

Your Self Funded Claim Data

Confident Decision Making at Your Fingertips

The Alliance Learning Circles Event

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Goals for Today

- Identify key levers to effectively manage self-funded plans
 - And the metrics to monitor them
 - Special considerations for 500 – 5,000 employee groups
- Possibilities for Coalitions



Healthcare Data Analytics 101

Financial Progression of a Claim

Financial Item	Hospital Stay Example	Notes
Billed Charges	\$15,000	
- Exclusions	(\$1,000)	Plan design or network requirements
= Eligible Charges	\$14,000	
- Provider Discounts	(\$4,000)	Based on contracted prices your network has with provider
= Allowed Provider Payments	\$10,000	
- Plan Cost Sharing	(\$1,500)	What employees pay for items like deductible, copays, & coinsurance.
- COB	(\$500)	May apply if your plan is secondary
= Net Plan Payments	\$8,000	What employer is paying toward healthcare claims.

Employer's Healthcare Spend

Financial Item	Sample Employer's Annual Costs	Notes
Net Plan Payments	\$3,500,000	
+ Administrative Fees	\$200,000	TPA fees, network access fees, care management, data analytics, etc.
= Plan Payments + Admin	\$3,700,000	
+ Stop-loss Premiums	\$100,000	Typically for specific and aggregate coverage to protect against catastrophic claims.
- Stop-loss Recoveries	(\$50,000)	Payments to employer for individuals who reach catastrophic claim levels over deductibles.
= Premium Equivalent	\$3,750,000	What you should compare to a fully-insured quote
- EE Paycheck Deductions	(\$150,000)	Employee's share of 'premium'
= Employer's Healthcare Spend	\$3,600,000	This is the number that must be balanced with wages and other employee benefits.

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Healthcare Data Analytics 101

- Per Employee Per Month (PEPM)
 - Most employers' default metric
 - Medical Plan Payments / # Employees (EEs) Opting for Coverage

- Per Member Per Month (PMPM)
 - Similar, except all EEs + Covered spouses/partners & dependents are in denominator
 - Lends itself more readily to utilization vs. price analyses
 - $PMPM = PEPM \times EEs / Members$
 - $PMPM = (Annual\ Utilization\ per\ 1,000\ Members) \times (Charge/Unit) / 12,000$

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Key Lever #1: Provider Networks

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Provider Discounts

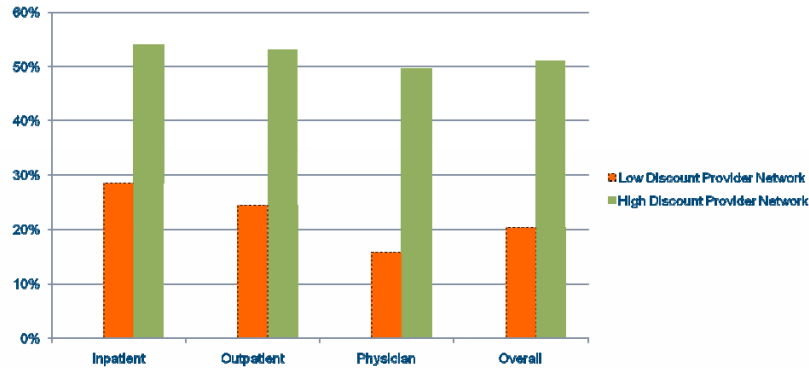
- By far, the area where most savings are achieved
- Prices essentially negotiated with hospitals, physicians and other medical providers
 - Hospitals
 - Pure 'discount' off of billed charges
 - Sometimes fixed fee per admission (i.e. DRGs) or outpatient case (APC)
 - Physician
 - CPT-based fee schedules common
 - Often % of Medicare
- Volume game
- Administrative fees often higher if discounts are deeper
- Variation among networks wider than you might think

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Provider Discounts

Provider Discount Comparison
Sample Results for Major US City



A group spending \$3.7 million with the low discount network would save \$1.4 million by moving to the high discount network (ignoring administrative fees)!

