

A Presentation to the California Department of Managed Healthcare

Quantifying Delivery Model Value: An Analysis Of Healthcare Costs

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This presentation is incomplete without the accompanying discussion; it is intended for the information and benefit of the immediate recipients hereof.



Purpose of Discussion

First steps toward evaluating the effect of FFS shift on managing care

- Review health plan marketplace evolution
 - Healthcare paradigm shift
 - Current plan design trends
 - Challenges for providers and consumers
- Review available (limited) cost and utilization data
 - Methodology and limitations of our analysis
 - Early results
 - Emerging utilization trends
 - Anecdotal observations
 - Other issues to consider
- Review the implications for the payor provider environment

Methodology, Reliance and Limitations

- Methodology
 - Actual self-funded plan cost comparisons
 - Average cost comparison drawn from Aon's proprietary commercial client database
 - 7,000 clients (5 to 100,000 active employees)
 - 700 self-funded, 118 CDH clients
 - EPO plans used as proxy for HMO
 - Same plan design, same networks, managing to same dollar
- Aon's database includes
 - Total premium sorted by employer/employee contributions
 - State-specific, regional as well as national observations

Methodology, Reliance and Limitations (cont)

- Other sources include:
 - Aon Health Care Trend Survey results and Aon Health Care Trend Survey Comparison, Fall 2005
 - Aon Consulting/International Society of Certified Employer Benefit Specialists (ISCEBS) Consumer-Driven Health Plan Survey, March 2005
 - Consumer-Directed Health Plan Report, McKinsey & Company, June 2005
- Evaluation of costs difficult because of varying pricing practices incorporating HRA/HSA funds in self-funded claim projections, stop-loss coverage and insured premiums

Presents Formidable Challenges and Strategic Issues Consumers, Payors, Providers

Which model is most efficient?

Will new PPO plan designs reduce long term healthcare cost trends?

Which model improves the quality of care?

Standard Health Care Products

3 Components: deductible, coinsurance, copays

HMO

Copay \$10 – 25

Deductible \$0

Coinsurance 0%

- First dollar coverage to consumer
- Primary care physician managed
- Effective managed care
- Patient care driven

PPO

Copay \$10 – 25

Deductibles

Calendar year \$500

Hospital \$250

Coinsurance 20%/50%

- Open access
- Higher deductible
- More cost sharing
- Paid on FFS; shift from cap to paid claims
- Heavy cost share out-of-network
- Overall risk less managed – more cost control

CDHP

Full charges up front

Deductible \$1,500-\$2,000

Personal Care Accounts

Coinsurance 20%

- “Consumerism”
- First dollar Catastrophic coverage with high deductible insured plan
- Fee for service
- Information tools key component
- Cost driven

