The Future of Healthcare Delivery: Separating Delivery and Financing of Health Care

AAIHDS 10th Annual Fall Managed Care Forum

Las Vegas, NV

November 6, 2003

Hank Kearney
PHM International

© PHM International

Outline

Separating Finance & Delivery of Healthcare

I. Historical Review
II. Perceptions & Realities
III. Network - Clinician as Manager
IV. CDH
V. Wrap-up & Conclusions

PHM International

Introduction

- The US Health Care System
  - Health care is local…….Economies of scale are not
    - Use of MCOs to aggregate:
      - Too large for delivery of care, too small for buyer monopoly
      - Regional & small by international standards
  - Costs not a factor in care decisions
  - Failure - evolution of self-regulation
  - Political realities

PHM International

I. Historical Review

- 20 Years Ago
  - Runaway health care costs
  - Premium increases @16%+
  - Increasing uninsured
  - HMO Act 1973 - Dual offerings & state regulation
  - Full bloom of HMOs and maturing of managed care
  - New language

PHM International

Historical Review

- The language of love…….
  - Insurance personnel learn new language
    - Concurrent review, provider profiling
  - Medical personnel learn new language
    - Clinician as provider, LOS, Segmentation analysis, IPA
  - They never were the same language
    - Old models of partnering: exchange of money and commodities rather than true partnerships exchanging expertise and knowledge

Historical Review

- Insurance companies buying HMOs
- HMOs starting insurance companies
- Hospitals buying HMOs, insurance companies, etc.

Historical Review

What were we thinking?

PHM International

Historical Review

The Gulf Herald

Monday, June 15, 1984 - VOL CCLII No. 52 - $.50

gallon barrels of unwanted pesticides call and tell us and we will make arrangements to have them picked up from your farm or operation.

On this Pesticide Collection Day, we can collect any pesticides (insecticides, fungicides, herbicides, etc.) that are in original containers and are clearly labeled. However, we cannot accept products with unknown identities, products that are unlabeled, or products not in pesticide containers. Paints or other hazardous waste will not be accepted.

Again, this is a free service, and an excellent opportunity to dispose of old and unwanted

gallon barrels of unwanted pesticides call and tell us and we will make arrangements to have them picked up from your farm or operation.

On this Pesticide Collection Day, we can collect any pesticides (insecticides, fungicides, herbicides, etc.) that are in

State Farm Insurance Buys General Motors

gallon barrels of unwanted pesticides call and tell us and we will make arrangements to have them picked up from your farm or operation.

On this Pesticide Collection Day, we can collect any pesticides (insecticides, fungicides, herbicides, etc.) that are in original containers and are clearly labeled. However, we cannot accept products with unknown identities, products that are unlabeled, or products not in pesticide containers. Paints or other hazardous waste will not be accepted.

Again, this is a free service, and an excellent opportunity to dispose of old and unwanted in the form of a blank page on the

gallon barrels of unwanted pesticides call an tell us and we will make arrangements to hav them picked up from your farm or operation

On this Pesticide Collection Day, we can collect any pesticides (insecticides, fungicid herbicides, etc.) that are in original containe and are clearly labeled. However, we canno accept products with unknown identities, products that are unlabeled, or products not pesticide containers. Paints or other hazardo waste will not be accepted.

PHM International

Historical Review

The Gulf Herald

Monday, June 15, 1984 - VOL CCLII No. 52 - $.50

gallon barrels of unwanted pesticides call and tell us and we will make arrangements to have them picked up from your farm or operation.

On this Pesticide Collection Day, we can collect any pesticides (insecticides, fungicides, herbicides, etc.) that are in original containers and are clearly labeled. However, we cannot accept products with unknown identities, products that are unlabeled, or products not in pesticide containers. Paints or other hazardous waste will not be accepted.

Again, this is a free service, and an excellent opportunity to dispose of old and unwanted

gallon barrels of unwanted pesticides call and tell us and we will make arrangements to have them picked up from your farm or operation.

