



SOCIETY OF ACTUARIES

**Health Spring Meeting
June 2009**

Session # 13 PD: Value Based Purchasing

[David Hom](#)

Moderator:

Greger J. Vigen, FSA, MAAA

The Business Case for Creating a Culture of Health

David Hom LLC

Toronto

June 8, 2009

Managing Expectations

- Themes for Today
 - Demand Side Economics
 - The Business Case for Redefining Wellness
 - The Pitney Bowes Case Study
 - Market update
 - New Products and services

Background on Value Based Designs

- Initiated by Pitney Bowes in the mid 1990's
- Four key principles for members
 - Access
 - Affordable
 - Convenience
 - Quality
- Re assessment of “value” for under growing pressure to minimize resources

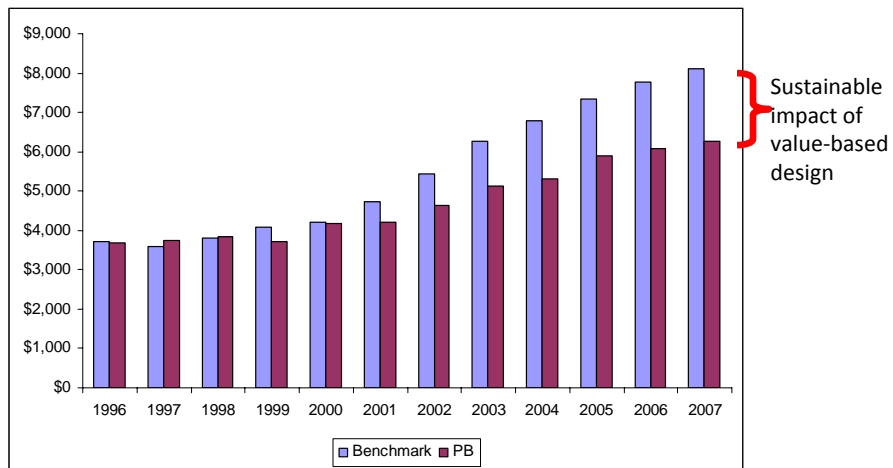
Value-Based Design (VBD)

- Focus on improving population health
 - Increase positive utilization
- Use data to understand the barriers to accessing effective care
 - Financial
 - Administrative
 - Access
- Use a suite of programs to drive behaviors
 - Benefit plan designs
 - Financial incentives
 - Technologies focused on treatment adherence
 - Results-driven disease management

Market Adoption of Value Based Programs- Views from Visiting over 154 Cities in 42 months

- Adoption by these principles across multiple stakeholders
 - Employers
 - Regional Brokers
 - Smaller health plans
- Slow adoption by large health plans, physician groups and hospital systems
- Barrier are many but the keys are
 - Return on investment
 - Systems
 - Commitment to invest

Pitney Bowes Total Annual Cost per Employee vs. Benchmark-50% Reduction in Trend



Source: Pitney Bowes Inc

Total Value Total Return

by Jack Mahoney, MD and David Hom

Seven Rules for Optimizing Employee Health Benefits for a Healthier and More Productive Workforce

- Rule 1: The Health of Your Organization Begins with Your People
- Rule 2: To Realize Total Value, You Must Understand Total Cost
- Rule 3: Higher Costs Don't Always Mean Higher Value
- Rule 4: Health Begins and Ends With the Individual
- Rule 5: Avoid Barriers to Effective Treatment
- Rule 6: Carrots Are Valued Over Sticks
- Rule 7: Total Value Demands Total Teamwork

-Over 50,000 books have been distributed since 2005

Benefit Design: 7 Steps to Value Based Health Benefit Decisions

by Jack Mahoney, MD and David Hom

- 1 Define Value
- 2 Collect Data
- 3 Organize Your Data
- 4 Analyze Your Data
- 5 Target Your Initiatives
- 6 Pitch Your Initiatives to the C-Suite
- 7 Implement Your Initiatives

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Healthcare Market:

Why Health Care Inflation Will Continue At a Multiple of CPI

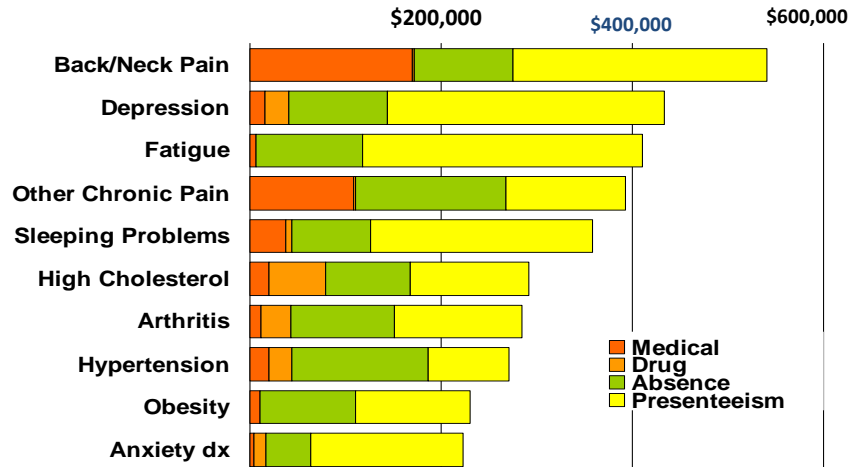
- Inelastic demand and expectations
 - Baby Boomers rapidly growing the 50+ multiple-chronic condition population
- New technologies
 - Biotech pipelines
- Stakeholder incentives are not aligned
 - Paid for sickness
 - No standard reimbursement system
- **Increased volume of chronic conditions**
 - **Population with diabetes will increase by 100% over next 3-5 years**
- **Poor patient adherence**
 - **Patients do not follow their doctors' recommendations**

CFOs' Understanding of the Impacts of Poor Health

- **96%** Higher Medical Costs
- **90%** Employees have more trouble focusing on their jobs
- **86%** More absence, affecting operating performance

Source: *The Business Value of Health*; Integrated Benefits Institute, May 2006

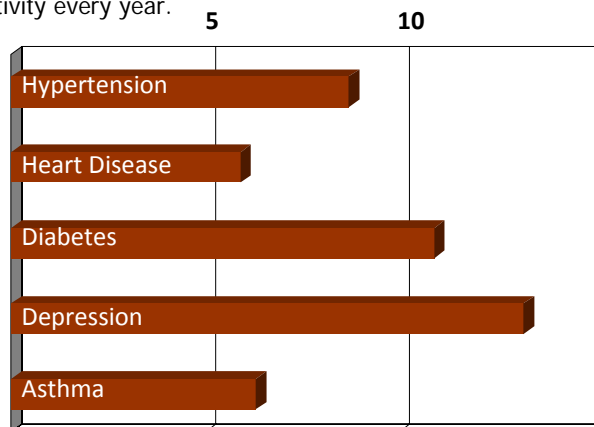
Total Medical, Pharma & Productivity -- per 1000/FTEs --



Source: Loeppke, Taitel, Richling, Parry, Kessler, Hymel, Konicki, JOEM 2007

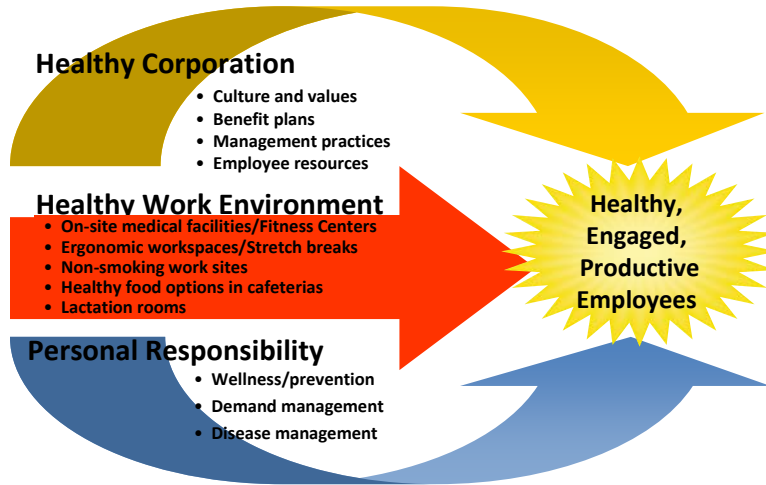
Indirect Costs of Five Major Chronic Conditions

Chronic diseases lead to an estimated 45 million sick days and \$7.4 billion in lost productivity every year.



