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RESULTS

Six Secrets and Strategies for Reducing Claims Costs in a Self-Funded Medical Plan

May 18, 2005

BENEFITS ADMINISTRATION AND RISK MANAGEMENT SOLUTIONS



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Six Secrets and Strategies for Reducing Claims Costs in a Self-Funded Medical Plan





Common Myths

Myth 1: Non-profit hospitals charge less

Myth 2: Pricing differences between hospitals is minimal



Non-Profit Hospital

SUMMARY

Total Billed: \$5054.25
 Total Benefits Approved: \$1960.88
 Amount You May Owe Provider: \$3117.87

SERVICE INFORMATION

	Service Date	Amount Billed	Not Covered	Covered
Drugs	12-29-04	35.25	17.02 (1)	19.21
X-Ray Services	12-29-04	65.50	28.44 (1)	37.06
X-Ray Services	12-29-04	997.75	466.00 (1)	526.15
Operating Room	12-29-04	3054.75	1303.41 (1)	2105.31
Totals		\$5054.25	\$2375.50	\$2678.75

COVERAGE INFORMATION

Totals	\$5054.25	\$2375.50	\$2678.75
Deductions			
Applied to 2004 Health Care Plan Deductible		500.00	
Your 10% Coinsurance Amount		517.57	
Total Deductions			-517.57
Total Benefits Approved			\$1960.88
Amount You May Owe Provider			\$3117.87

For Profit Hospital

SUMMARY

Total Billed: \$817.15
 Total Benefits Approved: \$47.62
 Amount You May Owe Provider: \$401.81

SERVICE INFORMATION

	Service Date	Amount Billed	Not Covered	Covered
Drugs	01-11-05	85.01	38.25 (1)	17.26
Med/Surg Supplies	01-11-05	97.28	43.78 (1)	53.50
X-Ray Services	01-11-05	230.00	203.11 (1)	126.19
Operating Room	01-11-05	262.15	118.20 (1)	114.24
Recovery Room	01-11-05	112.10	63.24 (1)	77.76
Totals		\$817.15	\$367.72	\$449.43

COVERAGE INFORMATION

Totals	\$817.15	\$367.72	\$449.43
Deductions			
Applied to 2005 Health Care Plan Deductible		306.19	
Your 10% Coinsurance Amount		5.79	
Total Deductions			\$301.81
Total Benefits Approved			\$47.62
Amount You May Owe Provider			\$401.81



Non-Profit Hospital

SUMMARY

Total Billed: \$5054.25
Total Benefits Approved: \$1960.88
Amount You May Owe Provider: \$717.87

SERVICE INFORMATION

	Service Date	Amount Billed	Not Covered	Covered
Drugs	12-29-04	36.25	17.02 (1)	19.23
X-Ray Services	12-29-04	60.50	28.44 (1)	32.06
X-Ray Services	12-29-04	992.75	466.60 (1)	526.15
Operating Room	12-29-04	3964.75	1863.44 (1)	2101.31
Totals		\$5054.25	\$2375.50	\$2678.75

COVERAGE INFORMATION

Totals	\$5054.25	\$2375.50	\$2678.75
Deductions			
Applied to 2004 Health Care Plan Deductible		500.00	
Your 10% Coinsurance Amount		217.87	
Total Deductions			-\$717.87
Total Benefits Approved			\$1960.88
Amount You May Owe Provider			\$717.87



For Profit Hospital

SUMMARY

Total Billed: **\$817.15**
Total Benefits Approved: **\$47.62**
Amount You May Owe Provider: **\$401.81**

SERVICE INFORMATION

	Service Date	Amount Billed	Not Covered	Covered
Drugs	01-11-05	86.04	38.69 (1)	47.35
Med/Surg Supplies	01-11-05	97.28	43.78 (1)	53.50
X-Ray Services	01-11-05	230.00	103.51 (1)	126.49
Operating Room	01-11-05	262.43	118.10 (1)	144.33
Recovery Room	01-11-05	141.40	63.64 (1)	77.76
Totals		\$817.15	\$367.72	\$449.43

COVERAGE INFORMATION

Totals	\$817.15	\$367.72	\$449.43
Deductions			
Applied to 2005 Health Care Plan Deductible		396.52	
Your 10% Coinsurance Amount		5.29	
Total Deductions			-\$401.81
Total Benefits Approved			\$47.62
Amount You May Owe Provider			\$401.81



Common Myths

- Myth 1: Non-profit hospitals charge less
- Myth 2: Pricing differences between hospitals is minimal
- Myth 3: PPO network discounts are the same from hospital to hospital



Net Pricing of Five Hospitals in a Single Market

	A	B	C	D	E
Cholecystectomy (gallbladder removal)	\$10,833.21	\$2,150.00	\$9,027.68	\$2,400.00	\$1,600.00
Vaginal delivery	\$4,761.90	\$4,000.00	\$3,968.25	\$1,200.00	\$1,425.00
Intestinal obstruction and urinary tract infection	\$3,200.94	\$1,800.00	\$2,662.45	\$2,400.00	\$1,600.00
Heart cath	\$26,828.11	\$23,847.20	\$22,356.76	\$6,000.00	\$4,800.00
Pre-term newborn	\$45,910.76	\$40,809.47	\$38,258.97	\$38,258.97	\$40,895.68
ER visit for ear infection	\$572.81	\$540.98	\$477.34	\$509.16	\$477.34
Dialysis	\$12,627.90	\$2,104.65	\$10,532.25	\$11,224.80	\$10,523.25
MRI face/neck	\$2,085.30	\$1,969.45	\$1,737.75	\$1,853.60	\$1,737.75
CT scans of chest, abdomen and pelvis	\$2,085.30	\$4,933.40	\$4,353.00	\$4,643.20	\$4,353.00
Blood work for long-term medicine usage	\$278.10	\$262.65	\$231.75	\$247.20	\$231.75



Secret #1: Shop and Compare

- Predetermine hospital billed charges
- Apply PPO network discounts
- Compare plan amount and out-of-pocket amounts



Employee Out-of-Pocket Comparison

	Hospital A	Hospital B
MRI	\$75	\$210
Blood work for long-term medicine usage	\$60	\$145

Billed Vs. Dispensed





**Secret #2:
It Pays to Audit Hospital Bills**





Example: Negotiated Pricing

Hospital Bill

Kidney Acquisition	\$22,150
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Audit Discovery

Negotiated Rate	<u>\$10,000</u>
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Real Savings	\$12,150
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Example: Typo Overcharge