On this Pesticide Collection Day, we can collect any pesticides (insecticides, fungicides, herbicides, etc.) that are in

State Farm Insurance Buys General Motors

State Farm spokesperson claims "…consumers' demand for lower car prices and lack of cost control in automobile industry."

gallon barrels of unwanted pesticides call an tell us and we will make arrangements to hav them picked up from your farm or operation

On this Pesticide Collection Day, we can collect any pesticides (insecticides, fungicid herbicides, etc.) that are in original containe and are clearly labeled. However, we canno accept products with unknown identities, products that are unlabeled, or products not pesticide containers. Paints or other hazardo waste will not be accepted.

PHM International

Historical Review

Cost controls flatten out…..

- Practice guidelines
- Protocols driven down from HQ
- Satisfaction bonuses

PHM International

Historical Review

The Gulf Herald

Monday, October 15, 1997 - VOL CCLII No. 70 - $.75

AIG Takes Lead Partner Role in Ford Motor Co's Design Department

gallon barrels of unwanted pesticides call and tell us and we will make arrangements to have them picked up from your farm or operation.

On this Pesticide Collection Day, we can collect any pesticides (insecticides, fungicides, herbicides, etc.) that are in original containers and are clearly labeled. However, we cannot accept products with unknown identities, products that are unlabeled, or products not in pesticide containers. Paints or other hazardous waste will not be accepted.

Again, this is a free service, and an excellent opportunity to dispose of old and unwanted

gallon barrels of unwanted pesticides call and tell us and we will make arrangements to have them picked up from your farm or operation.

On this Pesticide Collection Day, we can collect any pesticides (insecticides, fungicides, herbicides, etc.) that are in original containers and are clearly labeled. However, we cannot accept products with unknown identities, products that are unlabeled, or products not in pesticide containers. Paints or other hazardous waste will not be accepted.

Again, this is a free service, and an excellent opportunity to dispose of old and unwanted in the form of a blank page on the

gallon barrels of unwanted pesticides call an tell us and we will make arrangements to hav them picked up from your farm or operation

On this Pesticide Collection Day, we can collect any pesticides (insecticides, fungicid gallon barrels of unwanted pesticides call an tell us and we will make arrangements to hav them picked up from your farm or operation

On this Pesticide Collection Day, we can collect any pesticides (insecticides, fungicid herbicides, etc.) that are in original containe and are clearly labeled. However, we canno accept products with unknown identities, products that are unlabeled, or products not pesticide containers. Paints or other hazardo waste will not be accepted.

PHM International

Historical Review

The Gulf Herald

Monday, October 15, 1997 - VOL CCLII No. 70 - $.75

AIG Takes Lead Partner Role in Ford Motor Co's Design Department

gallon barrels of unwanted pesticides call and tell us and we will make arrangements to have them picked up from your farm or operation.

On this Pesticide Collection Day, we can collect any pesticides (insecticides, fungicides, herbicides, etc.) that are in original containers and are clearly labeled. However, we cannot accept products with unknown identities, products that are unlabeled, or products not in pesticide containers. Paints or other hazardous waste will not be accepted.

Again, this is a free service, and an excellent opportunity to dispose of old and unwanted

gallon barrels of unwanted pesticides call and tell us and we will make arrangements to have them picked up from your farm or operation.

On this Pesticide Collection Day, we can collect any pesticides (insecticides, fungicides, herbicides, etc.) that are in original containers and are clearly labeled. However, we cannot accept products with unknown identities, products that are unlabeled, or products not in pesticide containers. Paints or other hazardous waste will not be accepted.

Again, this is a free service, and an excellent opportunity to dispose of old and unwanted in the form of a blank page on the

Claiming a lack of quality, AIG reigns in Ford's engineering team with design protocols.

PHM International

Historical Review

Fast forward a few more years……

It’s like déjà vu all over again.

