

Consumer Driven Health Plans: Implications for Hospitals

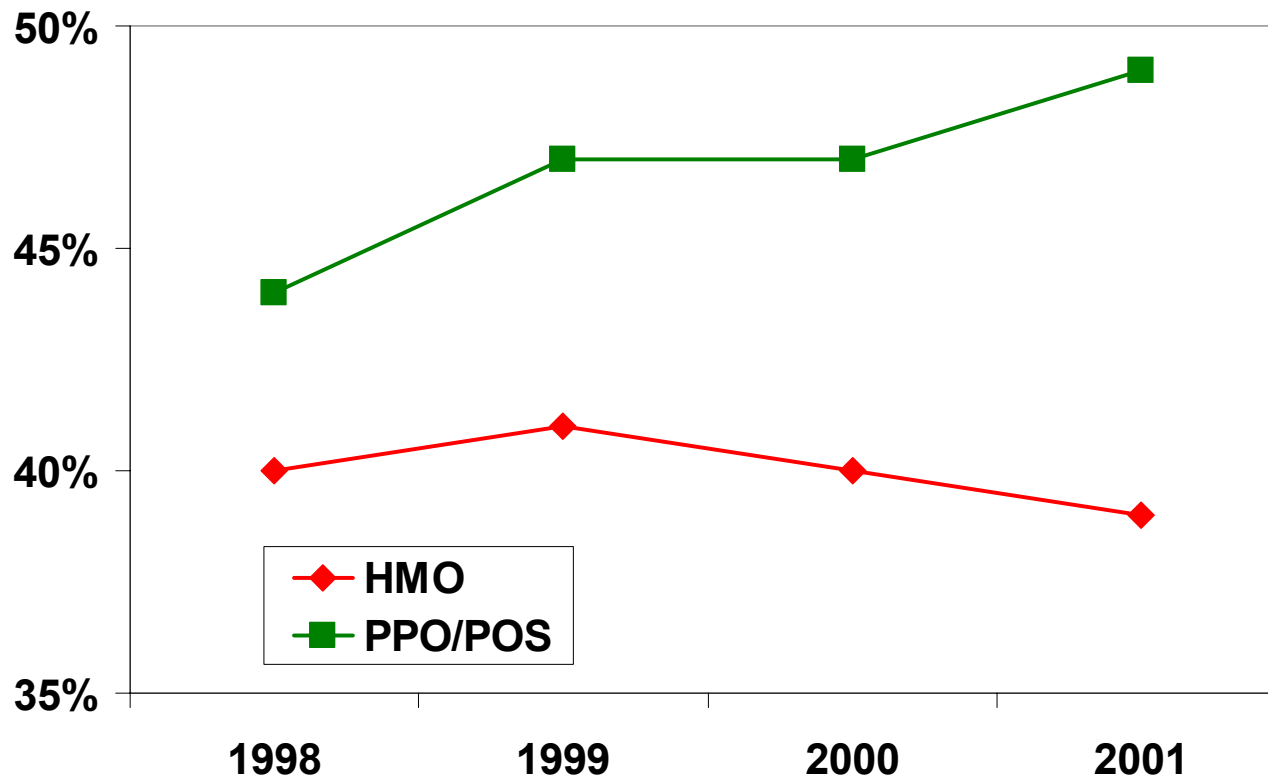
DVHC Seminar

April 21, 2004

DGAPARTNERS
Healthcare Strategy • Finance • Data

CONSUMERS OPT FOR PLANS WITH GREATER CHOICE AND ACCESS

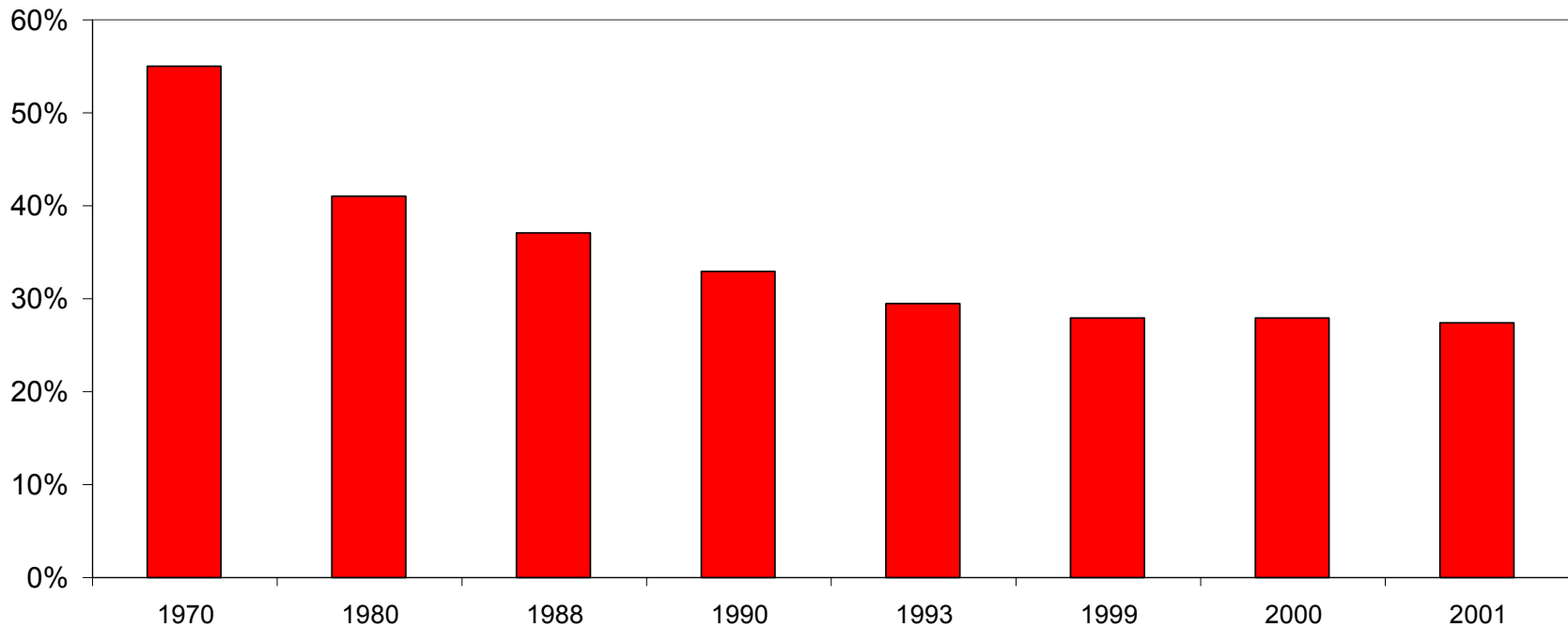
Percentage of Adults with Access to PPO/POS and HMO
(1998 - 2001)