Hospital Bill

64 Oxygen Units @ \$544	\$34,816
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Audit Discovery

64 Oxygen Units @ \$8.50	<u>\$544</u>
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Real Savings

\$34,272



Example: Validating Services to Doctor's Orders Hospital Bill

Billed hospitalization	\$374,612
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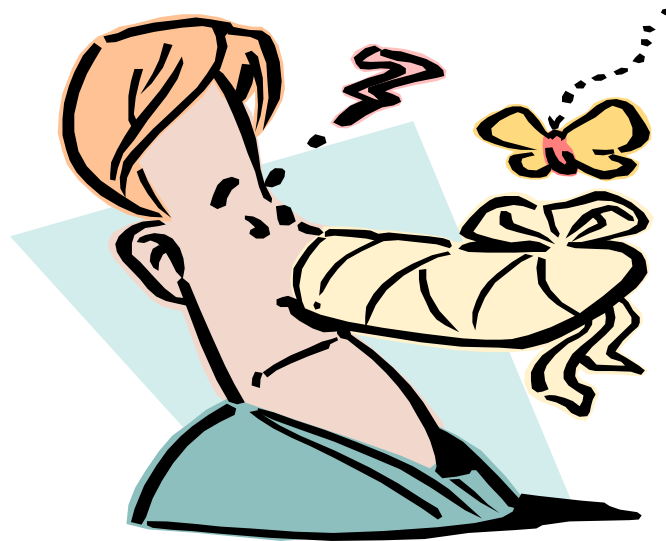
Audit Discovery

Actual hospitalization	<u>\$369,944</u>
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Real Savings	\$4,668
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The Best Hospital Bill Auditor is The Patient!





Determining and Managing Behavioral Health Costs

- One of the major areas contributing to increased utilization and costs of medical services
- Affects total labor costs in numerous areas
- Severity is underestimated by most employers



Health Enhancement Research Organization (HERO) Study

- Over 46,000 employees surveyed
- Ten risk factors applied to study
- Stress and depression were two of the factors
- Over 20% screened in this group
- Their claims averaged almost 49% more than the other 80%

Wall Street Journal - 12/31/03



High Cost of Depression

Economic burden of depression		
TYPE OF COST	2000 COSTS (in billions)	CHANGE FROM 1990
Inpatient	\$8.88	-33.6%
Outpatient	\$6.80	+46.9%
Pharmaceutical	\$10.40	+452.5%



Employee Benefit News - “Prozac Nation” 3/1/02

- In 2000, in terms of revenue, three of the top eleven prescription drugs were antidepressants
- Majority of the prescriptions are written by primary care physicians
- With prescriptions alone, many patients are not receiving effective treatment
- Many patients seek treatment for a short-term problem and end up with long-term drug therapy



Other Labor Costs Impacted by Stress and Depression...

- Absenteeism - In 2002, 15% of payroll
- Disability - Depression 2nd leading cause of LTD and STD claims for Met Life
- Presenteeism - Estimated to cost U.S. businesses \$150 to 180 billion annually
- Accidents - Workers' Compensation
- Turnover - Costs to train new workers



Pharmacy Intervention Program

(patent pending)

- Using targeted drug reports (from PBM), identify a significant percentage of those experiencing symptoms of stress, anxiety, and/or depression
- Through plan design for drug co-pays, motivate a majority to contact EAP
- Provide an intake and screening to identify candidates for the program
- Through plan design, motivate the identified candidates to participate in the program, which may include EAP counseling



Pharmacy Intervention Program

(patent pending)

- Provide ongoing screenings (as part of compliance) to track improvement
- Motivate a percentage of participants receiving name-brand medications to switch to generic
- Reduce the number of participants in long-term drug therapy through effective treatment that addresses the cause
- Track overall medical claims going forward and compare to past medical costs
- Coordinate with predictive modeling

Secret #3: Pharmacy Intervention Works



- The proof is in the drug report
 - Where do antidepressants fall in cost and number of scripts?
 - Are the majority of prescriptions brand-name?
 - Are participants using the medications long-term?
- Pharmacy Intervention Program
 - A savings rather than an added cost, both short-term and long-term
 - Produces healthier, more productive employees



Healthy Employees Are Less Costly and More Productive

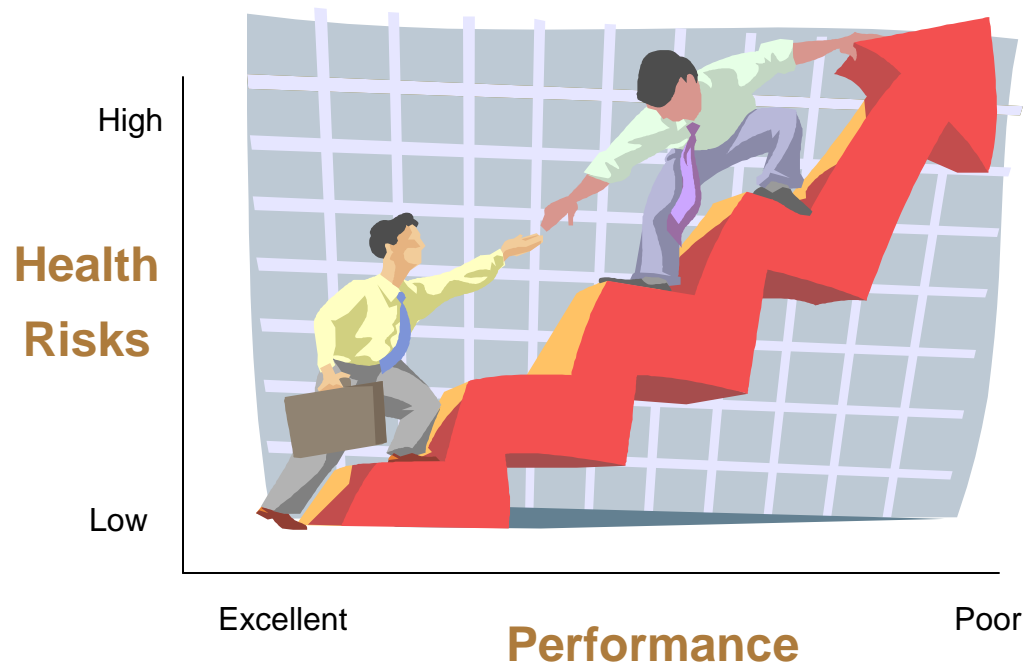




**Investment in Health
Rehabilitation : Good**

**Investment in Health Promotion:
Priceless**

As Health Risks Increase, Performance Declines





Health Promotion Works

- Improve morale
- Retain workers
- Attract workers
- Improve productivity



Medically high-risk employees are medically high-cost employees

- Smokers: 31% higher claims costs
- Overweight: 143% higher hospital utilization

Source: Chrysler Corp. and UAW Study



Mandatory Prenatal Classes

Results:

Maternal and Newborn Care Costs Down 86%

Source: Sunbeam-Oster Co. Study



Flu Shots Work

Results:

Lost Workdays Down 43%

Source: U.S. Department of Labor

Incentives Work





Promote Healthy Living

- Subsidize fitness center membership



Promote Healthy Living

- Subsidize fitness center membership
- Bring healthy living into the workplace



Promote Healthy Living

- Subsidize fitness center membership
- Bring healthy living into the workplace
- **Make wellness more than an annual event**