PHM International

Historical Review

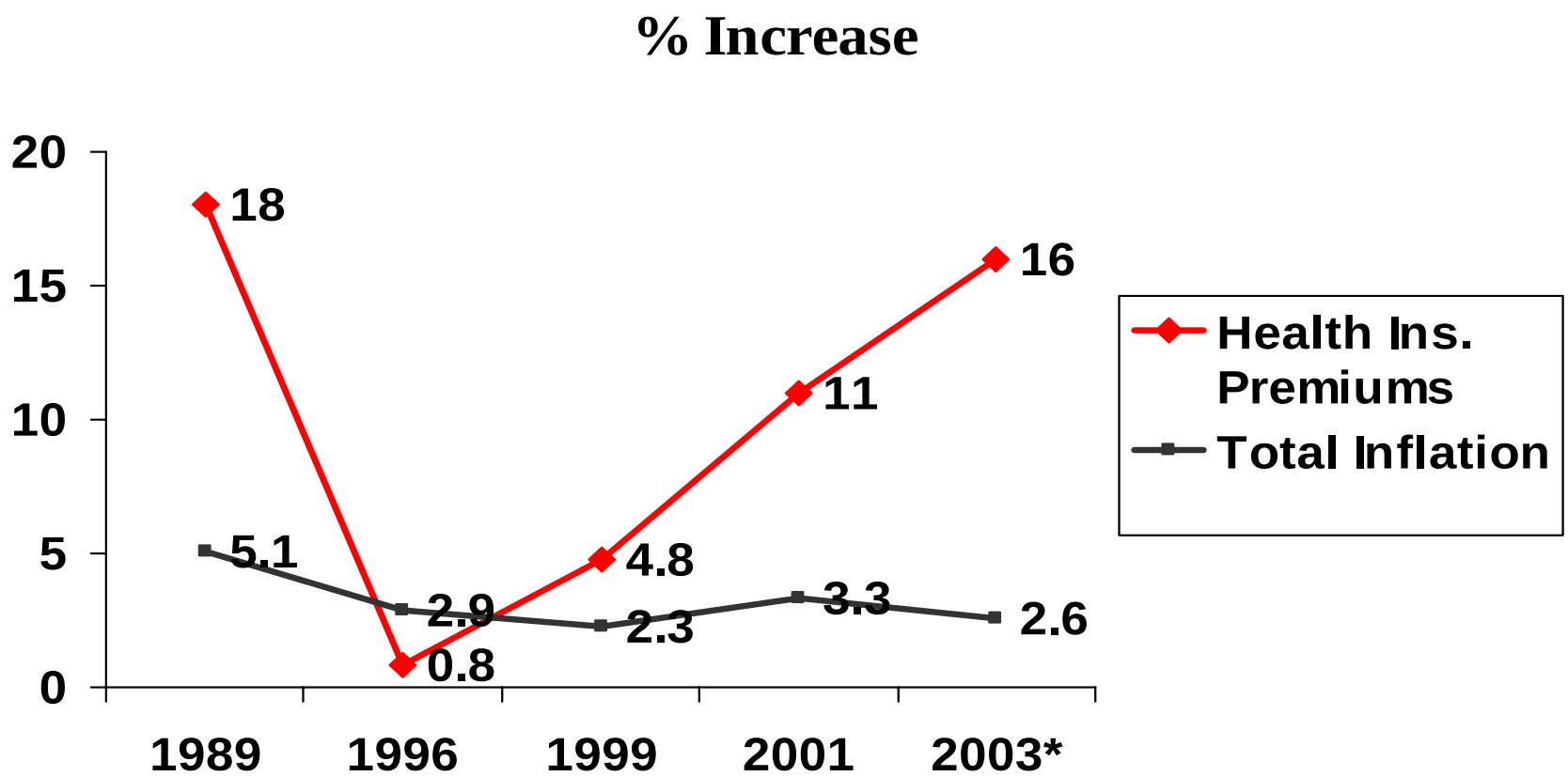
"...premiums…will rise an average 18% in 2004, continuing a trend of double-digit health care-cost increases…"

"The good news is that this may signal the moderation of health-care increases over the next few years."