Monitoring Discounts

- At a minimum, track the average discount
 - Average Discount = 1 – Allowed / Eligible Claim Dollars
- This is certainly not perfect
 - Variation by provider and mix of charges matters, too

Hospital	Billed Charges	Network #1	Network #2
A	\$1 million	10%	15%
B	\$3 million	30%	25%
Total	\$4 million	25%	23%



Saks vs. Walmart Issue

- Discounts do not translate across providers
- Price trumps discounts
- Measure price with allowed payments
- Good indicators
 - Hospital Inpatient
 - Diagnosis Related Groups (DRGs)
 - Hospital Outpatient
 - Ambulatory Payment Classification (APCs)
 - Professional
 - % of Medicare RBRVS Fee Schedule
- Even better indicators
 - Episodic groupers across all modes of care
- Challenge: need lots of data to credibly use these measures

Key Lever #2: Plan Design

Plan Design

- Heavily used by employers to control costs
 - CDH movement prime example

- More than just raising deductibles
 - Holistic approach to designing plans is important
 - Utilization and case management requirements
 - Disease management & wellness program incentives

- Benchmark key metrics and follow trends by:
 - Service categories
 - Disease states

Putting PMPMs to Work

Per Member Per Month Key Metrics 1,000 Member Group						
Cost Item	2007	2008	2009	Bench	Annual Trend	Potential Savings
Hospital Inpatient	\$ 63	\$ 71	\$ 75	\$ 68	9%	\$ 84,000
Hospital Outpatient	\$ 81	\$ 85	\$ 94	\$ 88	10%	\$ 72,000
Professional	\$ 135	\$ 150	\$ 164	\$ 123	12%	\$ 492,000
Rx	\$ 43	\$ 47	\$ 51	\$ 62	9%	(\$ 132,000)
Total Allowed	\$ 323	\$ 354	\$ 383	\$ 341	10%	\$ 516,000
Cost Sharing & COB	15%	16%	18%	20%	10%	\$ 92,000
Net Payments*	\$ 267	\$ 295	\$ 314	\$ 273	9%	\$ 492,000

*Note: Net payment savings does not equal addition of individual components since savings in allowed charges will dampen impact of cost sharing savings.

Putting PMPMs to Work

- Benchmark considerations
 - TPA/Carrier vs. independent source
 - Best in Class vs. Averages
 - Isolating utilization vs. price important
 - Adjustments for:
 - Demographic mix of your employees
 - Industry

- Trend considerations
 - One year does not a trend make
 - Catastrophic claims have dramatic influence with smaller groups
 - Isolating utilization vs. price important

Digging Deeper into Utilization

Professional Service	Actual Utilization per 1,000	Benchmark Utilization per 1,000	% Variance
Inpatient Surgery	93.4	85.4	9%
OP Surgery	240.7	232.8	3%
Office Visits	2,532.4	2,837.3	-11%
ER	176.9	206.6	-14%
Therapy	728.9	832.7	-12%
Chiro	1,193.9	1,128.6	6%
Physical Exams	370.6	323.5	15%
Immunizations	943.9	856.5	10%

Value-based Analyses

- Incentivize those with most healthcare needs
 - Waive copays for those with targeted conditions
 - No deductible if participate in DM program

- Challenge: 80/20 rule applies to this side of equation, too
 - Most cost sharing paid by patients that these designs target

- Potential to 're-balance' plan designs and premiums so that those with 'lifestyle-related' conditions subsidize others
 - Higher premium deductions for smokers
 - Increase standard cost sharing provisions to offset costs associated with waiving cost share for others

Key Lever #3: Stop Loss Coverage

Stop-loss Coverage

- Dampens effect of claims volatility

- Specific S/L
 - Common for most self-funded employers to buy this
 - Protect against high cost claim for any one person
 - Many variations
 - Silly not to buy this, unless you are:
 - Flush with cash
 - Huge employer who can spread the risk among many lives
 - Have low annual and/or lifetime benefit limits

Stop-loss Coverage

- Aggregate S/L
 - Protect against many intermediate to high cost claims
 - Must typically purchase with specific coverage
 - If you have < 500 EE's covered, consider this
 - Otherwise, very expensive sleeping pill

The Influence of a Few High Claims

- **Managing the Message...**

- “I missed my budget by 25%! How can I explain this???”

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The Influence of a Few High Claims

- While this is definitely provided often, it does not tell the whole story
- Claims over \$50,000

Member ID	Claims YTD
0007265	\$1,000,000
0005764	\$500,000
0009038	\$350,000
0008539	\$325,000
0001008	\$250,000
0005938	\$175,000
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The Influence of a Few High Claims

- This simple report explains a lot...