Promote Healthy Living

- Subsidize fitness center membership
- Bring healthy living into the workplace
- Make wellness more than an annual event
- **Embrace Healthy People 2010**



Secret #5: Obtain Value for Money in Prescription Drug Benefits



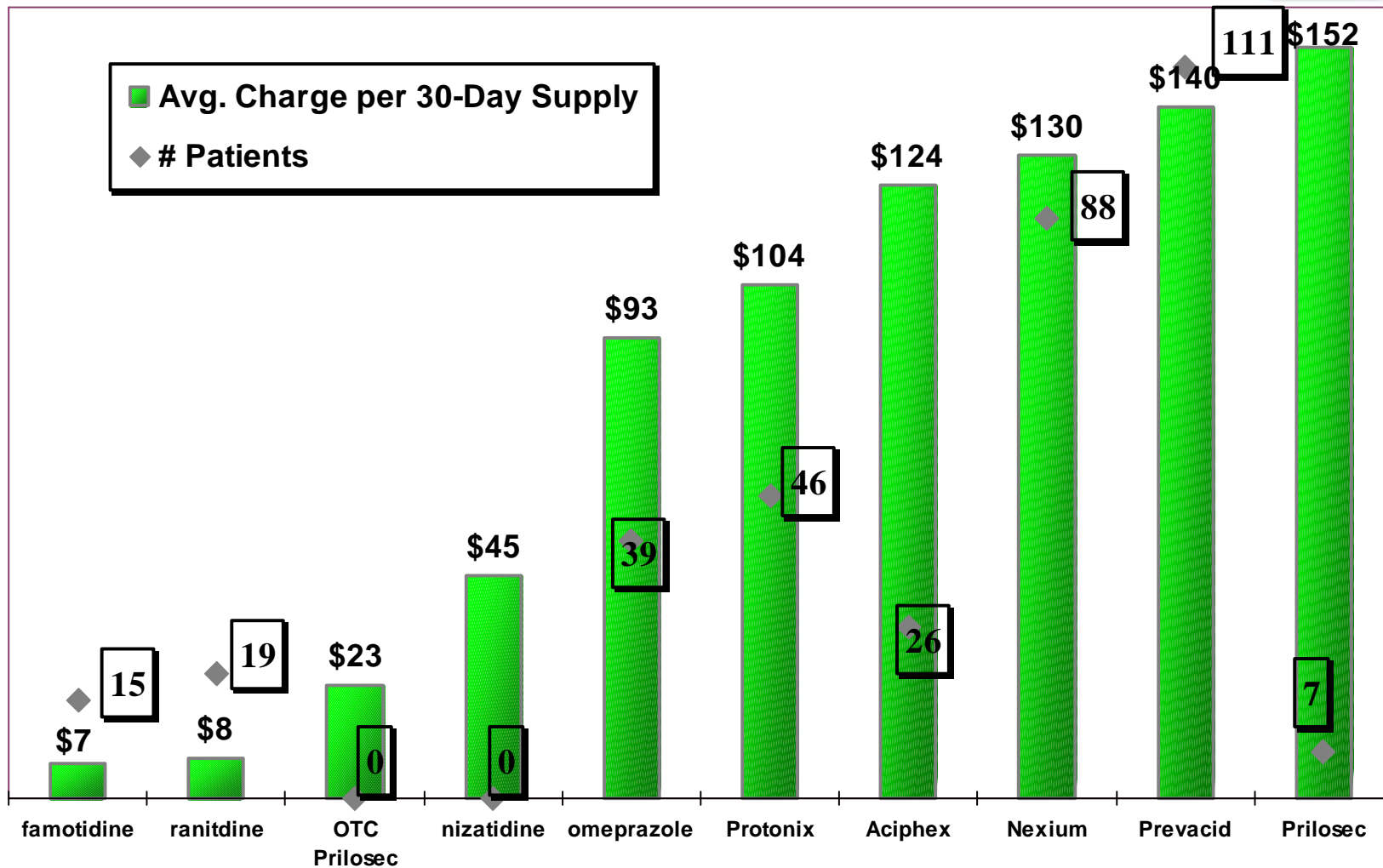


Secret to Maximum Value for Money in Rx Benefits

1. The U.S. is the only developed country in the world that permits direct-to-consumer advertising.
2. DTCA spending was \$4B in the U.S. in 2004, but this was dwarfed by the Rx promotional spending on physicians (>\$16B).
3. Money, a low net-cost drug formulary and information are necessary to counter this promotional spending.
 - a. “money” in the form of price sensitivity among drug plan beneficiaries
 - b. Information at the point of care regarding the relative value of interchangeable drugs
 - c. Low net-cost drug formulary (vs. rebate-centered drug formulary)