WSJ. 6/24/03

PHM International

Historical Review



Kaiser FF, 2002/ *WSJ & Fin Forecast Cntr: 9.29.03

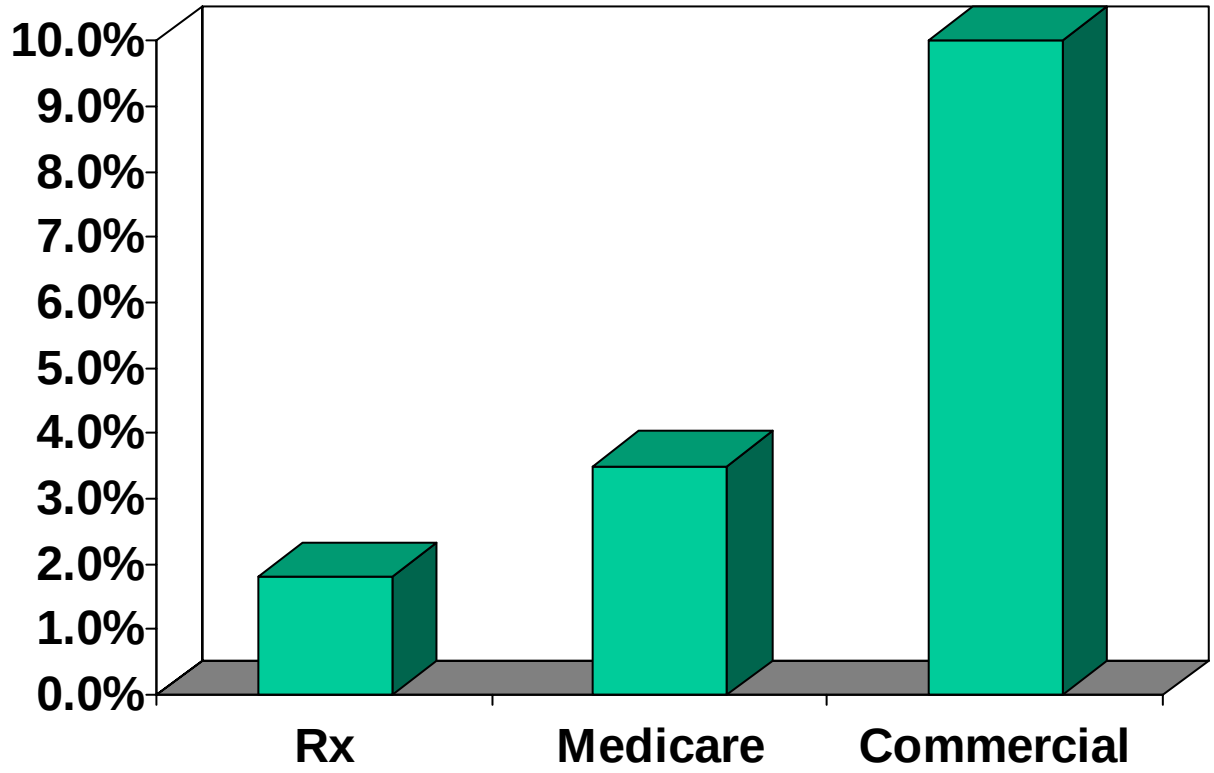
PHM International

Historical Review

"NCQA's State of Health Care Quality r*eport finds system's failure to deliver best care results in billions in hospital costs, 41 million sick days*"

Historical Review

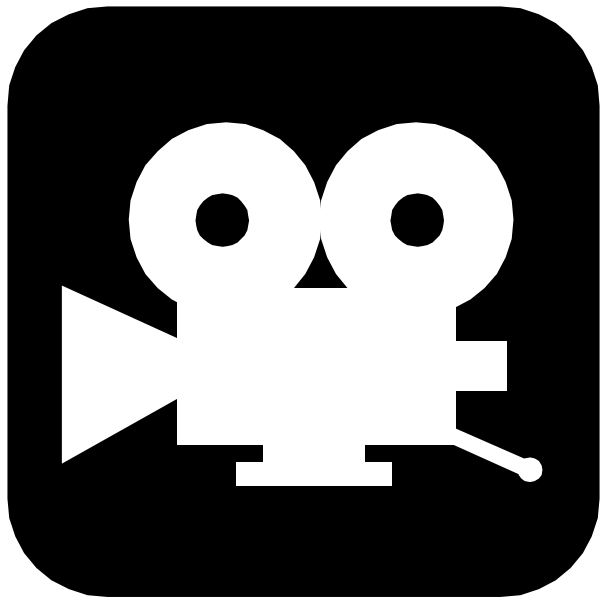
- **Claims - Processing Costs as % of Claim**



HealthCast Tactics: A Blueprint for the Future.
PriceWaterhouseCoopers. May 2002.