Cost Comparisons

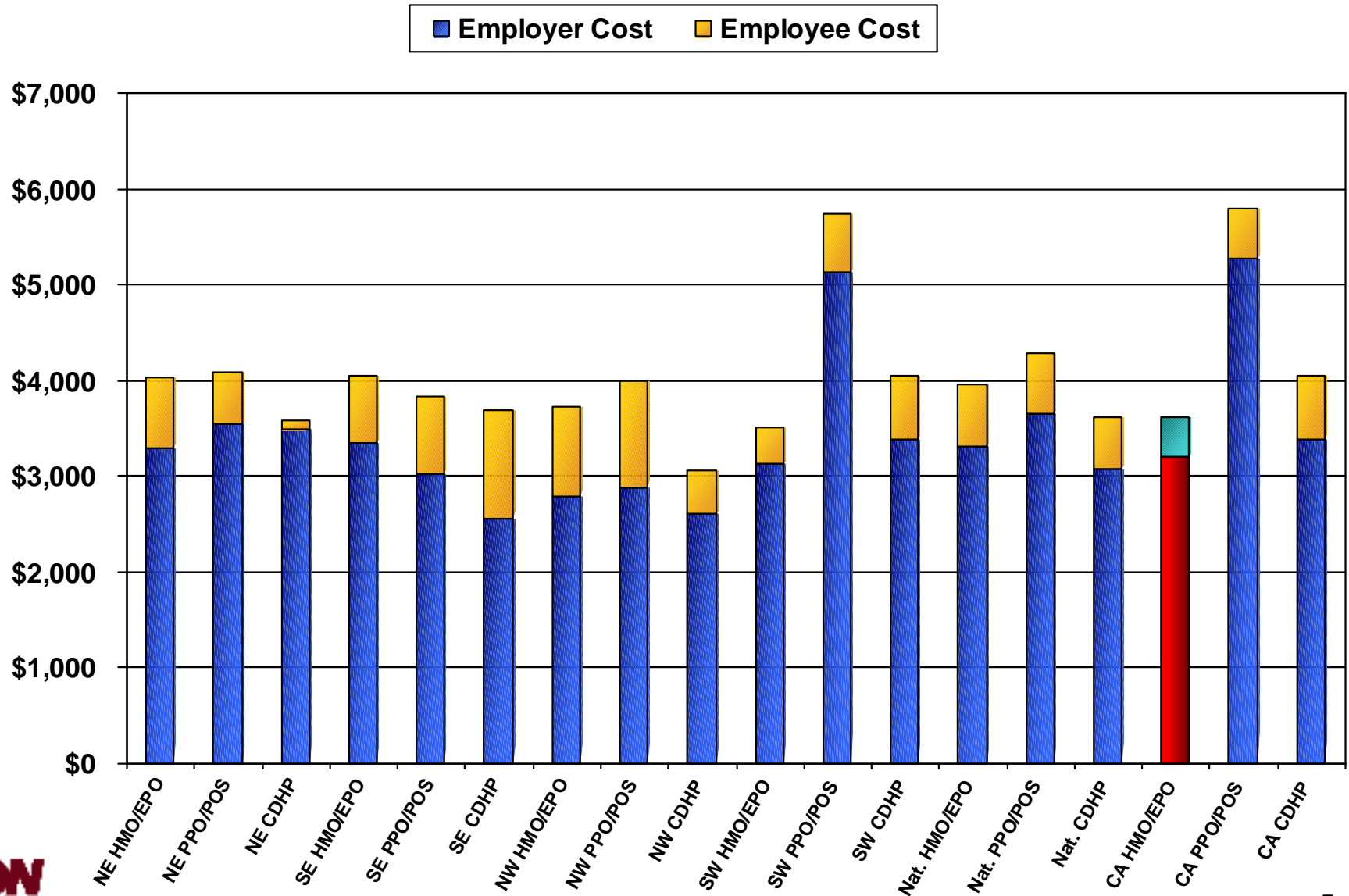
	<u>HMO/EPO</u>	<u>PPO / POS</u>	<u>Consumer Driven</u>
Claims + Admin			
NE	\$4,033	\$4,076	\$3,578
SE	\$4,051	\$3,835	\$3,684
NW	\$3,729	\$3,991	\$3,060
SW	\$3,508	\$5,743	\$4,049
National	\$3,959	\$4,288	\$3,625
Employer			
NE	\$3,298	\$3,540	\$3,483
SE	\$3,356	\$3,026	\$2,550
NW	\$2,797	\$2,872	\$2,601
SW	\$3,130	\$5,121	\$3,382
National	\$3,305	\$3,658	\$3,080
Employee			
NE	\$735	\$536	\$95
SE	\$695	\$809	\$1,134
NW	\$932	\$1,119	\$459
SW	\$378	\$622	\$667
National	\$654	\$630	\$545

NE North East and Midwest
 SE Southeast, TX, & OK
 NW Pacific NW and Rocky Mt.
 SW Southwest, CA & HI

Administrative costs included.
 Costs range from:
 EPO/HMO \$40 - \$44
 PPO \$30 - \$40
 CDH \$41 - \$47