Heartburn Drug Therapy

XYZ Company - 6 months ending 04.30.05



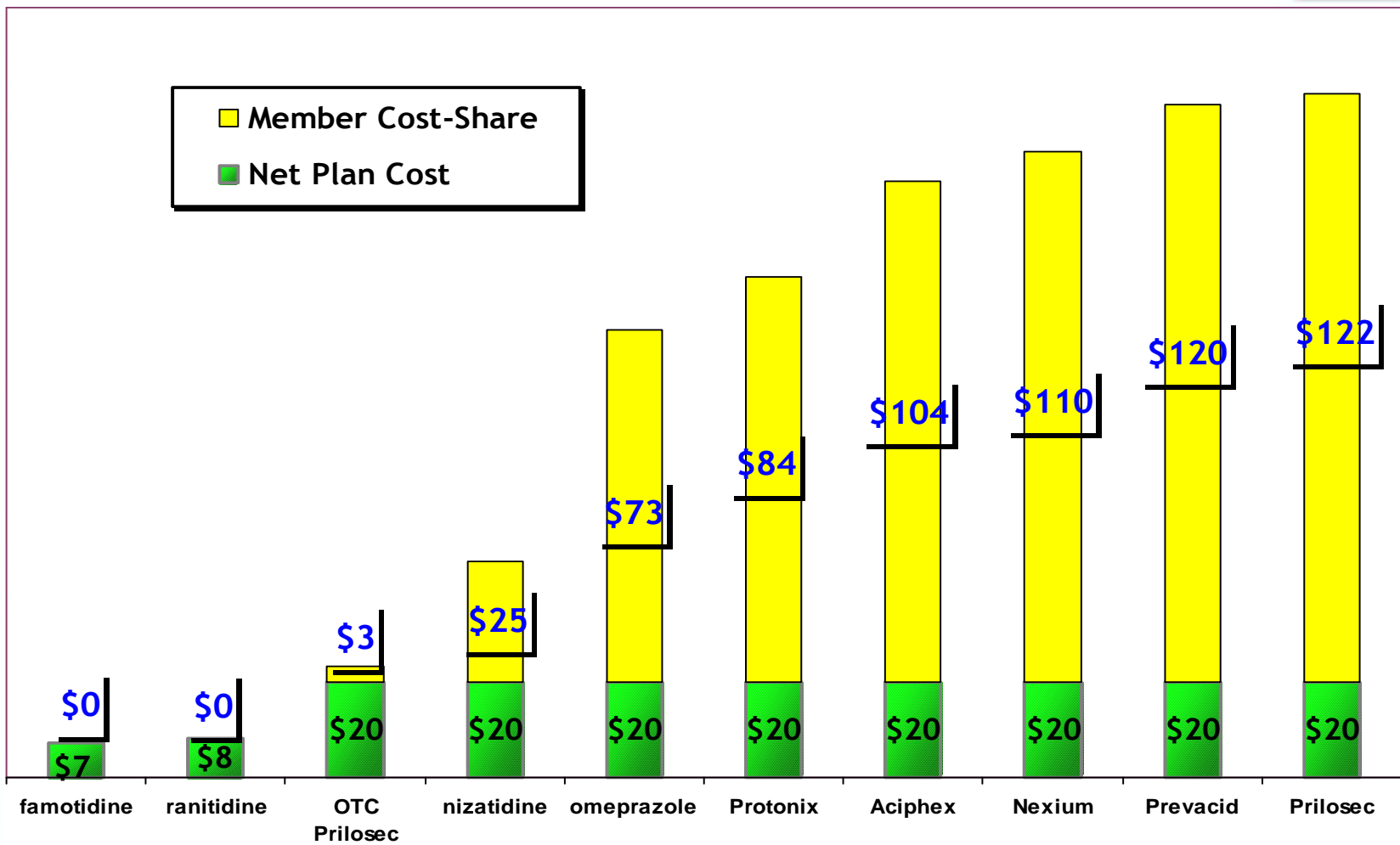


Optimum Drug Benefit Design

- 3-tier copay design
 - tier-1 copay: \$5 (generic drugs)
 - tier-2 copay: \$20 or 20% (formulary brand drugs)
 - tier-3 copay: \$40 or 40% (non-formulary brand drugs)
- 30-day maximum supply
 - 90-day supply of maintenance drugs at mail for greater of 2X dollar copays or 20% for tier-2 drugs and 40% for tier-3 drugs
- t-MAC overlay for key therapeutic categories



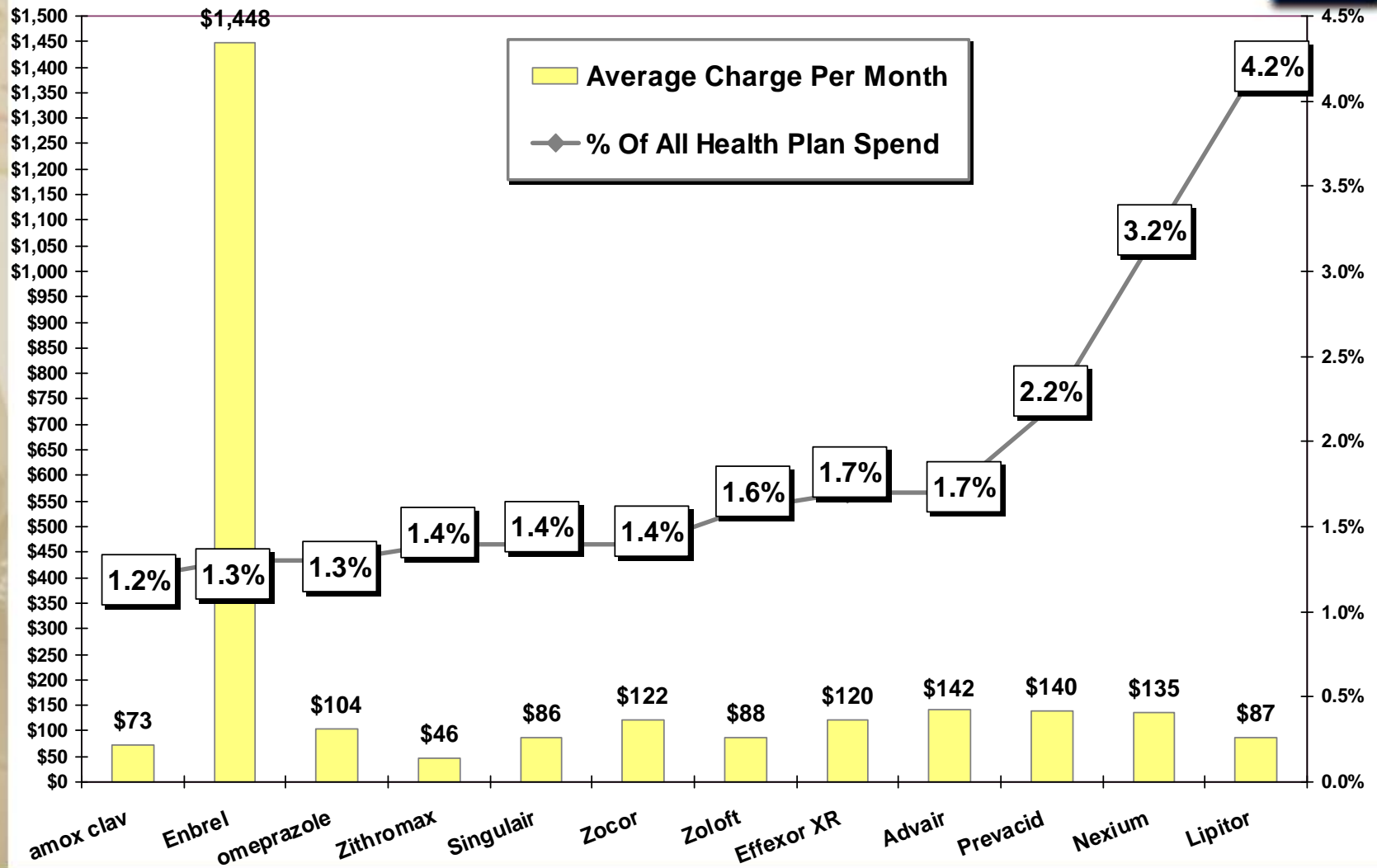
Therapeutic MAC - \$0.67 per day of therapy - heartburn XYZ Company - 6 months ending 04.30.05