PHM International

Historical Review



PHM International

Perceptions & Realities

"People will complain about healthcare, regardless of how much they spend on it and how it is structured."

"Therefore, there will always be health reform."

"Health reform will always fail."

Uwe Reihardt

PHM International

II. Perceptions & Realities

- Legal implications will drive separation of financing and delivery of care
- Uninsured population will drive political action
- Uninsured costs will drive universal cover

PHM International

Perceptions & Realities

- Legal Implications: Physician-patient relations will cease to be a problem for the insurance company.
  - Patient satisfaction NOT an insurance function, it's a physician-patient relation
  - Increased opportunities to drop "bad business"
  - Increased exposure to previously protected ERISA mal-pratice will drive separation

PHM International

Perceptions & Realities

- Legal Implications - 2003:
  - US Court of Appeals for 2nd Circuit, NY
    - Allow HMOs and medical directors to be sued
    - Medical treatment decision making
    - HMO denial viewed as medical treatment

Perceptions & Realities

- Legal Implications:
  - Building expectations & performance measures
  - Relationship management: But it's MY patient!
    - Case/Care Management comes back to bite

PHM International

Perceptions & Realities

- Legal Implications: HEDIS guidelines
  - You say tomato, I say tomato, but your marketing material says…..
    - We meet HEDIS measures 9 out of 10 times
    - “Effectiveness of care measures…”
    - National Standard of Care
    - Costs will drive separation

PHM International

Perceptions & Realities

- Uninsured Population:
  - 14.6% in 2001
  - 15.2% in 2002 = 43.6 million

WSJ 9/30/03

PHM International

Perceptions & Realities

- Uninsured Population Drivers
  - Unemployment
    - Each 1% in unemployment = 1.2 million uninsured*
  - Part time
  - Increased waiting periods
  - Drop in retirement cover
  - Increase in poverty (1.7 million in 2002 WSJ)

*KFF.org, Trends & Indicators, 5/02

PHM International

Perceptions & Realities

- Uninsured Population Drivers
  - 8.2% of uninsured
    - Household incomes $75,000 +

SunSentinel 9/30/03

PHM International

Perceptions & Realities

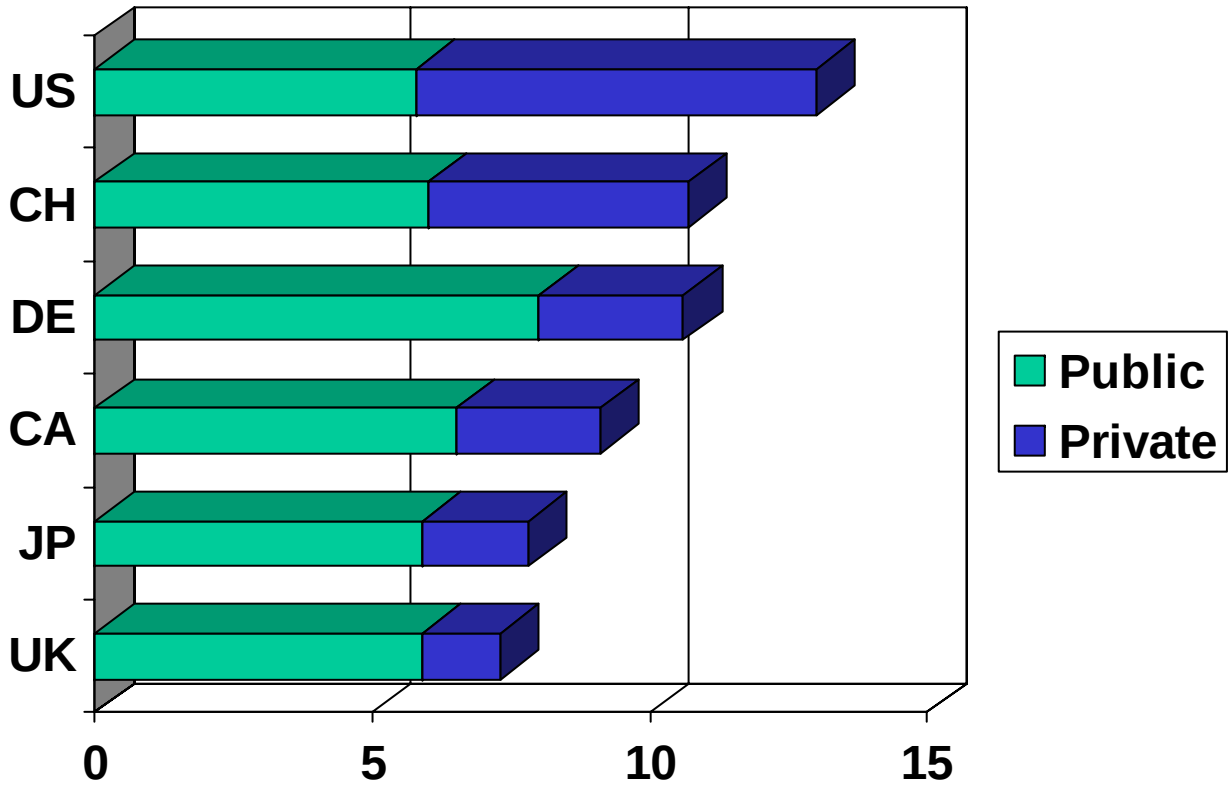
- Uninsured Population, 2000
  - 39% Postponed care
  - 20% No care for serious condition
  - 30% Did not fill Rx

