World Wide Actuarial Services

Health Actuarial Services

Critical Issues In Managing Full Coverage Medical Indemnity and Managed Care

"Difficult Lessons From the US Medical Market"

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Overview

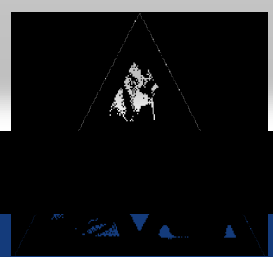
- Introduction
- Counteracting the healthcare myths
- Counteracting the structure
- Counteracting the culture
- Crafting a healthcare solution
- Questions and answers

Counteracting the Healthcare Myths

- Traditional economic forces apply to healthcare:
  Traditional economic forces rarely apply to healthcare, excess supply actually drives up demand for services.

- There aren't enough healthcare providers: There actually is a surplus of most healthcare providers (i.e., supply > demand), except in rural communities few have an under-supply, both facility and professional providers.

- Most medical decisions are based upon hard scientific facts: Less than 20% of medical decisions are based upon hard science, the rest are based upon provider preference and learned practice style. Subjective decisions lead to significant practice variation.



Counteracting the Healthcare Myths

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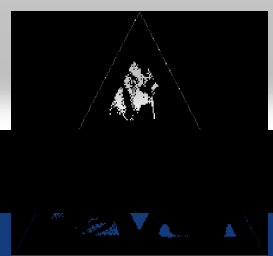
- Few, if any, medical services can be avoided: A significant portion of medical services can be avoided since many are medically unnecessary, as much as 50% of inpatient care can be avoided or transferred to an outpatient setting, with another 30 – 40% of professional services also potentially avoidable without negatively impacting quality of care.
- Quality is universally defined: Quality is poorly defined, few agree on a definition, without a definition it is hard to measure, "I know it when I see it!," quality and efficiency actually converge (i.e., highest quality providers are the most efficient, the most efficient providers have the highest quality).



Counteracting the Structure

- Traditional US system is not ideally structured.
- 4 distinct interests are at cross purposes and act independently:
  - Patients – Rarely pay for care, limited cost barriers, often assume they are entitled to best care no matter the cost or actual need, often assume it is the employer's responsibility to provide it.
  - Employers – Provide coverage to employees with limited cost sharing, negotiate with carriers for coverage, carte blanche access to most providers.
  - Insurance Company – Contractual relationship with employer and occasionally with providers, yet employee/provider relationship drives costs.
  - Providers – Occasional contractual relationship with payer, strong clinical relationship with patient, no contractual relationship with employer, limited incentives to cost effectively treat patients, strong financial incentive to do more and provide more expensive care.

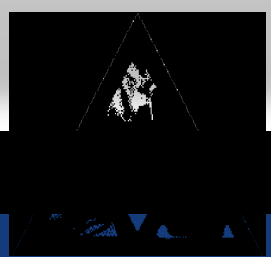
Counteracting the Structure

continued

- Improved healthcare strategies:
  - Include carrier/provider contractual relationship to introduce more balanced physician incentives.
  - Include provider oversight to be sure medically unnecessary services occur less frequently and hopefully are avoided.
  - Introduce patient incentives to encourage patients to take care of themselves and seek care only when appropriate.
  - Introduce enhanced provider reimbursement/incentive programs to further motivate providers to deliver appropriate care.
  - Incorporate enhanced premium rating/cost allocation strategies to appropriately spread costs among policyholders (i.e., risk assessment and adjustment).
  - Implement high risk identification process to anticipate high cost individuals (i.e., predictive modeling).
  - Implement selection bias management and monitoring techniques to reflect extent of selection bias and who is negatively impacted.

Counteracting the Culture

- Today's prevalent "entitlement" mentality creates an unstable environment for healthcare coverage:
  - "Patient Bill of Rights" – legislated rights for care, without any concern for the financial impact on payers, premiums, etc. Legislated healthcare rights often leads to nationalized healthcare systems
  - Litigious Society – sue for damages, whether or not there are reasonable grounds for it
  - Defensive Medicine – fear of malpractice lawsuits leads to additional services whether or not they are clinically justified
  - Technology Fix – more is better whether or not it is proven to benefit the patient
- OPM – Other People's Money: As long as it is available I am entitled to benefit whether I am a patient or a provider or a health plan, it quickly moves from "financial self interest" to "greed."



Crafting a Healthcare Solution

- Begin with a more robust understanding of the "health status" risk, both clinically and financially:
  - It's not enough to crudely project future claims using historical claims, you must anticipate tomorrow's conditions, services and costs using detailed clinical information (i.e., extensive use of predictive modeling).
  - Aggregate historical claims information in new ways (i.e., episodic analysis) to develop optimal management techniques. This will require integration of actuarial and clinical skills.
- Implement effective medical management techniques to maximize quality and cost effectiveness of the care provided:
  - Currently popular "hands-off" medical management styles will not be effective in the long run.
  - Given the opportunity to decide with all of the facts, patients will choose a more controlled system that has the capability to provide broader coverages more cost effectively.
  - Outcomes driven medical management techniques will demonstrate that substandard quality of care occurs in systems with significant practice pattern variations. Absence of variation leads to optimal quality.
  - Medical management effectiveness can and will be measured on a regular basis.

Crafting a Healthcare Solution

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- Implement state-of-the-art financial management processes to assure accurate financial reporting and performance:
  - Adequate premium rate setting requires accurate IBNR estimation, trend analysis and healthcare cost forecasting
  - Premiums must be competitive, yet reflecting emerging cost patterns
  - Return on equity or surplus pricing formulae to be sure products reflect required investment, risk, cashflows, etc. and maintain reasonable profit margins
- Maintain attractive and competitive product design to attract a continual flow of new entrants:
  - Helps to assure acceptable risk mix
  - Helps maintain stable prices

Crafting a Healthcare Solution

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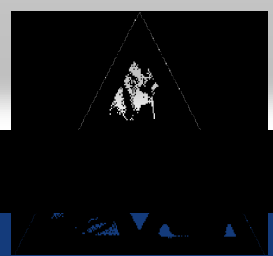
- Develop high quality provider communication tools and resources to garner provider support and provide a meaningful information source for providers:
  - Provider profiling
  - Provider benchmarking
  - Provider peer comparisons
  - Provider risk mix



Questions and Answers