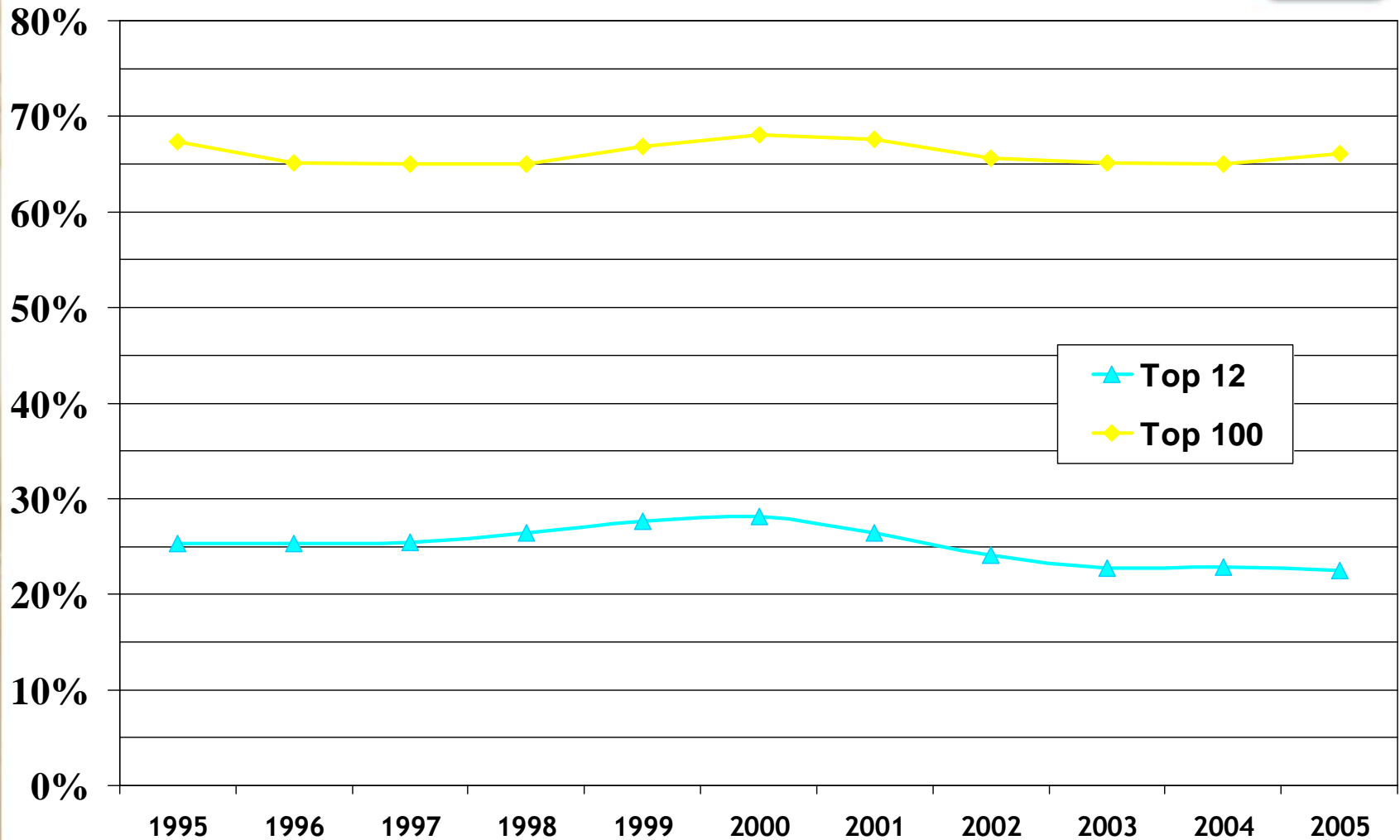
Top 12 Drugs By Expenditure

Average Charge per 30-day Supply - 3 months end 03.31.05



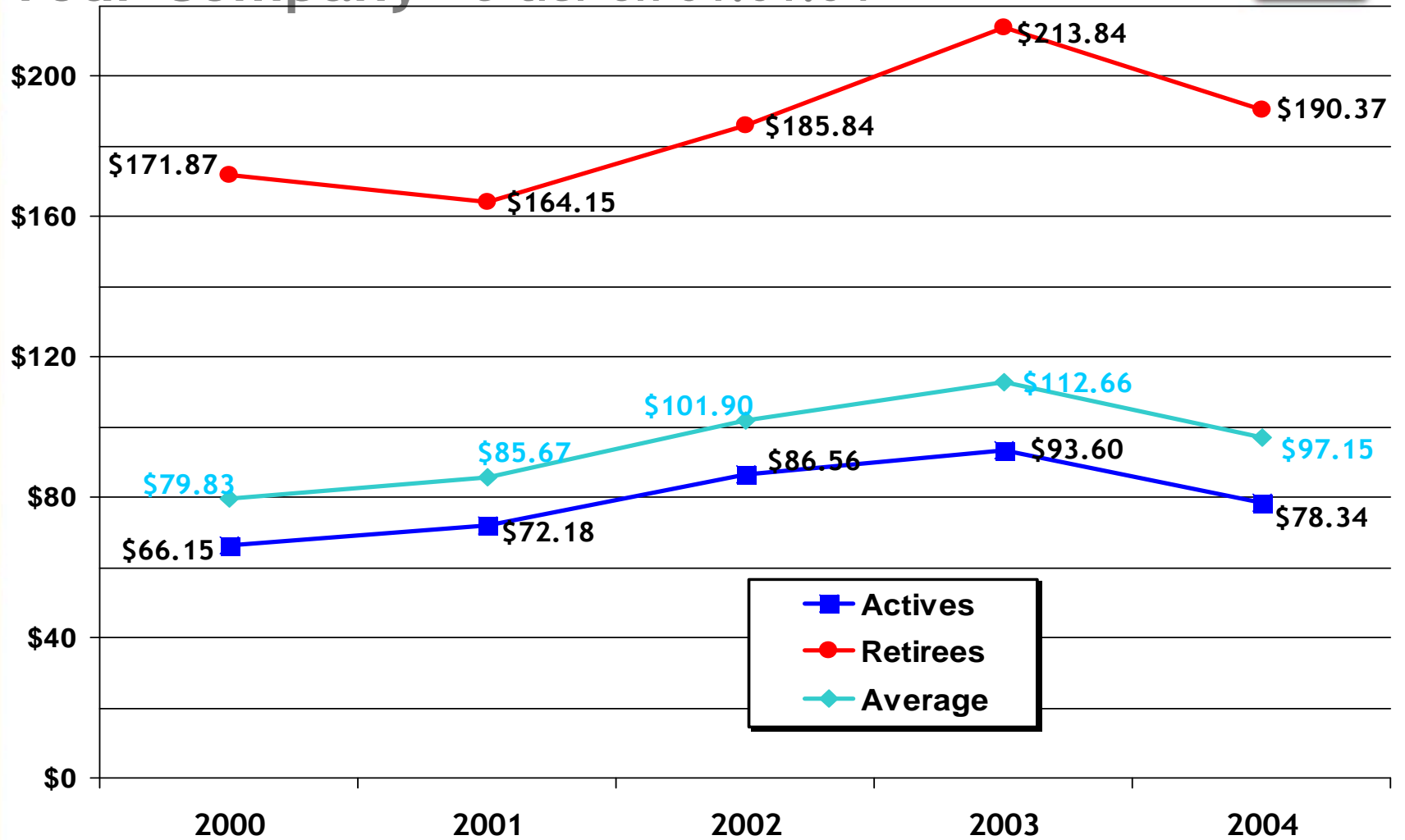


Ratio of Top 12 and Top 100 Drugs To Total Rx Benefit Expenditures