KFF.org, Trends & Indicators, 5/02

PHM International

Perceptions & Realities

Buyers - % GDP on Health



OECD Health Data 2002, 4th Ed.

PHM International

Perceptions & Realities

Medical Care Expenditures[a] and Sources of Payment for People Uninsured for at least a Part of the Year, 2001 ($ billions, estimated)

Source of Payment	Uninsured Full Year	Uninsured Part Year	All Uninsured
Uncompensated Care	$24.6	$9.9	$34.5
(Other Public Sources)	(5.0)	(1.5)	(6.5)
(Private Sources)	(8.9)	(3.4)	(12.3)
(Unidentified Sources[b])	(10.8)	(5.0)	(15.8)
Out-of-Pocket	14.1	12.3	26.4
Private Insurance	1.9[c]	22.3	24.2
Public Insurance	0.0	13.8	13.8
All Sources	40.6	58.3	98.9

[a] Adjusted for MEPS undercount relative to National Health Accounts.
[b] Donated services as calculated in section II.F.
[c] Payments by workers' compensation.

Source: Derived from pooled data from the 1996, 1997, and 1998 MEPS.

Who Pays & How Much, KFF. 2003

PHM International

Perceptions & Realities

Sources of Funding Available for Uncompensated Care to the Uninsured, 2001
($ billions)

Provider	Private	Government Spending			Total Available for Uncompensated Care
		Federal	State/Local	Total	
Hospitals	**2.3 – 4.6**	**14.2**	**9.4**	**23.6**	**25.9 –28.2**
Philan.	(0.8 – 1.6)				
Surplus	(1.5 – 3.0)				
Medicare		6.6	--	6.6	
Medicaid		7.6	2.0	9.6	
Tax appropriations			3.1	3.1	
Indigent care progs.			4.3	4.3	
Clinics	**0.13**	**5.69**	**1.29**	**6.98**	**7.11**
BPHC	(0.11)	(0.47)	(0.26)	(0.73)	(0.84)
NHSC	–	(0.01)	(0.11)	(0.12)	(0.12)
MCHB	(0.02)	(0.06)	(0.23)	(0.29)	(0.31)
HIV/AIDS	–	(0.59)	(0.09)	(0.68)	(0.68)
IHS	–	(0.67)	(0.02)	(0.69)	(0.69)
VA	–	(3.89)	--	(3.89)	(3.89)
Local	–	--	(0.58)	(0.58)	(0.58)
Physicians	**5.10**	**--**	**--**	**–**	**5.10**
Total	**7.5 – 9.8**	**19.9**	**10.7**	**30.6**	**38.1 –40.4**

Who Pays & How Much, KFF. 2003

PHM International

Perceptions & Realities

- Recent Poll
  - 79% Support employer required health insurance
  - 45% Support national health plan financed by taxes

III. Network - Clinician as Manager

- Who's in Control?
  - The clinician?
  - Is it about the money?
  - Or just control?