Source: Solucient, National Trends in Health Care Consumerism

INCREASINGLY, OUT-OF-POCKET COSTS BY CONSUMERS REPRESENT A SMALLER PORTION OF THE HEALTH CARE DOLLAR

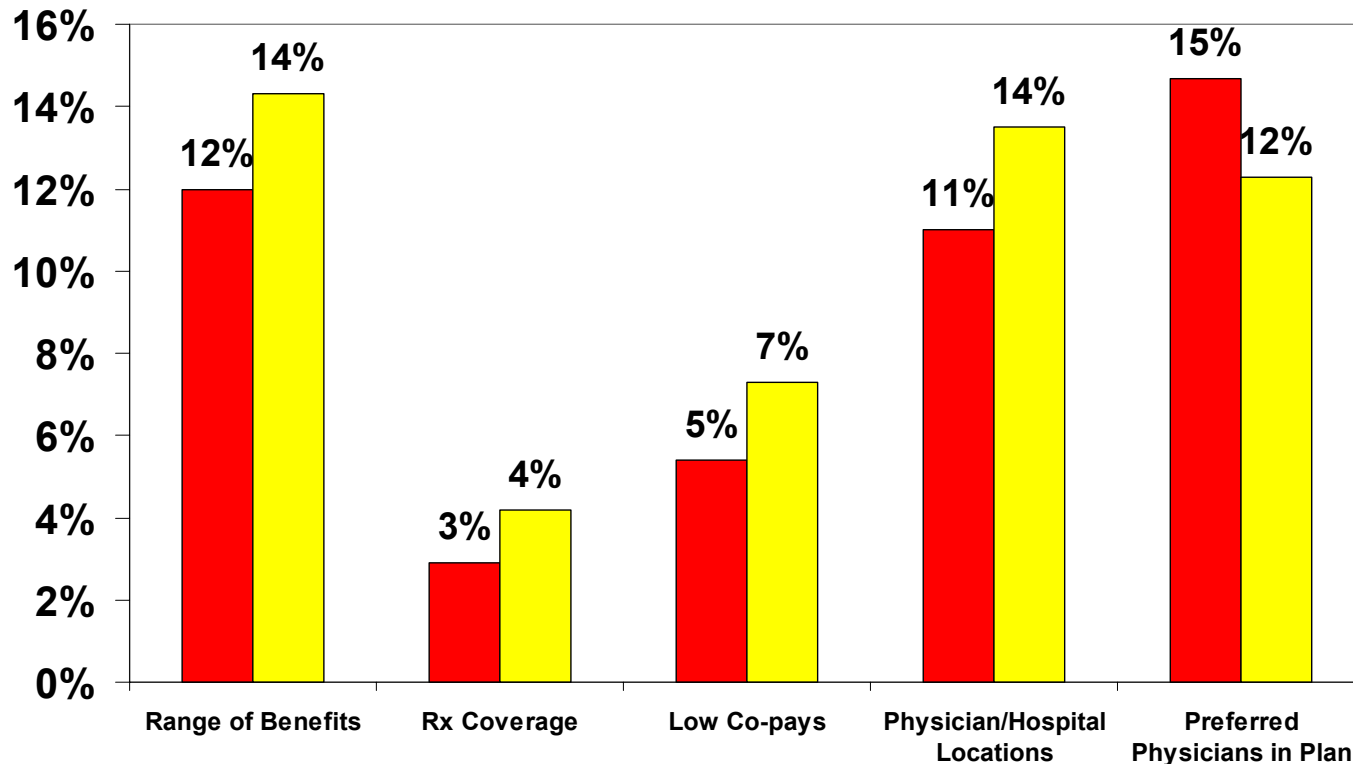
Out of Pocket Costs as a Percent of Private Fund Expenditures



