HEALTH DECISIONS, INC.

Restoring Competition to the Self-Funded Market

Presented by: Si Nahra, Ph.D., President

August 23, 2010

September 9, 2010

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Pioneering Specialists in Group Health Care

Post-Payment Administration for Over 20 Years

- First with 100% claim audits
- Introduced the use of claim audits for recovery
- Originated linking of enrollment reconciliation with claim audits
- Started dependent audits 15 years ago
- Revolutionized data intake with payer-defined downloads – always successful
- Unblemished track record – no HIPAA violations or employee issues

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Today's Presentation

Restoring Competition to the Self-Funded Market

1. What has happened to distort competition?
   - Meaningless provider discounts
   - Misleading service comparisons
2. What can be done to restore competition?
   - Provider Payment Index (PPI)
   - Administrative Performance Contracts (APC)

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Today's Presentation

Acronyms and Definitions Used:

PPI for Provider Payment Index

A tool to gauge claim liability developed by Health Decisions.

APC for Administrative Performance Contracts

A tool to document TPA services developed by Health Decisions .

TPA for Third-Party Administrator

Any plan administrator (insurer, "Blue", or independent) used by the group.

ABC for Advisor, Broker, Consultant

The party used by the group to review and monitor plan options.

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What has happened?

In markets nationwide, we see the same thing.

A dominant TPA:

- Stresses the value of provider “discounts” they offer.
- Makes TPA services unimportant by comparison.

This undermines competition because:

- “Discounts” are meaningless.
- TPA service comparisons are misleading.

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What can be done?

The problem is that there has been no way to change the competitive discussion.

Until Now.

We offer an alternative by:

1. Exposing the problems with the current competitive discussion.
2. Presenting an approach to restore a “level playing field” to the self-funded market.

Restoring Competition Part 1

Provider Payment Index

PPI

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"Discounts" Are Meaningless

- "Discounts" are based on provider charges.
- No health plan is at any risk of paying full charges (especially to hospitals but even to most doctors).
- This has been true for over three decades.
- No one I know disputes these facts.

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"Discounts" Are Meaningless

Provider discounts vary in ways that defy logic.

Two hypothetical but realistic examples for the same plan, provider and procedure.

1. The exact same payment (e.g., $1,000) yields:
   - a 28.6% discount if the charge is $1,400 or
   - a 37.5% discount if the charge is $1,600.

2. The value of differing payments is lost:
   - A higher payment of $1,200 on a charge of $2,000 has a "better discount" (40.0%) than
   - A lower payment of $1,000 on a lower charge of $1,500 (a 33.3% "discount").

The discount changed because the charge (<u>that no one pays</u>) changed.

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Replace Meaningless Discounts with PPI: Provider Payment Index

Forget about charges and “discounts”.

Focus on payments by adopting the PPI.

PPI benchmarks plan payments to Medicare.

- Fully transparent comparative measure. (Unlike discounts that are usually not disclosed and always heavily protected).
- Geographically adjusted for meaningful measures nationwide. (Unlike discounts that have no national integrity due to differing methods and contracts).
- Accurately gauges Medicare’s cost-shift. (Unlike discounts that lack any external benchmark)

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PPI Development

1. Claims processed using Medicare published methods and rates.
2. Medicare results compared to TPA payments to produce:
   A. Indexes for hospital cases and physician services (with Medicare at 100)
   B. Rates for hospital cases and physician services

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PPI Use: Competitive Bidding

- Current TPA cooperation preferred but not required.
  - With cooperation actual claims selected by Health Decisions for re-pricing.
  - Without cooperation standard claims provided by Health Decisions for re-pricing.
- ABC includes re-pricing request in bid package.
- Bidding TPA “pays” each claim and reports price.
- Health Decisions produces PPI results for each TPA.
- PPI results provide basis for comparison.

Restoring Competition Part 2

Administrative Performance Contract

APC

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TPA Service Comparisons Are Misleading

What you pay is important.
What you get is more important.