Source: NCQA. State of Health Care Quality 2007.

Pitney Bowes Creating a Culture of Health: Health Begins and Ends with the Individual



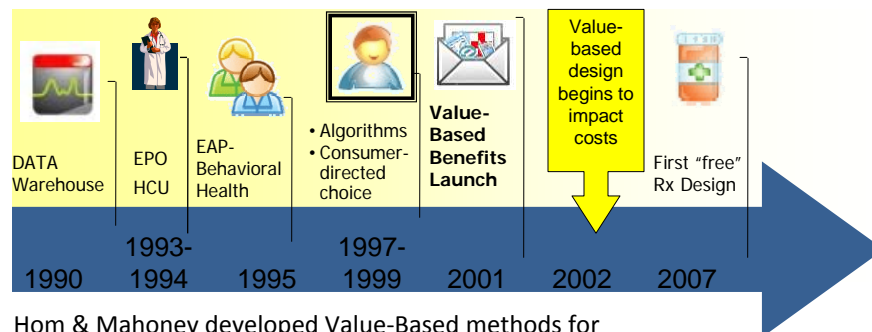
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13

The Pitney Bowes Timeline

17 Years of Innovation Using Plan Design to Change Behavior



Hom & Mahoney developed Value-Based methods for

- Analyzing data
- Designing plans
- Evaluating & selecting enabling technologies
- Forecasting ROI
- Managing implementation
- Measuring results

They realized these methods could be systematized for use by many enterprises

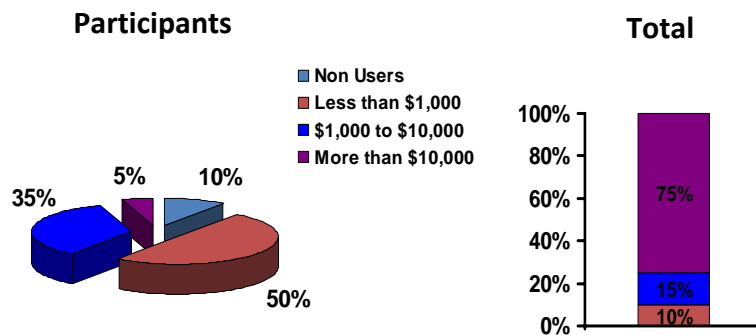
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14

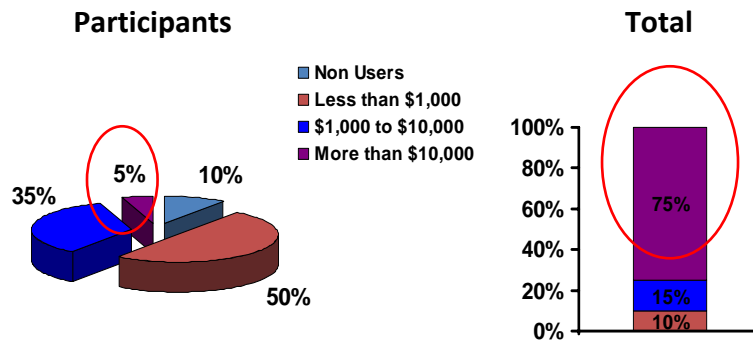
Some of My Biggest Mistakes in Health Care At Pitney Bowes in 2 Decades

- EAP services and vendor selection
- Smoking programs
- Silo focus on health plans data without disability data or workers compensation
- Lack of understanding of the financials across all of the stakeholders
- Delay on pulling together an investment strategy
- Over committing on programs
- Delivered complicated programs

Enrollee Annual Cost Distribution-Data Segmentation-Your cost will look like this



Pitney Bowes Enrollees Annual Cost Distribution: Shift to Management of Nonusers and Low-Cost Users



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17

Benefits Redesign Based on Predictive Modeling: This can be applied to your population

Finding:

Individuals with no exposure to health care system (zero claims) are at high risk of becoming high cost claimants within 3 years.