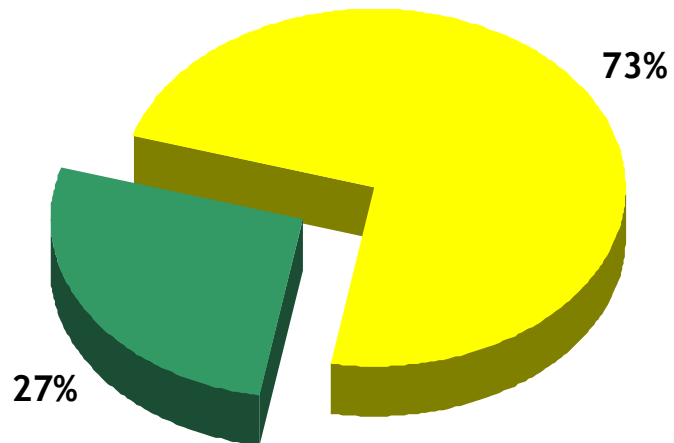
Per-Employee-Per-Month (Net) Cost Trend Your Company - 3-tier on 01.01.04



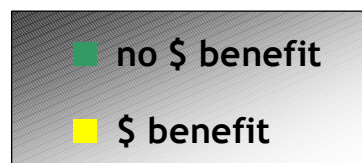
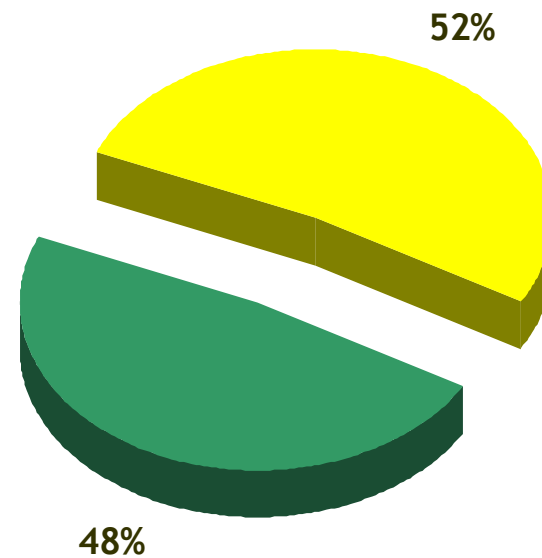