- All administrators say they do everything. This is simply not true.
- High cost administrators claim to
  - Do more; or
  - Be better; or,
  - Justify higher fees by claiming higher “discounts”; or,
  - Keep part of the “discount” as added payment, distorting competitive comparisons even more.

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Replace Misleading Service Comparisons with APC: Administrative Performance Contract

Plan sponsors and their ABCs need meaningful performance standards that can support competitive comparisons.

Enrollment Maintenance	Plan Design Enforcement
Payment Timeliness	Provider Billing Review
Payment Accuracy	Special Investigations
Cost Sharing Application	Recovery Collection
COB Monitoring	Regulatory Compliance
Medicare Monitoring	Data Quality
Stop-Loss Enforcement	EDI Capabilities

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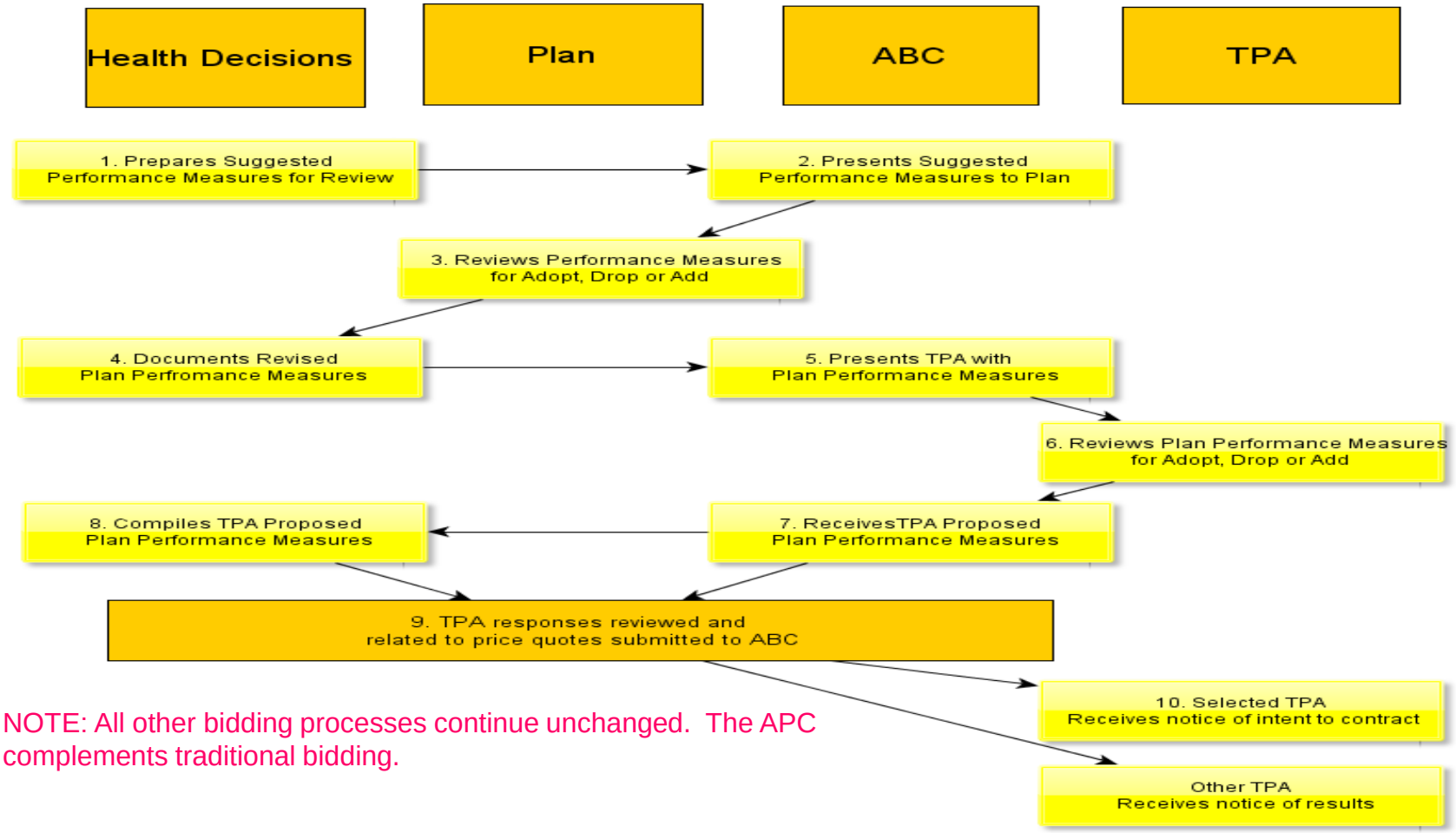
APC Overview (from June 2010 Webinar)

