Strategies for Dramatically Reducing Healthcare Costs

For Companies With 50+ Employees

Presenter: Denny Dahl
Recently retired former Director, Human Resources – U.S PCL Construction Enterprises, Inc.
Rick Scott, Florida Governor & former CEO Of Hospital Corporation of America:

“How many businesses do you know that want to cut their revenues in half? That’s why the health care industry won’t fix the health care industry.”

Hospitals & Facilities

Insurance Companies & Third Party Administrators

Network contracts

Consultants
STRATEGIES FOR DRAMATICALLY REDUCING HEALTHCARE COSTS
FOR COMPANIES WITH 50+ EMPLOYEES

THE EVOLUTION OF HEALTH INSURANCE

Pre-1980 1980s 1990s 2000s 2010s

Scheduled Plans – no networks

Reasonable & Customary

HMO/PPO – *network contracts* & co-pays

Consumer Driven-same HMO/PPO *network* platform

The Cost Plus Model

Cost Plus Advisors LLC
The Problem:
Escalating healthcare/health insurance costs

Primary Causes:
??????????????????????????
PCL Claim:

Outpatient back surgery
hospital bill: $186,810

– titanium parts (primarily 18 screws): $153,175

– Hospital’s cost for the parts: $33,000
Research demonstrates that when hospitals consolidate, either merging with other hospitals or buying up physician practices, health care costs go up. Provider consolidation gives hospitals greater negotiating strength and limits competition, resulting in higher prices for services...
“The hospital raises its rate to cover the discount.”
National Hospital Charge to Cost Ratios*
Fiscal Years 1996 through 2011

Source: CHSP calculations of Federal Hospital Cost Reports, 1996 through 2011. [There are about 30,000,000 patient discharges per year].
*All national and state charge to cost ratios in this presentation are calculated averages.
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<thead>
<tr>
<th>State</th>
<th>Average Charge to Cost Ratio</th>
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STRATEGIES FOR DRAMATICALLY REDUCING HEALTHCARE COSTS
FOR COMPANIES WITH 50+ EMPLOYEES

TIME follows the money... right down to the “Charge-Master’s” 10,000% mark-up on acetaminophen
STRATEGIES FOR DRAMATICALLY REDUCING HEALTHCARE COSTS FOR COMPANIES WITH 50+ EMPLOYEES

“$1,000 Toothbrush Expose”

Alcohol Swab - $23
Cost - $0.04

1 Tylenol - $140
Cost - $0.11

Plastic Gloves - $53
Cost - $0.53

Toothbrush - $1,000
Cost - $1.60

2 hour ER visit – Given 1 IV bag
Charged for 41 IV bags
$4,182 – paid by carrier

“Any kind of bill that is under $100,000, they don’t look...they just write a check.”
The Problem:

Escalating healthcare/health insurance costs

Primary Causes:

Abusive hospital billing practices

• Excessive markups
• Lack of transparency in contracts
HMO/PPO Contracts:

Lack of transparency

- Discount details
  - not available to employers

- Audit limitations
  - audits typically can’t challenge charges, quantities, or medical necessity, just coding “errors”
  - most “claim audits” audit the accuracy of the payor, not the actual hospital bills
FACT: HOSPITAL BILLS CONTAIN ERRORS

- The *U.S. General Accounting Office* has estimated that there are overcharges on 99% of all hospital bills.

- A review of 40,000 hospital bills in a national study done by Equifax Services found errors on over 97% of bills.
The Problem:
Escalating healthcare/health insurance costs

Primary Causes:
- Abusive hospital billing practices
  - Excessive markups
  - Lack of transparency in contracts
- Hidden Rx markups
- Conflicting interests of parties
  - Employer
  - Broker/Benefit Consultant
  - Insurance Companies
The same story has been told for years by brokers, consultants and insurance carriers: Use a nationally known, large PPO network to benefit from their network discounts - the bigger the discount, the bigger the savings – let them also manage pharmacy and save even more money.

• Network discounts are an illusion.
• Network contracts prevent transparency and are harmful to plan sponsors.
• Bundled services are not cost effective.
STRATEGIES FOR DRAMATICALLY REDUCING HEALTHCARE COSTS
FOR COMPANIES WITH 50+ EMPLOYEES

Solutions:

• Limit cost exposure through a Defined Benefit Healthcare Plan
  – Cost shifting
  – Consumer driven benefits

• Reduce costs through Self-Insurance
  – select level of desired claim exposure
  – purchase “stop-loss” reinsurance for excess
  – allows for dramatic claim cost reduction methodologies
“Stop-Loss” Reinsurance

**Specific Coverage** (per individual)
Protects the plan against a catastrophic claim (typically +/- $50K for a 100 life group). Also called Individual stop loss (ISL).