Effect of \$100 and \$200 Annual Rx Deductibles on Beneficiary-Users

\$100 Annual Deductible



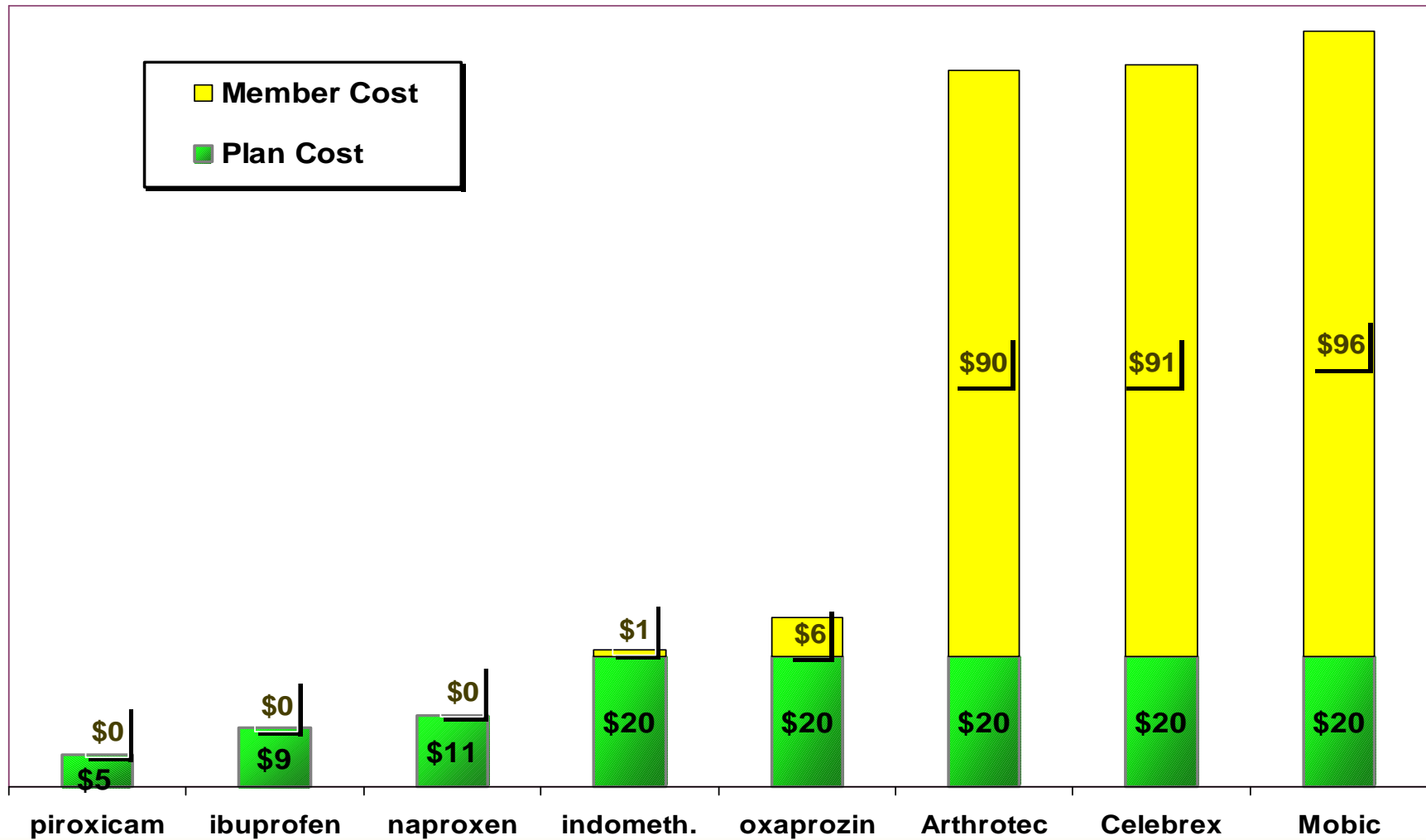
\$200 Annual Deductible





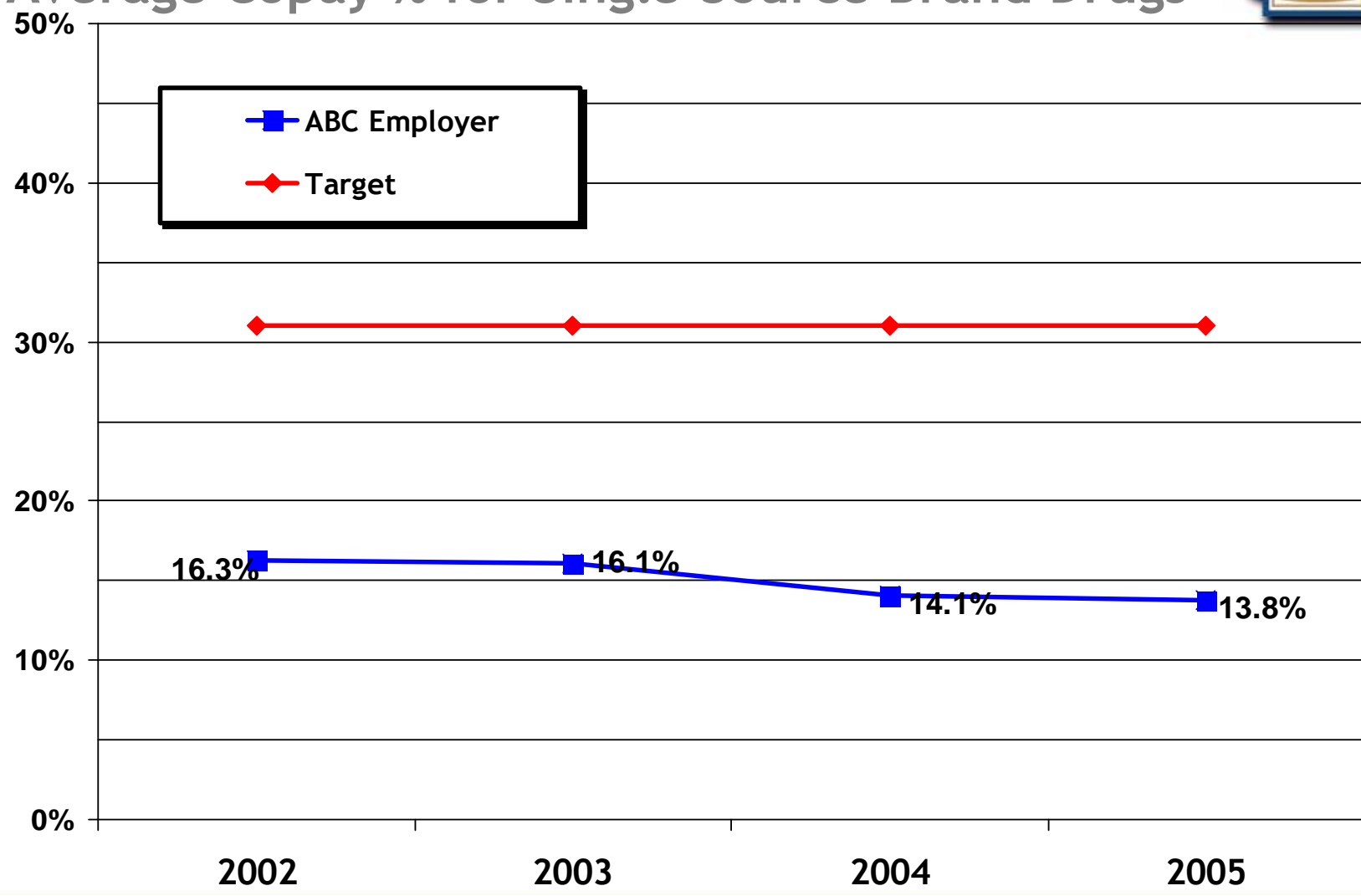
COX-2/NSAID Drug Therapy: t-MAC

Your Health Plan - 3 months end 03.31.05 (\$0.67 per day)