Response:

Engage people in health care system

- Free or limited cost of preventive/screening services
- First dollar coverage for routine medical care
- Eliminate front-end deductibles
- Robust EAP services

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18

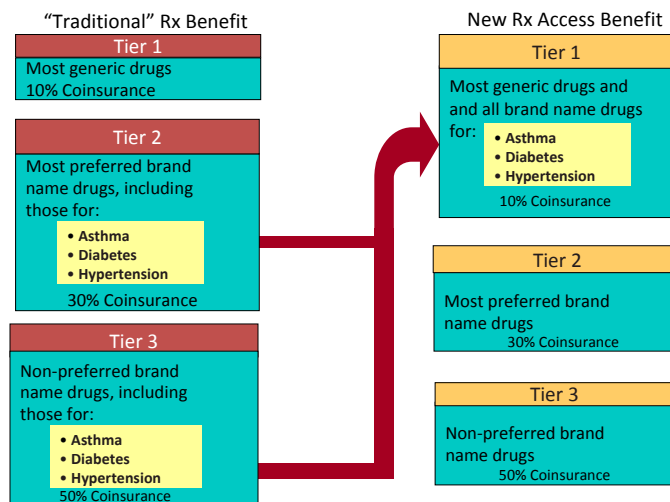
Benefits Redesign Based on Predictive Modeling-This can be applied to your population

Finding:

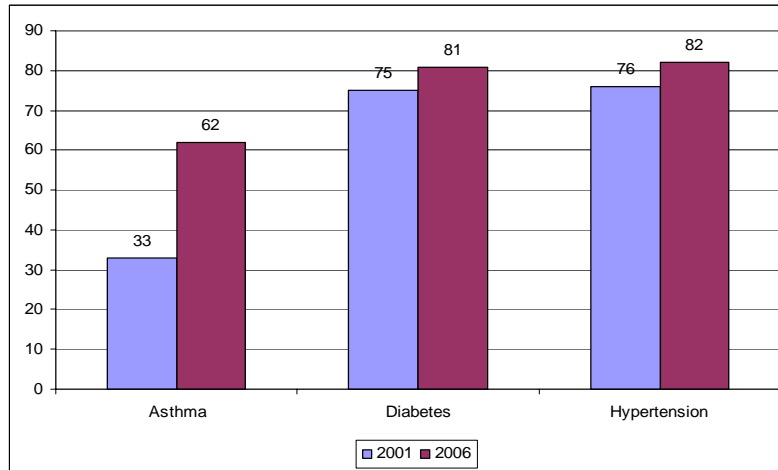
Individuals with chronic conditions and low medication compliance rates have high probability of moving to a higher cost tier within one year

- Asthma
 - More than 1 fill of Albuterol in a 30 day period
- Diabetes
 - Less than 9 30-day fills in a 12 month period
- Hypertension
 - Less than 9 30-day fills in a 12 month period

Solution: Rx Access Benefit Design-January 2002



Five Year Change in Medication Adherence



Step 1 Define Your Objectives

- Key questions
 - The role of healthcare for your law firm
 - Attraction and retention
 - Impact to your brand/reputation
 - The impact of healthcare to disability and workers compensation programs
 - Measure perception value from the employee/member
 - The impact of rising costs to your company's profitability
 - The member experience in using the health plans