Source: CMS Office of the Actuary, Mercer Human Resources Consulting

BENEFITS, CO-PAYS, ACCESS INCREASINGLY IMPORTANT IN SELECTING A PLAN

Most Important Factor When Selecting a Health Plan

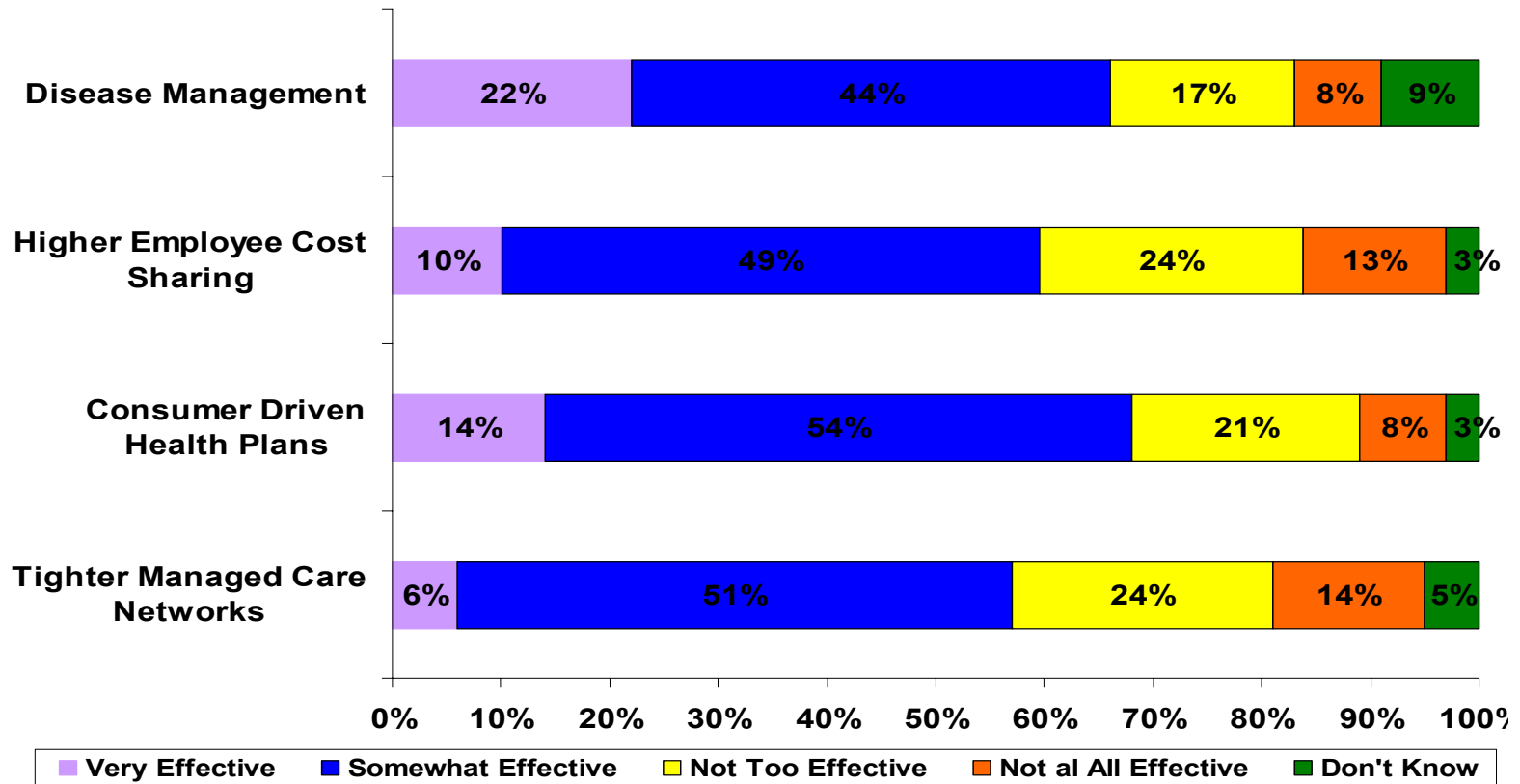


Source: Solucient, National Trends in Health Care Consumerism

■ 1999 ■ 2001