1. Written expectations agreed to by the self-funded plan and TPA.
2. Related to areas of activity the TPA can control.
3. Using specific measures, known to all, to assess whether expectations have been met.
4. With independent monitoring and reporting.
5. Having associated rewards and consequences.

Administrative Performance Contract
Initial Bidding Process



NOTE: All other bidding processes continue unchanged. The APC complements traditional bidding.

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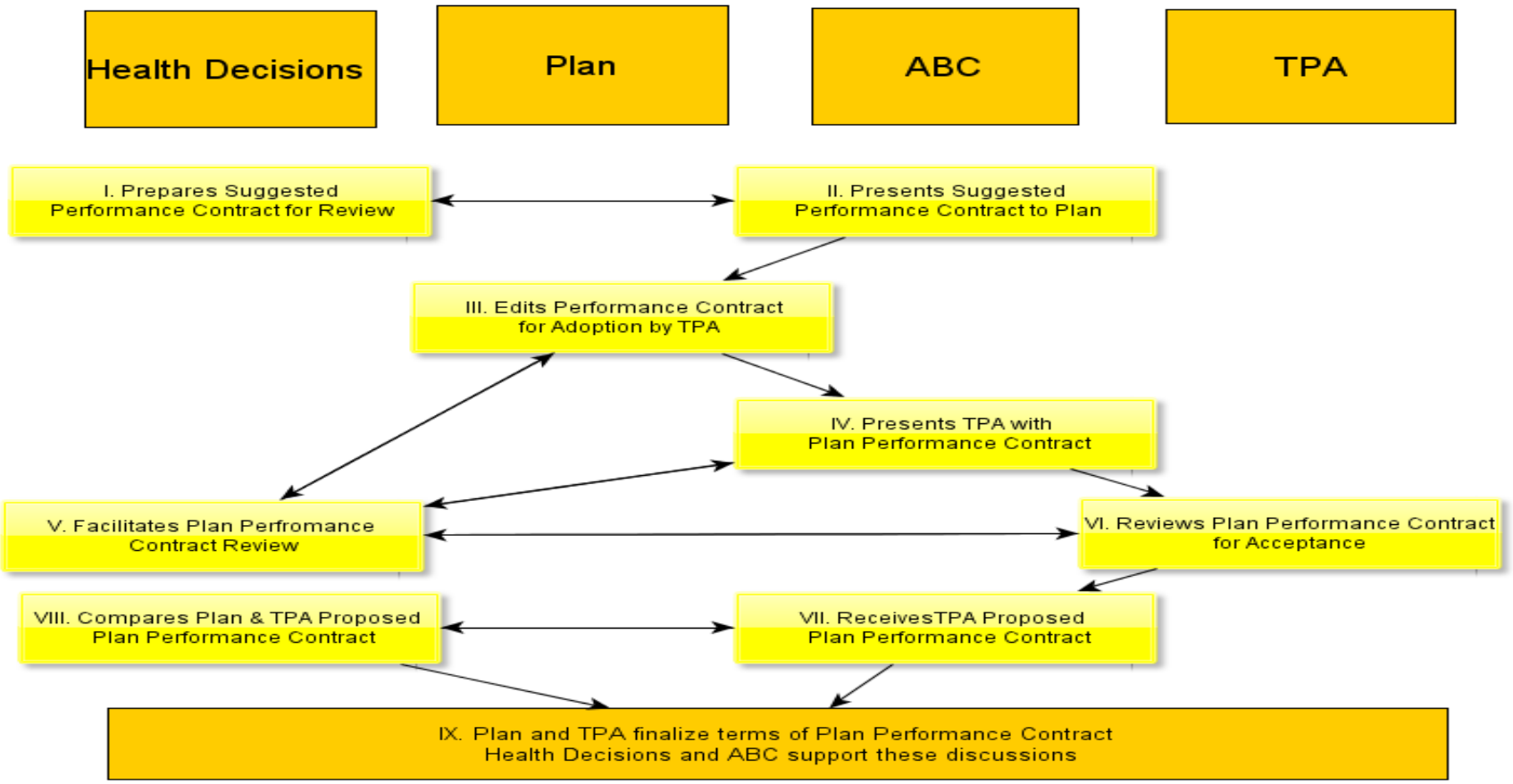
Administrative Performance Contract
Final Contracting