PHM International

Network - Clinician as Manager

- Patient manger yes
- Insurance manager no. Maybe. Would you really want to?
  - Management of risk
  - Risk-based capital
  - Hospital systems selling off insurance division

PHM International

Network - Clinician as Manager

- Increased Clout - % of Staffed Beds in CA

	1995	1999
– Hospital Systems	33%	61%
– Independents	67%	39%

Office of Statewide Health Planning & Development, Fin. Stmt.

PHM International

Network - Clinician as Manager

- Concierge Health Care
  - Annual physicals & preventative plan
  - Preferred appointment times
  - 24/7 MD availability
  - E-mail/fax access
  - Rx facilitation - Pharma, home, mail
  - Coordination of referrals
  - Claims facilitation
  - Private Reception, Dedicated staff

PHM International

Network - Clinician as Manager

- Concierge Health Care

  $1,800 - $3,000 plus fees

  500-600 patients per physician (vs. up to 3,000)

  Political movements to ban concierge programs

Network - Clinician as Manager

- Concierge Health Care
  - Tufts Medical Center
  - Park Nicollet Health Services
  - MD VIP
  - U of A Birmingham Health System

PHM International

Network - Clinician as Manager

- Personal Health Care Expenditures percent of total medical expenditures

	1970	1980	1990	2000
Out of Pocket	34.0%	25.0%	22.5%	17.2%

CMMS 2001 - KFF.org, Trends & Indicators, 5/02

PHM International

IV. CDH

- Revolutionary or just another plan design?
- True separation of management and financing of health care?

PHM International

CDH

- Consumer Directed Healthcare
  - Empowering the consumer
  - Strong groundwork for psycho-graphic data
  - Continued drive to commodity
  - Momentary at best