68% OF FIRMS BELIEVE CDHPs ARE VERY OR SOMEHWAT EFFECTIVE IN CONTAINING COSTS

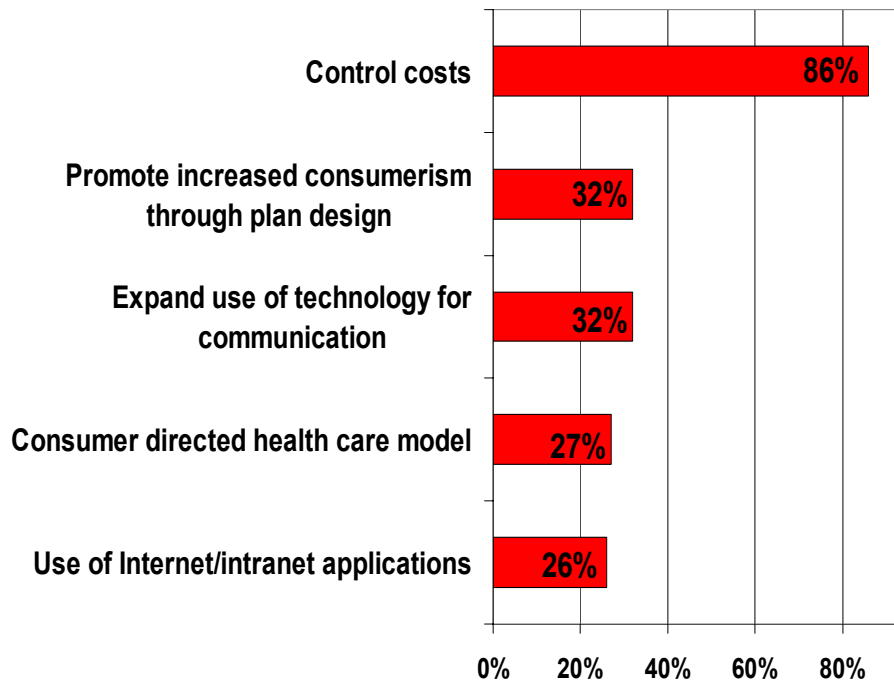
Percentage of Firms That Report Their Opinions on the Effectiveness of the Following Cost Containment Strategies, 2003



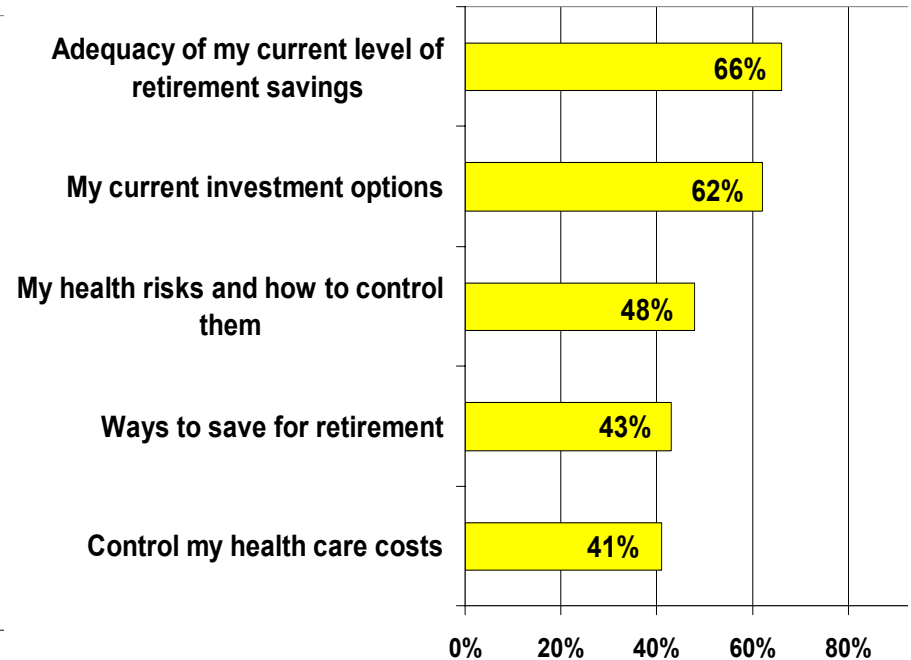
Source: Kaiser/HRET Survey of Employer Sponsored Health Benefits, 2003.