NOTE: All contracting processes continue unchanged. The APC complements existing contracts.

PPI and APC: Sample Results #1

Assumptions:			Estimated Claim Costs	Bidder #1	Bidder #2	Bidder #3
Group Size: 1,000 employees 2,100 enrollees	PPI Index (Medicare = 100)		Inpatient	120	130	150
			Physician	140	142	150
Annual Claim Costs: $7,500,000 Total $5,000,000 Hospital $2,500,000 Physician	Unit Costs		$/Inpatient Case	$4,761	$5,158	$5,951
			$/Physician Service	$595	$604	$638
Use Rate 1,050 Hospital Cases (1 case/2 enrollees) 4,200 Physician Services (2 services/enrollee)	Estimated Totals		Inpatient Claims	$5,000,000	$5,415,900	$6,248,550
			Physician Claims	$2,500,000	$2,546,800	$2,679,600
			TOTAL Claims	**$7,500,000**	**$7,962,700**	**$8,928,150**
			Administrative Performance 50 Client Standards	**Bidder #1**	**Bidder #2**	**Bidder #3**
			Consensus Standards	**0**	**45**	**30**
			Per Employee Per Month Fees	$65	$30	$25
			TOTAL Fees	**$780,000**	**$360,000**	**$300,000**
			TOTAL COSTS	**$8,280,000**	**$8,322,700**	**$9,228,150**

PPI and APC: Sample Results #2

Assumptions:			Estimated Claim Costs	Bidder #1	Bidder #2	Bidder #3
Group Size: 1,000 employees 2,100 enrollees		PPI Index (Medicare = 100)	Inpatient	120	120	150
			Physician	140	140	150
Annual Claim Costs: $7,500,000 Total $5,000,000 Hospital $2,500,000 Physician		Unit Costs	$/Inpatient Case	$4,761	$4,761	$5,951
			$/Physician Service	$595	$595	$638
Use Rate 1,050 Hospital Cases (1 case/2 enrollees) 4,200 Physician Services (2 services/enrollee)		Estimated Totals	Inpatient Claims	$5,000,000	$5,000,000	$6,248,550
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			TOTAL Claims	**$7,500,000**	**$7,500,000**	**$8,928,150**
	Administrative Performance 50 Client Standards			**Bidder #1**	**Bidder #2**	**Bidder #3**
	Consensus Standards			**0**	**45**	**30**
	Per Employee Per Month Fees			$65	$30	$25
	TOTAL Fees			**$780,000**	**$360,000**	**$300,000**
	TOTAL COSTS			**$8,280,000**	**$7,860,000**	**$9,228,150**

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Next Steps

Stage 1:

- Expect resistance from the dominant TPA in your market.

Stage 2:

- Plans getting competitive bids should include the PPI and APC in their bid specs.
- ABCs supporting plan bids should include the PPI and APC as part of their bid support.

Stage 3:

- Use results from the PPI and APC bid process to support monitoring efforts

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For More Information

Contact

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We offer no-cost consultations

to answer questions and discuss options.