PHM International

CDH

- Personal Health Care Expenditures percent of total medical expenditures

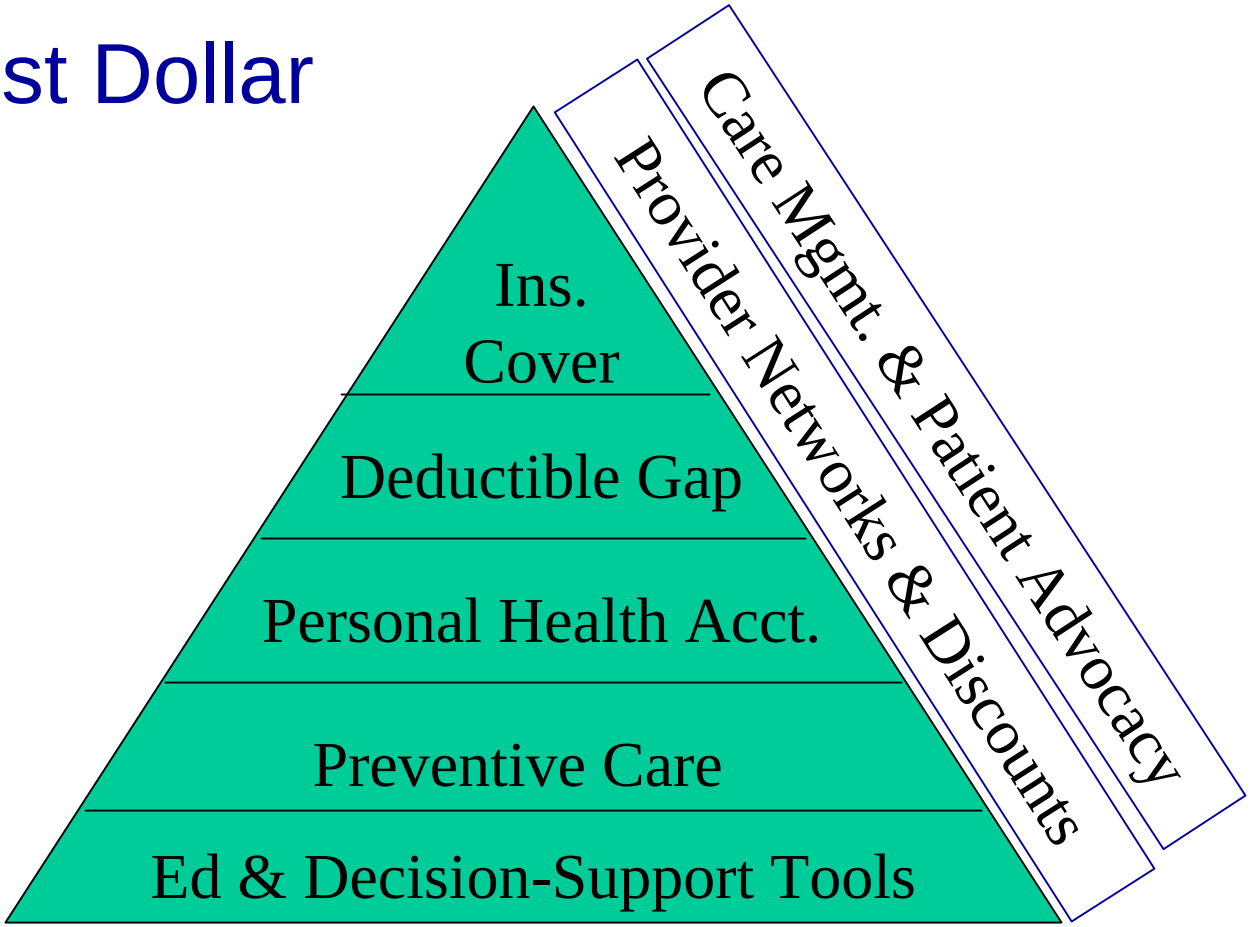
	1970	1980	1990	2000
Out of Pocket	34.0%	25.0%	22.5%	17.2%
Bangladesh				93.9%
Nepal				72.4%

CMMS 2001 - KFF.org, Trends & Indicators, 5/02

PHM International

CDH

- Still 1st Dollar



CDH

- New fees for PSX, doctor, ambulance, etc.
  - Fees to discourage overuse
    - Split between insurer and provider
    - Shared use splits fees
    - Sk20 per Rx, Dr. visit, etc.
    - Sk2.0 per km
    - Sk20. = 57¢ or .49€
    - Parking meters being installed *inside* hospitals, clinics, etc
    - Taxi meters in ambulances

Slovak Spectator June 9, 03

PHM International

CDH - Evolution

Medical

- Preventative
- Education
- Care Mgmt
- Physician as manager

Insurance

- LARGE Deductible
- Insurance
- Network Discounts

Subsidies

- Tax Credits
- Personal Health Accounts
- Employer – Employee Tax

PHM International

V. Conclusions

- The Future of Health Care Delivery: Separating Financing & Delivery of Care
  - Health Care Access vs. Health Care as a Commodity
  - Role of Insurance
  - Future of Networks

PHM International

Conclusions

- Health Care Access vs. Health Care as a Commodity
  - Basic Question Unanswered……..

PHM International

Conclusions

- Health care as a social good
  Solidarity concept
- Health care as a commodity - Market forces drive “best” system
  - Patient as source of revenue - french fries
  - Lifestyle tied to system resources
    - Genetic innovations will drive up uninsured
  - Wall Street drivers
    - Under priced insurance

PHM International

Conclusions

- Role of Health Insurance
  - Administrators without risk
    - Self insured employers at risk
    - Large mandated pools of individuals
      - Risk borne by government (fees on reinsurers)
      - “Small group” gone
  - Private Pay
    - Boutique business (millions of people)
    - Risk exposure

PHM International

Conclusions

- Future of Networks
  - Managers of care
    - Medical necessity, etc.
  - Responsible for quality, HEDIS
    - Measured on own criteria
  - Provider manager
  - Buyers of populations
    - Insurance companies as vendors

PHM International

Contact Information

Hank Kearney

PHM International

1.772.388.6496

hankk@phmintl.com

PHM International