EMPLOYERS AND EMPLOYEES ARE FOCUSED ON CONSUMERISM

Top Five Employer Benefit Priorities for 2004



Top Five Employee Benefit Priorities for 2004



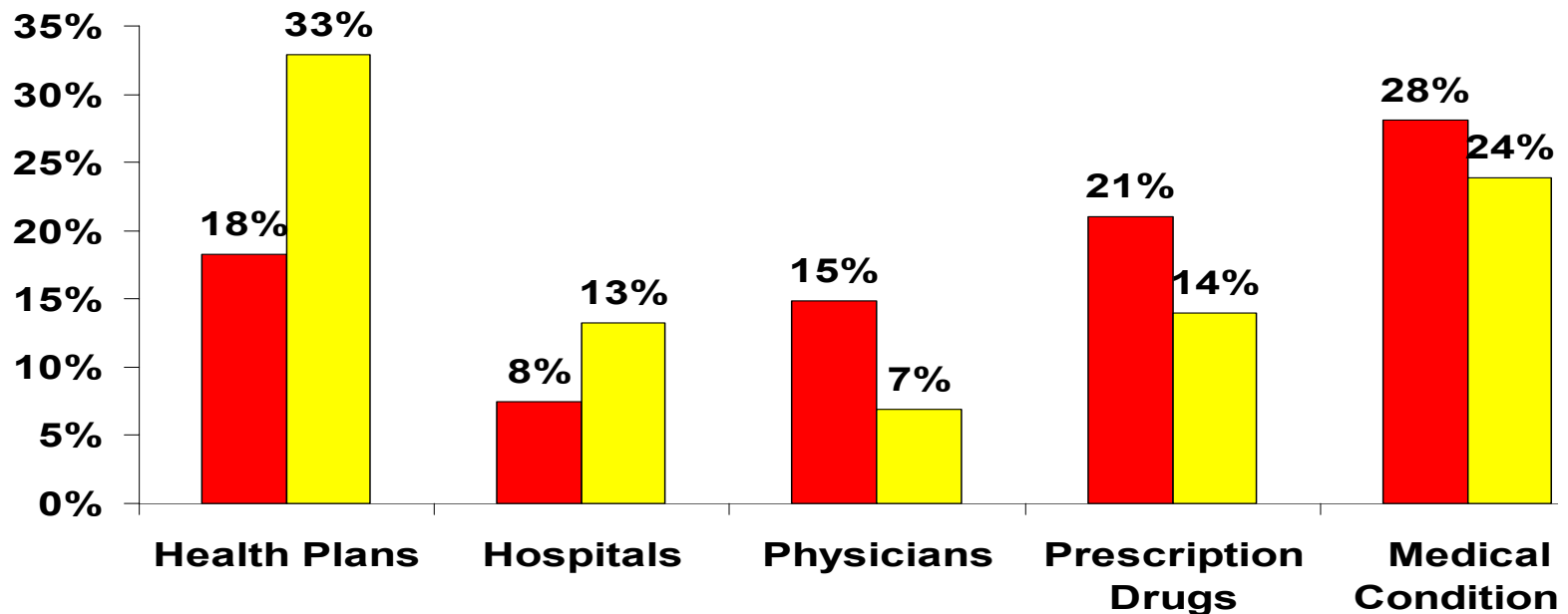
Source: International Society of Certified Employee Benefit Specialists and Deloitte Consulting LLP, Feb., 2004 as published in Medical Benefits, March 30, 2004

KEY TRENDS IN HEALTH CARE CONSUMERISM

- On the rise
- “Quality” influences hospital choice
 - Personal recommendations, rather than on outcomes data
 - National rankings and quality report cards do not significantly influence consumer choice
 - Reputation a major driver, especially at product line level
 - Reports of medical errors and hospital experience in particular procedure
- Reported influencers and actual influencers do not always match – role of physician is changing
 - Influence of physician can vary by service line
 - Greater consumer choice for OB and peds than cardiac, cancer and orthopedics
- Internet primary source of information for younger consumers
- Printed materials are increasingly important for older adults
- Consumer responsiveness to direct mail has increased significantly, while responsiveness to mass advertising has declined

CONSUMERS SEEKING OUT INFORMATION ON HOSPITALS AND HEALTH PLANS

Types of Information Researched by Consumers

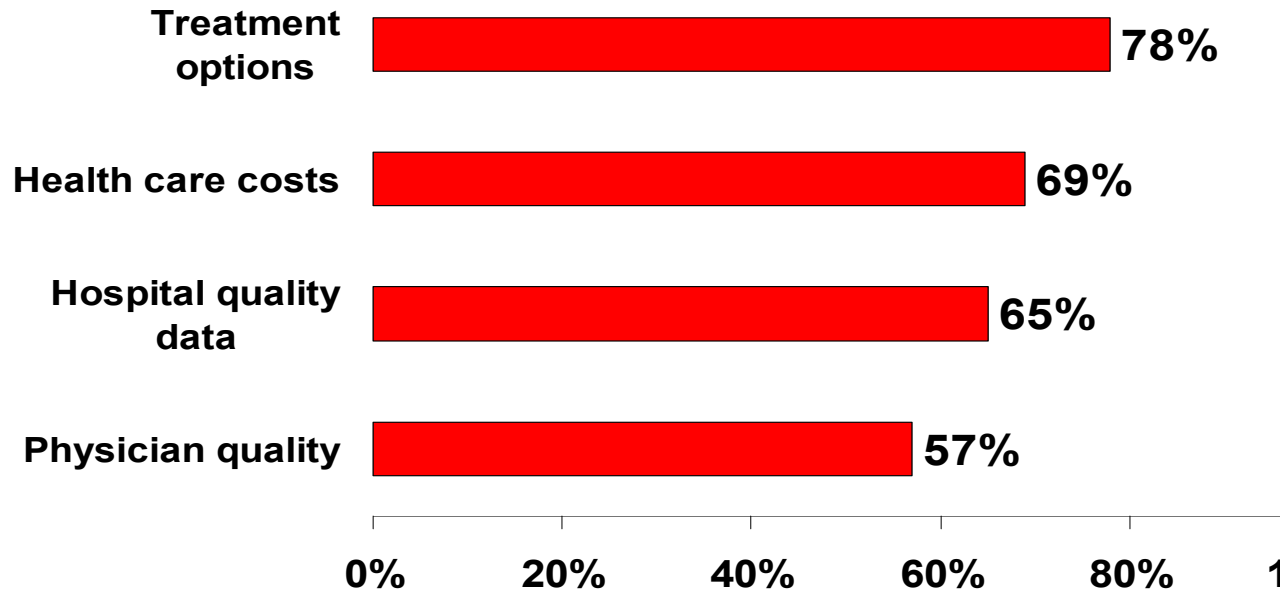


Source: Solucient National Trends in Health Care Consumerism

■ 1999 ■ 2001

CONSUMERS VERY INTERESTED IN COMPARATIVE INFORMATION

Percent of Consumers Ages 18-64 Rating Comparative Information Useful to Their Health Care Decision Making, by Category



