner
 - Best administrative practices
 - Best support of consumers and providers

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The Breakthrough Prize

- Cost - Impact on Trend
 - Consumer behavior change
 - Care management
 - Migration to efficient providers
 - Accelerated re-engineering
- Care - Quality gains
- Consumers - “Own” health care value

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Breakthrough Strategy Timeline

- ✓ **1999-2000** – Formulation of Breakthrough Strategy
- ✓ **2001** – RFI issued
 - ✓ 11 respondents including traditional plans, direct-contracting, benefit-driven, and consumer-driven/savings account models
 - ✓ Follow-up on case studies and care management approaches, actuarial model, provider contracts, claims & administration
 - ✓ Identification of key threshold issues
 - ✓ Site visits to 3 vendors and key subcontractors
 - ✓ Selection of Definity Health as vendor partner
- ✓ **2002** – Ongoing planning and implementation
 - ✓ Employer-specific benefit design/financial modeling and analysis
 - ✓ Consumer focus groups and enhancement of consumer tools
 - ✓ Refinement of provider strategy
 - ✓ Identification of program evaluation and ongoing research issues

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Consumer-Driven Models: Key Questions

- Employee adoption of new models
 - What are out-of-pocket costs?
 - Will consumers understand?
 - Who would choose the plan and why?
- Care for high-risk or chronically ill members
 - Will the “right” kind of utilization be impacted?
- Network management
 - What is the network?
 - What's in it for providers?
 - How is provider selection used to drive quality and value?
- Cost implications and long-term trend
 - What is the potential for risk selection?

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Breakthrough Strategy Critical Elements

- Consumer Engagement
 - Consumer education and support
 - Consumer incentives
 - Employer adoption and implementation
 - Provider understanding and support
- Care Management
 - Provider outreach and engagement
 - Appropriate consumer/patient identification, stratification, and engagement
 - Patient/provider connectivity
 - Care management outcomes reporting

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Breakthrough Strategy Critical Elements_{,cont.}

- Path to Provider Measurement
 - Knowledge and organizational commitment to promote provider-level quality metrics and transparency
 - Ability to capture needed data
 - Strategy to engage providers
- Credibility of Long-term Cost Control
 - Plan design
 - Ability to incent consumer behavior change – incentives and cost transparency
 - Potential savings through care management
 - Provider network management

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Breakthrough Strategy Critical Elements_{,cont.}

- Management and Financial Capacity
 - Product innovation and implementation
 - Best-in-class contracting and subcontractor management
 - Financial capacity and staying power
- Administration and Scope of Services
 - Administrative cost/ASO fees
 - Performance standards
 - Data exchange and systems integration
 - Innovation, evaluation and ongoing partnership opportunities

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Evaluation and Ongoing Research

- Claims analysis and degree of value-conscious purchasing
- Impact on short and long-term costs
- Effect of care management programs
- Level of member engagement (HRAs, self-care tools, Internet usage)
- Member satisfaction and experience
- Impact of provider quality information
- Risk selection issues

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Health Plan Reaction and Risk Selection Considerations



PBGH: Two Purchasing Models

Large Group: Negotiating Alliance

- 18 employers
- >2,000 eligible employees
- 400,000 enrollees
- Statewide
- Group HMO negotiations
- Employers select plans offered and benefit design options
- Employees select from multiple HMOs with plan design and self-funded option

Small Group: PacAdvantage

- 11,000 employers
- 2-50 employees
- 150,000 enrollees
- Statewide
- Group PPO/POS/HMO negotiations
- Employers offer all options
- Employees select from multiple plan AND multiple benefit design options



PBGH: Two Risk Adjustment Models

Large Group: Negotiating Alliance

- **Employer Level** (very large plan pools-undifferentiated risk)
- Employer weights normalized within each plan
 - **Demographics** – Active vs. early retiree, age, sex, family tier
 - **Geography** – North, South, Rural (cost differences, not risk)

Small Group: PacAdvantage

- **Plan Level** – Plan weights normalized within pool
- DxCG
 - **Claims – HCC Model**
Inpatient
Pharmacy (analysis)
 - **Demographics** – Age, family tier
- 5% risk corridor
 - Max payor 10% premium
 - Max receiver 20% premium

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PBGH/PacAdvantage Objectives for Risk Assessment/Risk Adjustment

- Understand population variation
 - Industry mix
 - Active, early retiree, retiree mix
- Understand selection issues
- Address selection issues
- Encourage investment in managing the population with the greatest needs
- Small group: sustain diversity of plan offerings – PPO, POS, and HMO

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What Health Plans Fear

- Competition
- Unknown
- Adverse risk selection
 - Losing the young and healthy
 - Keeping the old and sick
- Being pushed to re-evaluate their delivery system model

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What Employers Want

- **Long-term** cost moderation and price predictability
 - No one wins by playing a risk selection shell game
- Satisfied employees who “own” health care value
 - Improved productivity
 - Reduced absenteeism
- Quality gains
 - Provider accountability
 - Alignment of incentives

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Sources of Cost Savings...and Risk Moderation

- Adoption and Employee Migration
 - Member education and communication
 - Contribution strategy
- Benefit Design and Cost-sharing
 - First-dollar coverage for preventive services
 - Coinsurance
 - Deductible
 - OOP Max
- Consumer responsibility
 - Direct exposure to health care costs, including Rx
 - Incentive to choose high-value providers
 - Incentive to “save” for additional benefits

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Sources of Cost Savings...and Risk Moderation

- Web-enablement and data integration
 - Reduce administrative expenses
 - Real time identification of “high-risk” members: health risk appraisal, claims review
- Care management
 - Member incentives to engage in disease management/self-care
 - Coordination with providers
- Provider incentives and channeling
 - Network selection and provider choice
 - Provider profiling
 - Price transparency and competitive discounting
 - Centers of Excellence

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The Work is Just Beginning

- Ongoing efforts with traditional plans:
 - Majority of employees will initially remain in traditional plans
 - Performance improvement by traditional plans – encourage them to adopt breakthrough elements
- Ongoing efforts with Definity Health:
 - Implementation and enhancement
 - Evaluation

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To find out more...



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www.pbgh.org



www.healthscope.org

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