	Year			Trends	
	2007	2008	2009	07-08	08-09
Claims Over \$50,000					
a # Members	10	5	15	-50%	200%
b \$/Member	\$ 100,000	\$ 105,000	\$ 97,000	5%	-8%
c=a*b Total Claims	\$ 1,000,000	\$ 525,000	\$ 1,455,000	-48%	177%
Claims Under \$50,000					
d # Members	975	980	965	1%	-2%
e \$/Member	\$ 2,310	\$ 2,541	\$ 2,719	10%	7%
f=d*e Total Claims	\$ 2,252,250	\$ 2,490,180	\$ 2,623,710	11%	5%
All Claims					
g=a+d # Members	985	985	980	0%	-1%
h=i/g \$/Member	\$ 3,302	\$ 3,061	\$ 4,162	-7%	36%
j=c+f Total Claims	\$ 3,252,250	\$ 3,015,180	\$ 4,078,710	-7%	35%

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Choosing a Specific Deductible

- Simulation models can help employers target appropriate stop-loss coverage based on their risk tolerance
 - 400 EE group with \$3,500,000 in annual claims
 - \$3.5 M is not set in stone though. Claims will vary significantly each year. In fact, without stop-loss coverage....

This is the probability...	...that claims miss \$3.5 million by <u>at least</u> ...	This random fluctuation will essentially cause projections to miss by <u>at least</u>
70%	+/- \$175,000	+/- 5%
41%	+/- \$350,000	+/- 10%
11%	+/- \$700,000	+/- 20%

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Choosing a Specific Deductible (continued)

- Stop-loss coverage buys you less volatility
- But which coverage level is right for any given employer?
- \$85,000 specific deductible increases annual spend by \$150,000

Expected Claims:	\$3,500,000
Stop Loss Premium:	\$450,000
Expected Stop Loss Recoveries:	(\$300,000)
Expected Net Cost:	\$3,650,000

This is the probability...	...that claims miss \$3.65 million by <u>at least</u> ...	This random fluctuation will essentially cause projections to miss by <u>at least</u>
55%	+/- \$182,500	+/- 5%
20%	+/- \$365,000	+/- 10%
1%	+/- \$730,000	+/- 20%

Choosing a Specific Deductible (continued)

▪ Establish Your Efficient Frontier of S/L Quotes

- Customize for
 - Carrier-specific quotes
- > Data within model can be normalized to their quotes
 - Employer group size
 - Smaller groups experience more volatility
 - Lasers

Key Lever #4: Care Management & Wellness Programs

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The History of CM & Wellness ROI

- 10 Years Ago
 - ROI = 10:1
 - This is a no-brainer

- 5 Years Ago
 - ROI = 3:1
 - Won't break the bank, but this is good for our employees

- Current Environment
 - ROI = ?
 - Long term investment
 - Still a lot of affinity with employees and the 'right thing to do'
 - However, CFOs beginning to ask the question:
 - > "When exactly am I going to see this ROI?"

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ROI Conundrum

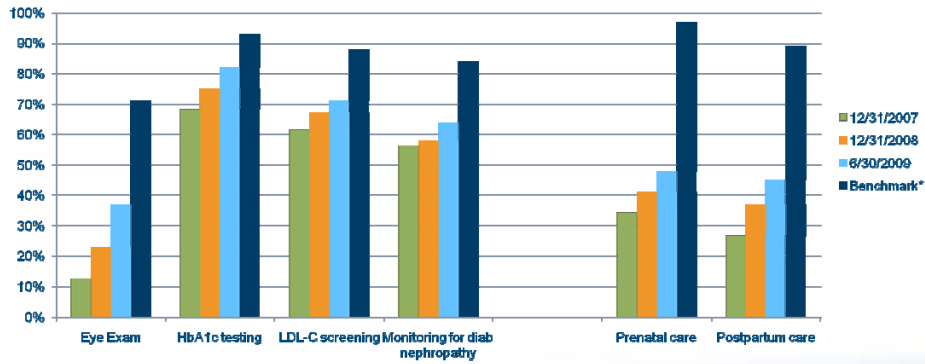
- Wellness & care management programs focus on improving behaviors
 - Get diabetics to monitor their blood sugar
 - Ensure hyperlipidemics regularly take their Lipitor
 - Quit smoking, lose weight, etc. to reduce chronic health risks
- Few behavior changes will result in immediate cost containment
 - In fact, often, costs increase if programs take hold!
- Ex: Rx adherence with a disease management program
 - Rx claims increase as program participation increases
 - Especially with incentives in place (waived copays, etc.)
- Little effect on costly items until 3-5 years down the road
 - Hospital stays, ER visits are where the money is saved

You May Actually have the Best Data!