Source: The Dieringer Research Group and Pareto Health Group, July 15, 2003 as published in Medical Benefits, November 15, 2003

CONSUMER DIRECTED HEALTH PLANS (CDHPs)

- Increased cost sharing
- Greater choice of cost sharing and benefit levels
- Centrality of information and education
 - Wide variations in provider quality and cost-efficiency
- Internet applications to administer the program
- Medical savings accounts (MSAs), health reimbursement accounts (HRAs) and health savings accounts (HSAs)
- Transition from “wholesale” (insurer controlled) to “retail” (consumer-empowered) market
 - View accounts as their own money

CDHP TRENDS

- 2 million in 2003 and more than 4 million in 2004 in all CDHP type plans
- 500,000 in 2003 and 500,000 to over 1 million in HRA based plans
 - Locally 10,000 enrollees for AETNA
- Doubling expected in 2005
- Employers:
 - Multiple plans are becoming more common
 - Experienced 15-20% enrollment in the first year and anticipate an increase of 5-10 percentage points in years two and three
 - Interested in full-replacement consumer-directed health plans is on the rise
 - Financial incentives motivate human resources staff
- The pace of new adoptions will be slow – wait and see period, more analytical than enthusiastic

CDHP TRENDS

- Provider discounts are increasingly important
 - As insurers develop better consumer support tools
 - They have far better discounts than CDHP specialty companies
 - Anthem, Humana and others offering CDHPs in selected markets
 - More traditional health plans to integrate consumer-directed features, such as hospital or physician quality and/or affordability comparisons
- Shortfall in results because of informational gaps
 - Valid, easily understood performance comparisons among providers – info too broad and vague – need info by service line
 - Lack of research on the form and size of incentives minimally required to motivate consumers
 - Unit price information can be misleading, as compared to episode or year for chronic illness

PAY FOR PERFORMANCE INITIATIVES

- HealthCare 21
 - Employer and provider based coalition in Knoxville
- Major Employer Leapfrog Data Projects
 - Bridges to Excellence in Boston, Cincinnati and Louisville – incentives tied to performance targets
- Here in Philadelphia
 - Major payor offers a quality incentive program

MILLIMAN HOSPITAL PERFORMANCE REPORT

- Employers may use the tool to:
 - Compare performance of individual hospitals
 - Evaluate medical claims experience provider networks
 - Develop proactive contracting strategies with hospitals
 - Support consumer-directed benefit strategies
 - Employ centers of excellence strategies
- Hospitals may use the tool to:
 - Compare performance with their peers
 - Develop market, service and pricing strategies
 - Identify opportunities for improvement
 - Evaluate and compare purchaser contracts and
 - Measure performance over time

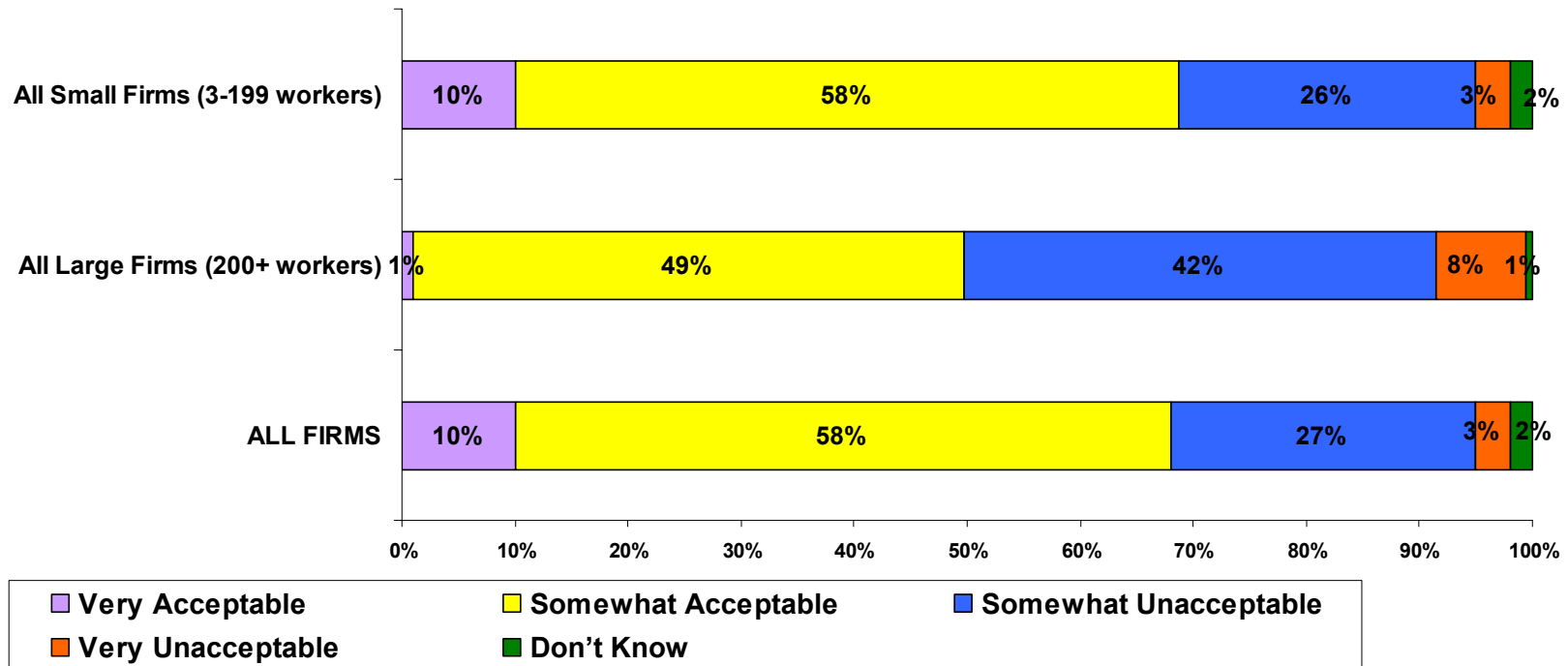
RESEARCH AND STUDIES INDICATE THAT:

“Individuals give more weight to variables that are precise and concrete and less weight to factors that are inherently harder to evaluate..... costs (which are precise and understandable) may outweigh quality factors (which tend to be vague and less well understood)”

Source: Decision Making for Consumer Directed Health Plans, AARP White Paper.

68% OF FIRMS REPORT THAT THEIR EMPLOYEES WOULD FIND TIGHTER NETWORK VERY OR SOMEWHAT ACCEPTABLE

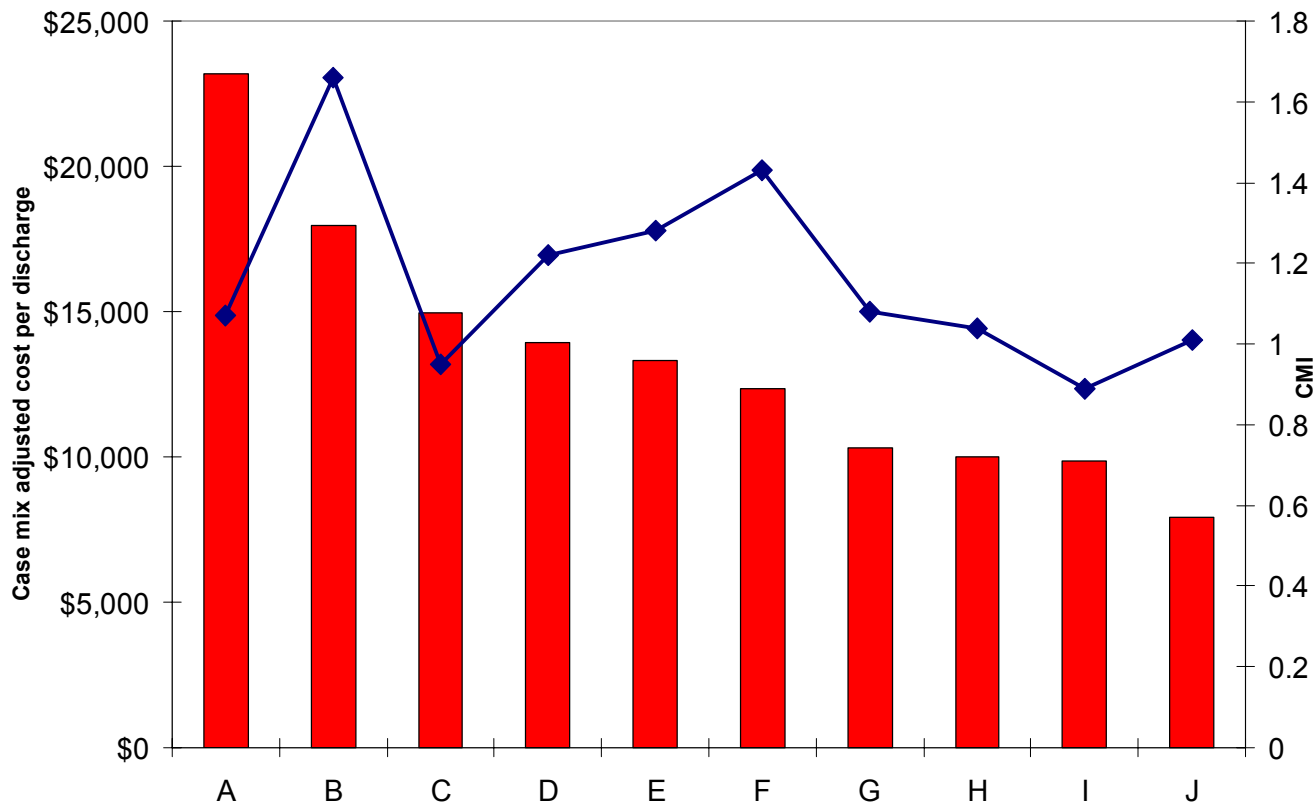
Percentage of Firms That Report Their Employees Would Find Tighter Managed Care Networks Acceptable to Varying Degrees, by Firm Size, 2003



Source: Kaiser/HRET Survey of Employer Sponsored Health Benefits, 2003.