ABC Employer Average Copay % for Single-Source Brand Drugs



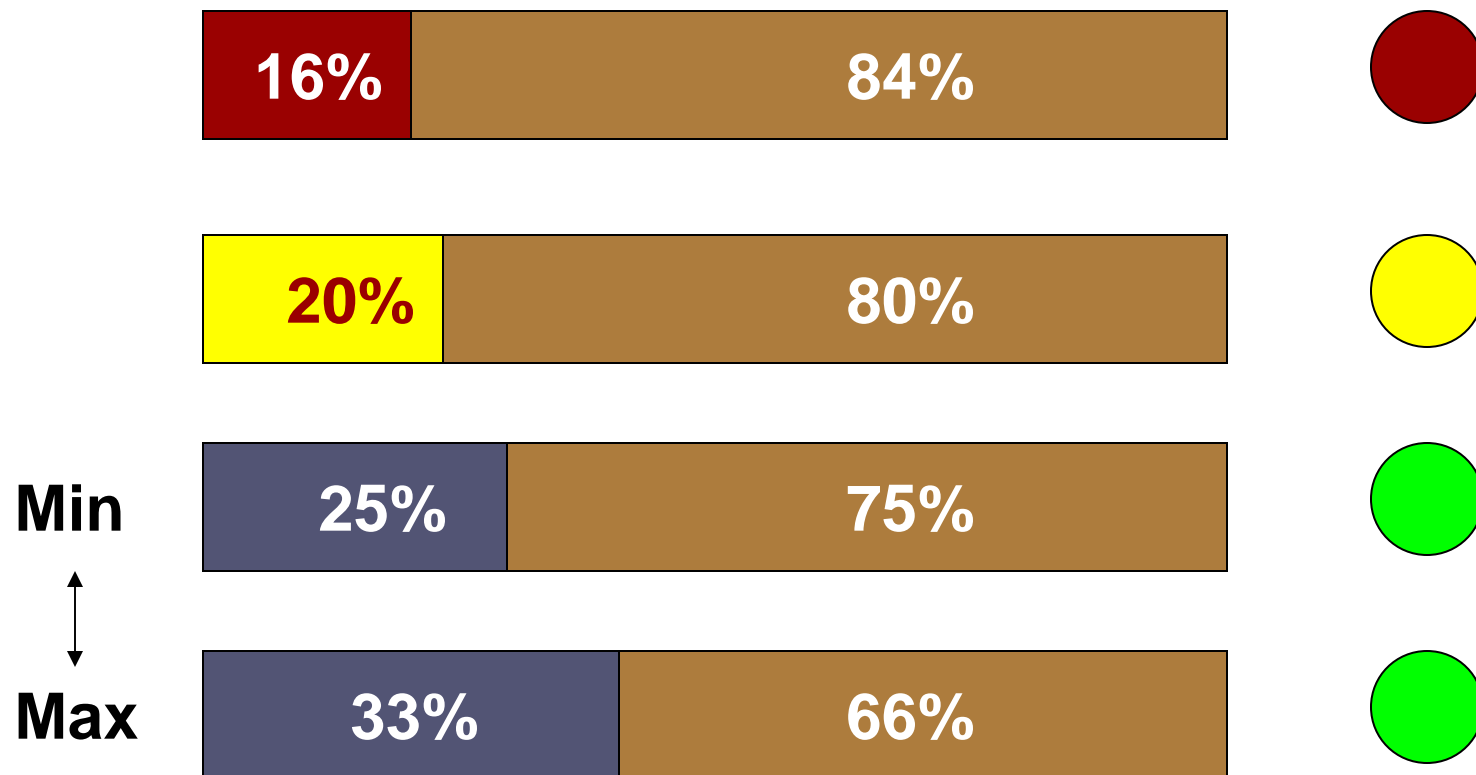


Secret #6: Benchmark Your Plan's Performance





Benchmark: Individual Paid vs. Plan Paid



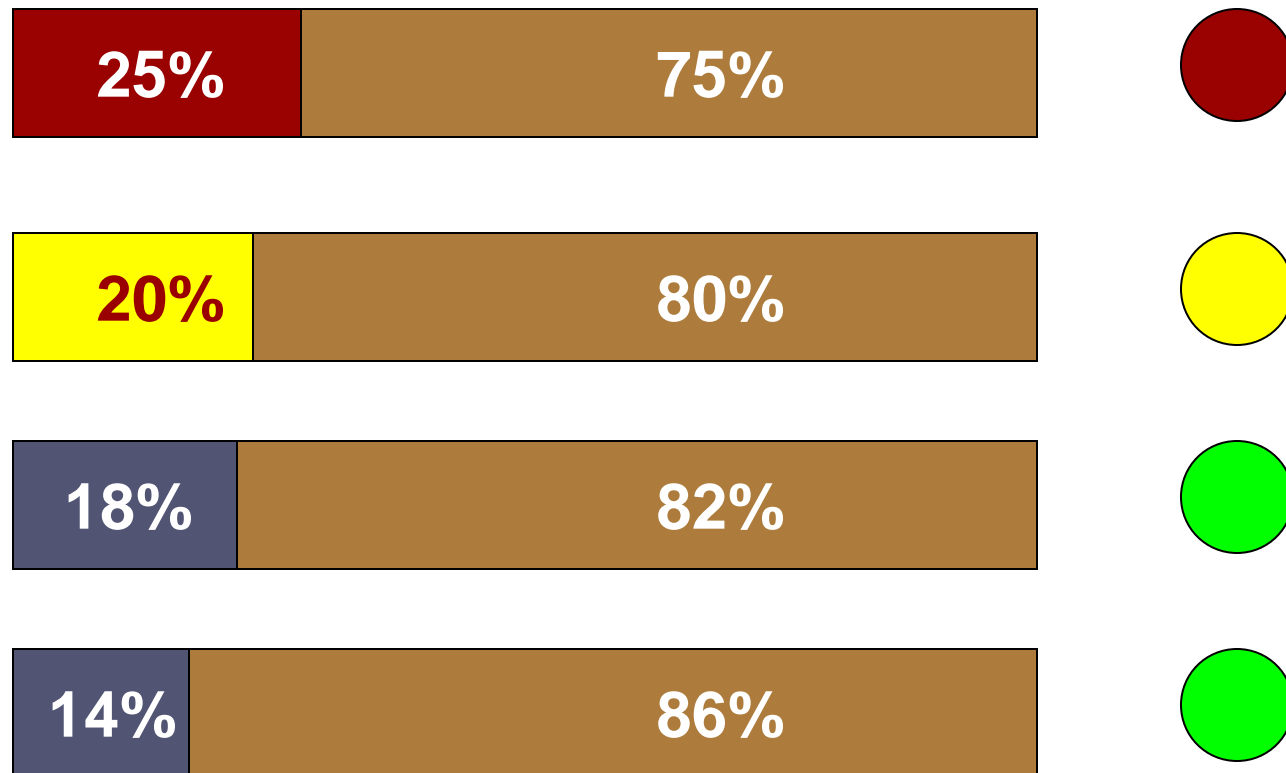


Potential Fixes

- Adjust deductibles and maximum out-of-pocket amounts
- Adjust copays annually
+ show employees the % the plan pays vs. individual pays
- Adjust coinsurance for OON access
(from 90/70 to 90/60; from 80/60 to 80/50)
- Remove copays or add an indexing component



Benchmark: Rx vs. General Medical





Potential Fixes

- Modify plan for targeted drug classes *
- Adjust copays annually to keep pace with pharmacy inflation
- Create indexed copays (with coinsurance component)
- Create 3 or 4 tier plans *

* From previous secret



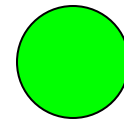
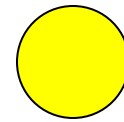
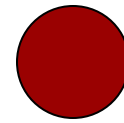
Benchmark: "Percentage Leakage" Out-of-Network + Out-of-Area

20%

15%

10%

OON Total

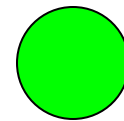
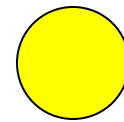
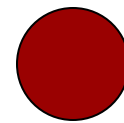


Adjusted OON

12%

8%

5%





Potential Fixes

- Modify plan for targeted drug classes
- Adjust plan OON coinsurance differential
- Create separate, higher deductibles for OON services
- Determine leakage areas and educate employees to differences in out-of-pocket
- Create three tier coinsurance – In Network, In Network+Out-of-Area, Out-of-Network
- Consider a UCR for OON charges based on the in-force PPO fee schedule



Introducing The JI Companies

- Third Party Administration
 - Employee Benefits
 - Workers' Compensation
 - Property and Casualty
- Risk Pool Administration
- Program Management



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BENEFITS ADMINISTRATION AND RISK MANAGEMENT SOLUTIONS



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- Specializes in self-funded health plans
- *Total Life Assistance*[™] : identifies participants experiencing symptoms of stress, anxiety, and depression and motivates them to seek effective treatment through one or more of the following services
 - Employee Assistance Program (EAP)
 - Enhanced Work/Life and Wellness Resources
 - Mental Health Care Management
 - Pharmacy Intervention Program (patent pending)

PharmaCare

(800) 777-1023



1. Low net-cost drug formulary (vs. rebate-centric drug formulary)
2. Smart drug benefit designs to (a) support the low net-cost drug formulary and (b) attain an efficient balance between mail-service and community pharmacy
3. Innovation in benefit design to meet the challenges of today and tomorrow: greater of % or \$ and t-MAC
4. Member education with information (e.g., Patient Alert)
5. Best-in-class reporting with trend and benchmarks
6. Ultimate goal: maximum value for money in Rx benefits



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For more information or to suggest future topics,
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