- Claims data is powerful when it comes to CM & Wellness
 - Care delivery patterns will often indicate program's true success
- Examples
 - Diabetics: HbA1C testing
 - CAD: Ace inhibitor compliance
 - # office visits annually for chronically ill
- Typically these types of measures will markedly improve if a vendor is having a tangible impact

You May Actually have the Best Data!

EBM Compliance Rates Comprehensive Diabetes Care & Pregnancy Care



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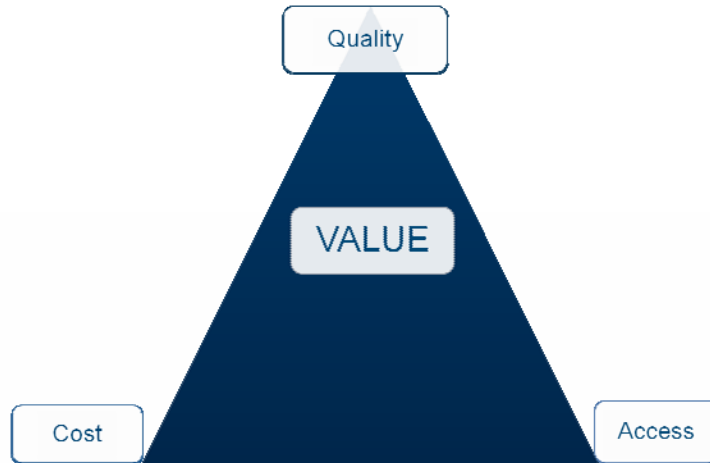


Driving Value with Coalitions

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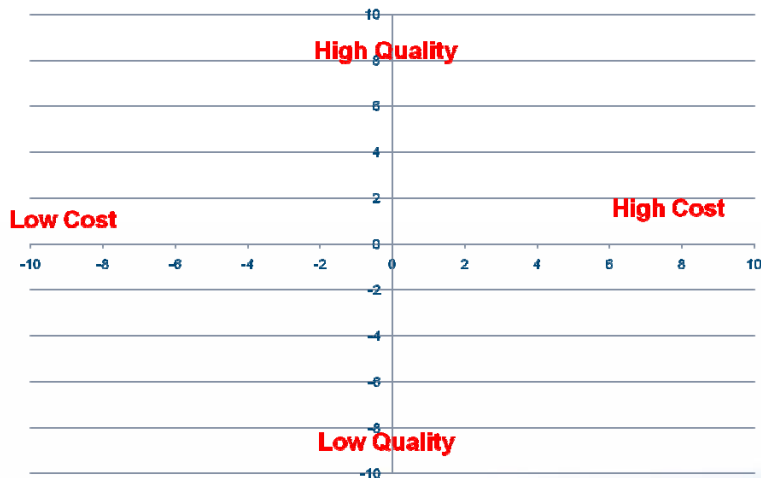
Delicate Balance



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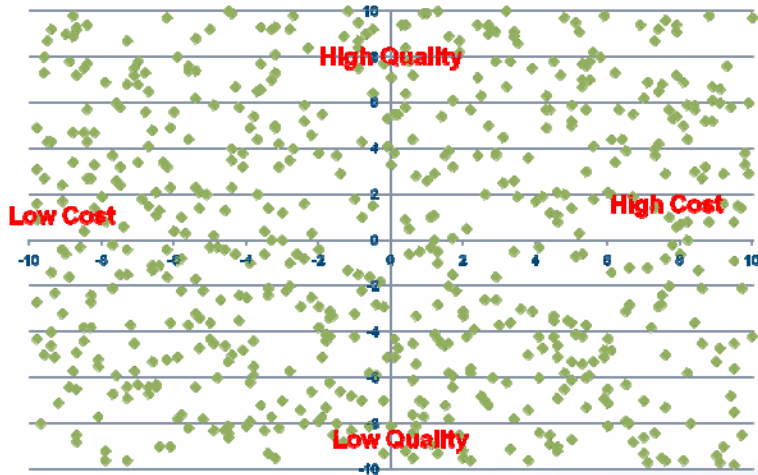
A Chart for Success



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A Chart for Success



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A Chart for Success



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Thank You!

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THE ALLIANCE
Employers moving health care forward