**Aggregate Coverage** (group)
Protects plan against unusually high over all utilization.
Why Consider Self-funding?

Financial:
- Improved cash flow
- Avoid premium taxes
- Reduced cost with good claim experience, proactive risk management and reimbursement methodologies

Quality:
- Gain control of Plan design
- Improve flexibility
- Control servicing of claims and PPO network

Cultural:
- Better reflect corporate objectives
- It’s YOUR plan
STRATEGIES FOR DRAMATICALLY REDUCING HEALTHCARE COSTS FOR COMPANIES WITH 50+ EMPLOYEES

Solutions:

• Reduce costs through self-insurance
• Cut costs 8 – 12% more by changing PPO contracts to allow for line item audits and deleting other provisions
PPO contracts for “discounts” are often harmful

- Most PPO hospital contracts require that the plan administrator pay hospital charges with no ability to review, audit, or challenge a charge.

- Since the largest PPO networks are owned by the insurance companies themselves, how can that combination act in the best interests of the Employer?

- Many PPO networks generate additional revenue by spread pricing.

- The contractual inability to confirm a charge prior to payment increases the cost of hospital claims by an average of 8%-12%.
Your members’ hospital bills are being paid from only a “Uniform Bill”. This summary based bill makes it impossible to verify accuracy of charges.
### FACILITY COSTS
#### HOSPITAL BILL EXHIBIT #1

As Fiduciary, you should audit the number of units if your PPO contract allows. PPO contract does not allow you to question charges.

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<th>DESCRIPTION</th>
<th>HCPCS/RATE/HIPPS CODE</th>
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Solutions:

- Reduce costs through self-insurance
- Cut hospital costs 8–10% more by changing PPO contracts to allow for line item audits
- Cut costs dramatically by eliminating current PPO contracts and adopting a Cost-Plus Plan Design
“Getting a 50% or 60% discount off the charge-master price of an item that costs $13 and lists for $199 is still no bargain.”

“If you’re charging 10% more or 20% more than what it costs to deliver the service, that’s acceptable profit margin... charging 400% more that what it costs has no rational basis in it at all.”

Gerard Anderson, Director of the Johns Hopkins Center for Hospital Finance & Mgt.

“A major factor behind the high costs is that the United States does not generally regulate or intervene in medical pricing, aside from setting payment rates for Medicare...”
Cost-Plus Plan Concept:

- Change your plan administrator to one that offers cost-plus plan administration services.
- Drop your current PPO network and use a “physician only” PPO network.
- Have physician directed audits performed on hospital bills prior to payment.
Cost-Plus Plan Concept (continued):

• Amend your self-insured healthcare plan to reimburse hospitals and prescription benefit management companies (PBM’s) on a cost-plus basis, typically Medicare plus 20% or actual cost as reported to CMS plus 12%, whichever is greater.

• Also reduces stop-loss premiums 20-30%.
CT Scan Without Contrast at a major system hospital

- Hospital Billed: $3,037
- National Average PPO Reimbursement by Carriers: $1,674
- Hospital Cost: $45 (as filed with CMS)
- Medicare Pays: $175

Using a Cost Plus reimbursement that is the greater of CMS filed cost plus 12% or Medicare plus 20%.

Cost Plus Model payment: $210
How do we avoid having providers send “balance due” bills to our employees?

• Providers are in violation of ERISA provisions if they charge fees for services that are not reasonable in relationship to their actual costs.

• TPA’s that administer Cost-Plus plans link with ERISA attorneys that challenge any balance due bills received by plan participants at no cost to the participant. After losing numerous key court decisions over the past 5 years, hospital pushback is now rare.
HEALTH CARE REFORM COMPLIANCE

The Cost Plus Model will be of particular benefit for complying with the following Healthcare Reform provisions.

- **EMPLOYER MANDATE**- keeps coverage affordable to help meet 9.5% limit

- **CADILLAC TAX** - keeps coverage affordable to help avoid the non-deductible 40% excise tax otherwise known as the Cadillac Tax
Additional Solutions:

• Switch to a truly “transparent” Prescription Benefit Management Company (PBM)

• Companies with 200 or more employees in one location should consider setting up an in-house clinic through a 3rd party provider
Traditional Pharmacy Benefit Manager (PBM)

• Per Employee/Per Month fee
• Contracts convoluted at your expense
• Rebates from manufacturers retained all or in part by PBM
• Generic mail-order steerage (profit leader for many PBM’s)
• Spread pricing (charge Plan more than their actual cost for the prescriptions)
• Audit of claim data limited, if permitted
STRATEGIES FOR DRAMATICALLY REDUCING HEALTHCARE COSTS
FOR COMPANIES WITH 50+ EMPLOYEES

Transparent Pricing PBM

• Pass-through pricing without hidden markups
• No “spread” game
• Unlimited audit of plan anytime
• 100% of all rebates immediately paid to Plan
• Only revenue from Per Employee/Per Month fee
COST PLUS SAVINGS SUMMARY

- Facility (hospital) spend can be reduced 8% - 35%
- Reinsurance premium can be reduced 20% to 30% with no change in stop loss levels
- Rx spend can be reduced 10% - 27%
- In-house clinics can reduce physician spend and lower both Rx and facility utilization. Savings realized 15% - 25%
Questions