EMPLOYERS AND CONSUMERS MAY STEER AWAY FROM HIGH-PRICED HOSPITALS

High Volume Hospitals for Large Employer in Major Metropolitan Market (CMI Adjusted Cost/Discharge and CMI)

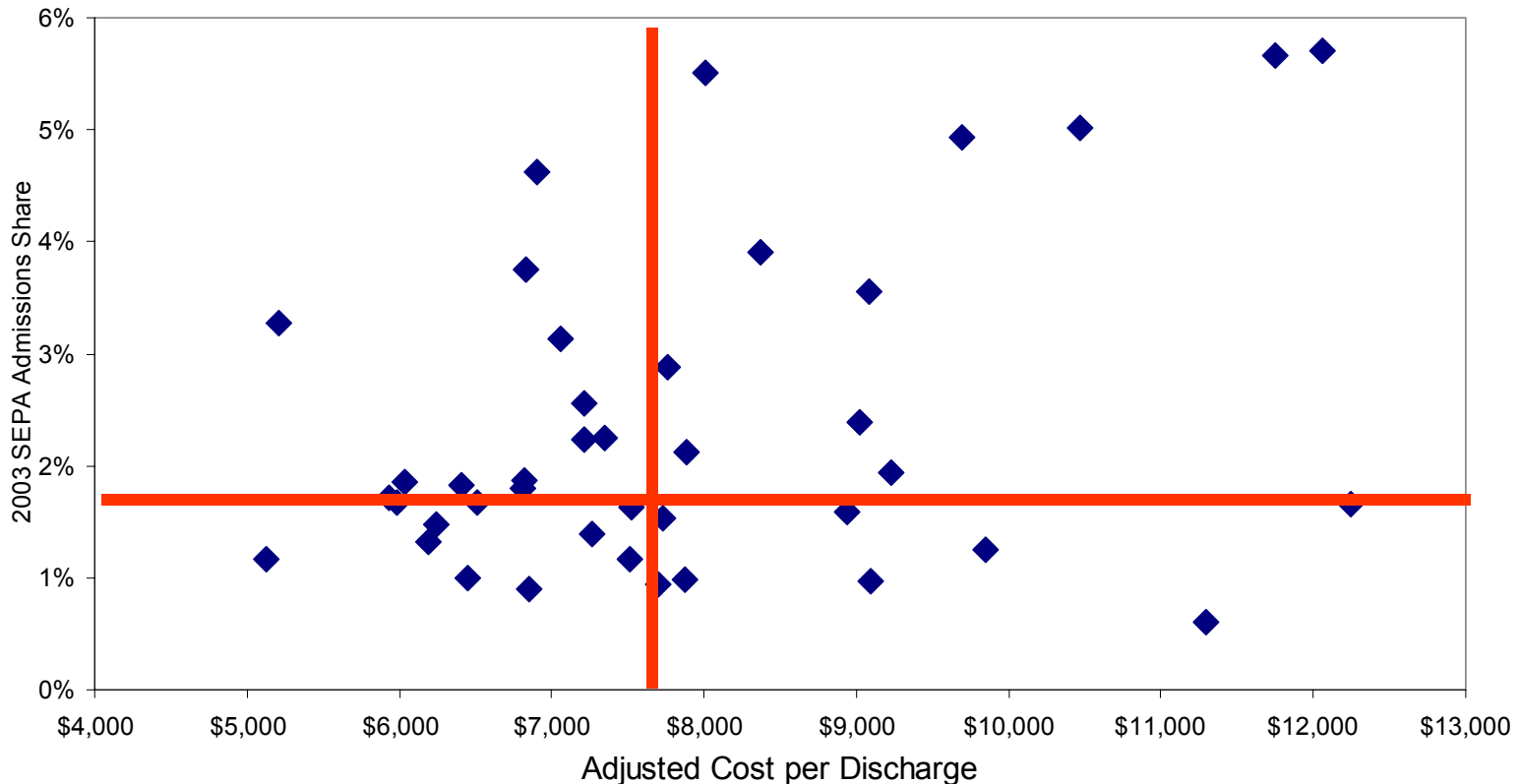


Source: DGA Partners

■ CMI Adjusted Cost Per Case ◆ Case Mix Index

MARKET SHARE COULD SHIFT FROM HIGHER TO LOWER COST HOSPITALS

Admissions Share and CMI Adjusted Cost/Discharge for Southeastern PA Hospitals



Source: DGA Partners Analysis of DVHC and PHC4 Data

DVHC
April 2004

IMPLICATIONS FOR HOSPITALS

- Price intelligently, especially on discretionary services
- Prepare for possible volume declines on elective services
- Offer consumers alternative pathways for resolving problems – outpatient instead of inpatient
- Focus on Service Quality – patient satisfaction, office waiting times items, appt waiting times,
- Focus on Clinical Quality - immunization rates, readmission rates, complication rates, medical error rates, etc.
- Efficient and effective data management is key

IMPLICATIONS FOR HOSPITALS

- Disclose and share quality information,
- Publish your own quality report card and market services based on hard outcome measures
- Support physician report cards
- Experiment with CDHPs for employees