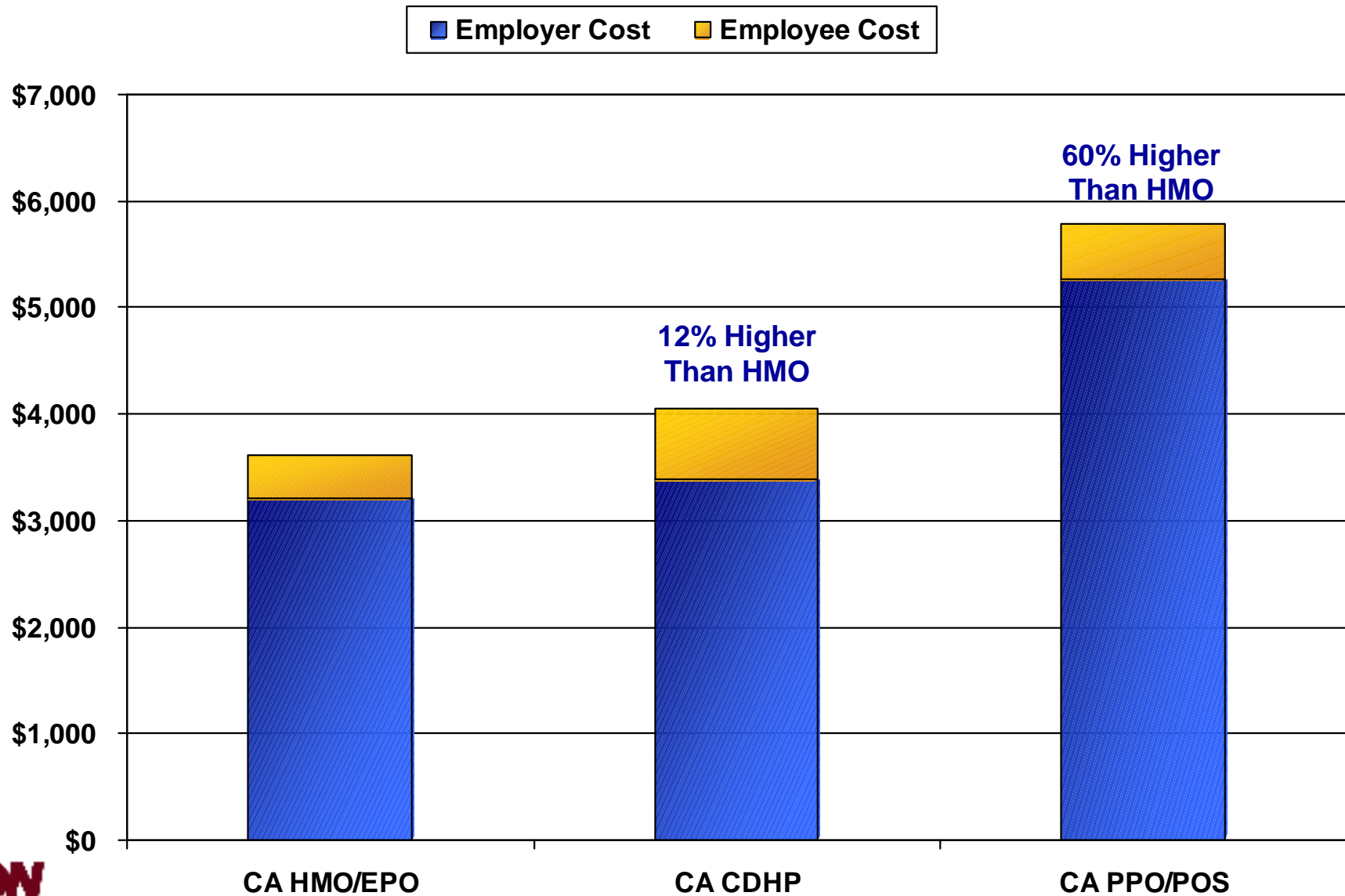
Cost Comparisons



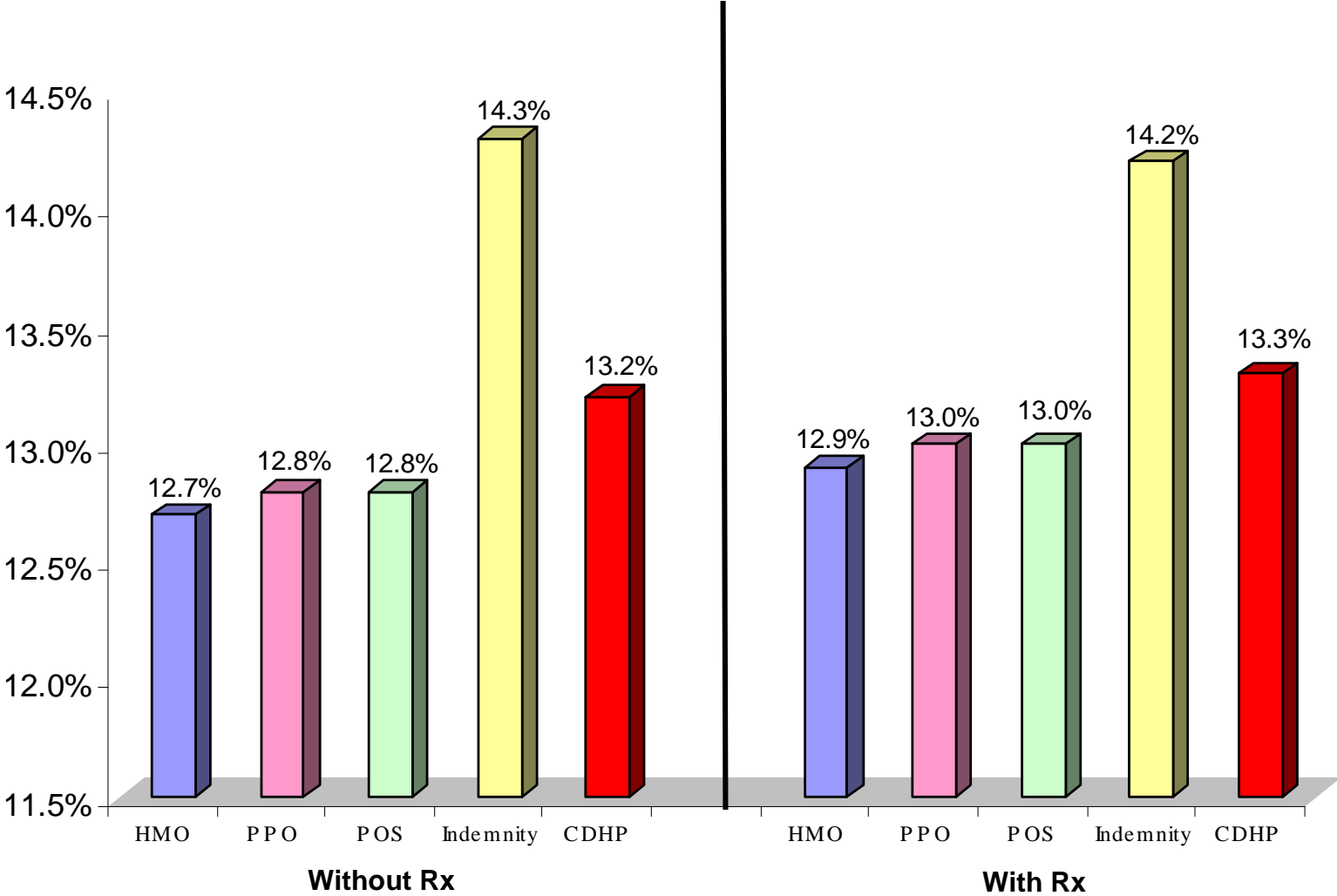
Cost Comparisons

	<u>HMO/EPO</u>	<u>PPO / POS</u>	<u>Consumer Driven</u>
California			
Claims & Admin	\$3,608	\$5,788	\$4,049
Employer	\$3,210	\$5,265	\$3,382
Employee	\$398	\$523	\$667

Cost Comparisons



Health Plan Trend Increases



New Ways to Access System

Consumerism vs. Physician Oversight -
focus on IT Tools

- Procedure Pricing
- Hospital quality data
- Health risk assessment tool
- Medical information lines/interactive
- Medical library
- 24-hour nurse line
- Rx Pricing
- Portable personal medical record
- Debit/smart cards to check fund status and collect up front
- Single EOB combines coverage, member responsibility and account balance

Decision Points