Step 2 Creating a Comprehensive Health Care Strategy

- Forecast your health care, disability and workers compensation costs for next 10 years and compare to your profit growth
 - Use any assumption but factor in cost and unit price increases for health care
 - Use salary increases for disability costs
- Present the graphs to your leadership
- Request a multi discipline be assigned to create a strategy document
- Develop a integrated strategy to avoid line item veto's

Step 3 Define the Role of the Key Stakeholders

- Who are the key stakeholders within your law firm and do you have alignment
 - Multi discipline teams across all functions including key opinion leaders
 - Understanding their view and consolidate to an operating plan
 - Reach agreement on short term and long term objectives which could include review of non value services
 - Assess communications channels and segment populations based on their preferences

Step 3-Stakeholders Role

- Use external teams to support programs by assigning accountability for each vendor
- Utilize a vendor day to share objectives and align service agreements
- Have shared goals
- Measure results quarterly
- Use your broker/consultant

Step 4 Organize Your Data-Self Insured Companies

- Look at your employee and dependent data in a holistic way
 - Integrate all your medical claims including physician, hospital visits, rx, labs/diagnostics
 - Census data including family status, income, zip codes for residences and employment locations, full time/part time
- Organize the data using the employee/dependent as the object
- Determine patterns of positive utilization
 - Market share of preventative screenings
 - Market share of physician office visits
 - Compliance for adherence on treatment patterns
 - Compliance for medications for chronic conditions

Step 4 Organize Your Data-Fully Insured Employers

- Ask your health plans, disability and workers compensation carriers the following questions
 - What were the top conditions/costs to your plan 5 years ago vs. today
 - What are the expected conditions and costs for the next 2/3 years
- Assume your population resembles the carriers and your costs and conditions are si

Step 5 Develop your Recommendations and Operating Plans

- Define your key drivers of risks and develop a operating plan answering the following key questions
 - Why Change
 - What will be changing
 - What resources are needed
 - Short and long term metrics
 - Impact to the company and to the employee

Step 5 Creating the Operating Plan

- Communication strategy to reach all stakeholders including the media
- Define and target your inventions in year one
 - Look for low hanging easy to measure programs
 - Asthma and Diabetes vs. cardiovascular conditions
- Keep it simple for execution
- Communicate the metrics monthly
- Be accountable for the program

What's in the Future?

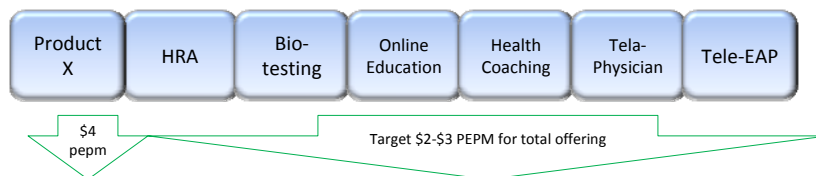
- Software which will integrate all medical/rx claims, wellness data, and productivity data which will be easily to use and deploy at a fraction of today's cost to indentify issues
- Adherence based platforms using web/text messaging creating daily scorecards for consumers and will train them to adhere to the regiment recommended by the doctor
- Re-Insurance Companies will create opportunities for reduced Stop Loss premiums to health plans and to employers who adopted a VBD product
- "Patient Outcomes Contracting" are being tested to modify rebates to pay for improvements to compliance
- Cell Phones for health care navigation and care management

What is in the Future?

- Access Global Health Care delivery for Centers of Excellence with Accredited Hospitals and US trained physicians for targeted populations
 - Countries see this as additional revenue enhancers
- Personal health records will become the norm by connecting with EMR and other applications such as cell phones for diabetics
- Personalization engines with targeted communications to reach patients
- Specialty Disease management programs will grow for very sick patients

Value Based Approach: Productized Example

Integrated Wellness Solution



Total Portfolio offering: \$5 - \$7

Key Takeaways

- The health care market does not behave as one system
- Financials interests are not aligned with all key stakeholders
 - Need to reach stakeholders with simple messages
 - Build the brand
 - Communicate the value proposition
- Create a road map for success
 - Invest wisely
- Move business model from Acute care to Wellness/prevention and to chronic care management

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