

Quantifying the Impact of Managed Care

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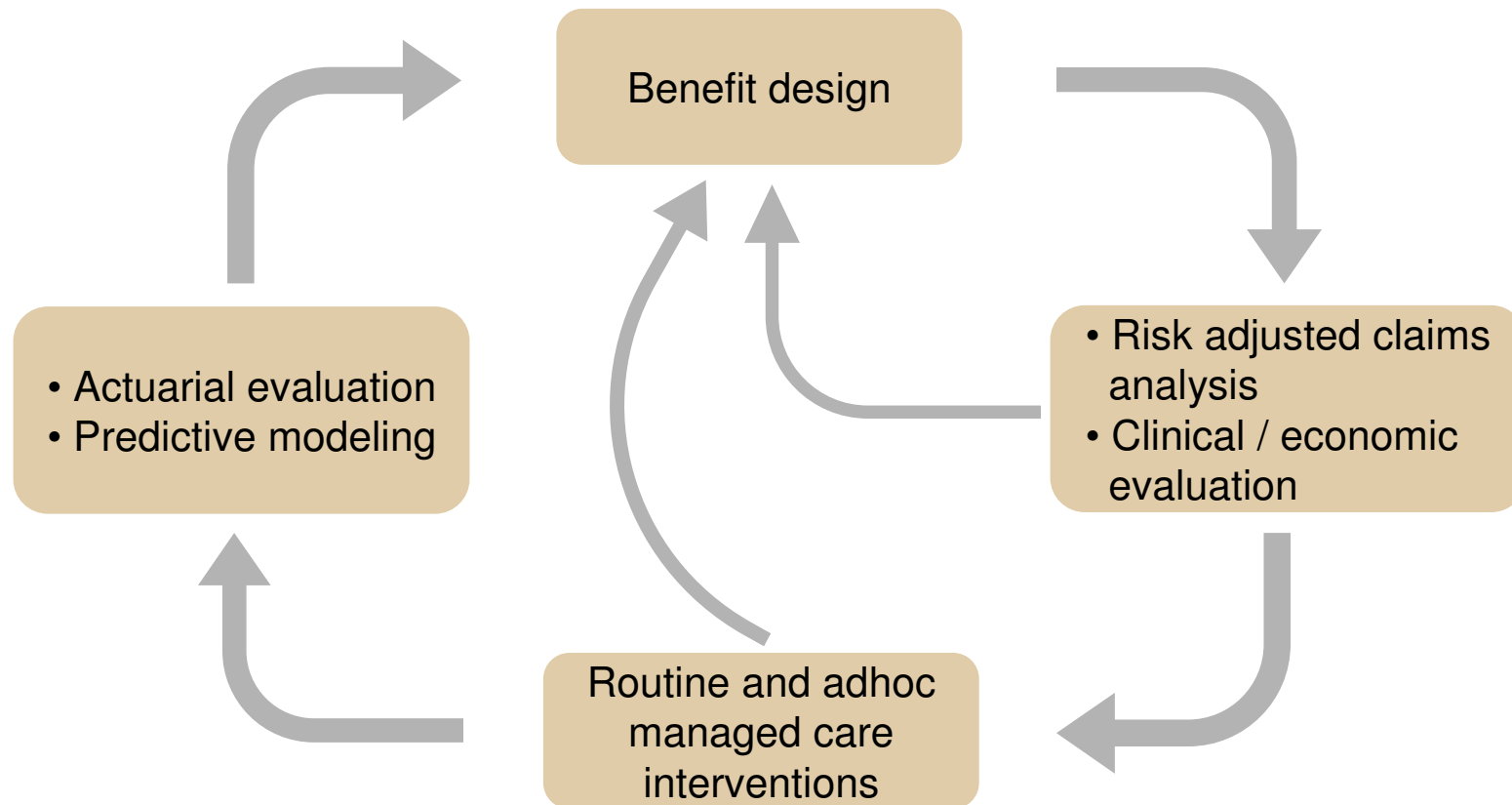
Agenda

Discovery's approach to managed care

Methodological considerations

Quantifying savings and return on investment

Discovery's Approach to Managed Care



Discovery's Approach to Managed Care

Strategic Assets	Outputs	Applications
<ul style="list-style-type: none">• Hospital Grouper<ul style="list-style-type: none">• Diagnostic Related Groups• Co-morbidities• Surgical Classification• Episode Grouper<ul style="list-style-type: none">• Clinical Treatment Groups• Disease Staging• Clinical and Economic evaluation	<ul style="list-style-type: none">• Hospital Profiling• Doctor profiling• Member profiling• Product profiling	<ul style="list-style-type: none">• Admission rates• Hospital tariff negotiations• Length of stay benchmarking• Targeted clinical interventions• Network selection• In hospital drugs and surgicals• "Pay for Performance" projects with GP's and Specialists• Network selection• Manage significant outliers• Disease Management Programs• High cost member management• Pricing negotiations• Protocol and pilot projects• Targeted interventions

Methodological Considerations

Definition of “Savings”

- What is the appropriate baseline / control level of costs?
- Predicting the trajectory in absence of managed care interventions
- Compounding impacts over time
- Non-measurable positive effect – “Halo” effect
- Reversion to the mean, not all savings are due to interventions

Consider cost **and** Quality of care / outcome

- In some cases scheme should pay higher costs to achieve quality gains

Which interventions should we evaluate?

- Specific clinical protocols / interventions
 - Measurable reduction in incidence x cost saved per incident
- Application of specific rules to individual claims
 - Claimed vs paid
- Negotiated tariffs and Alternative Reimbursement Models
 - Relative to industry benchmarks
- Specific price savings due to negotiations

Selective review of some managed care interventions

Hospital Costs

- Admit rate
- Cost per event
 - Length of stay
 - Tariffs / ARM's
 - Ethicals / Surgicals
- Network Selection

Disease management programmes

- HIV
- Diabetes
- Others

Professional costs

- Pay for performance
- Networks
- Targeted interventions
- Outlier management

Medicines & Technology

- Benefit design
- Funding Policies
- Price negotiations
- Protocols & Pilot projects
- Targeted Interventions

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Professional costs

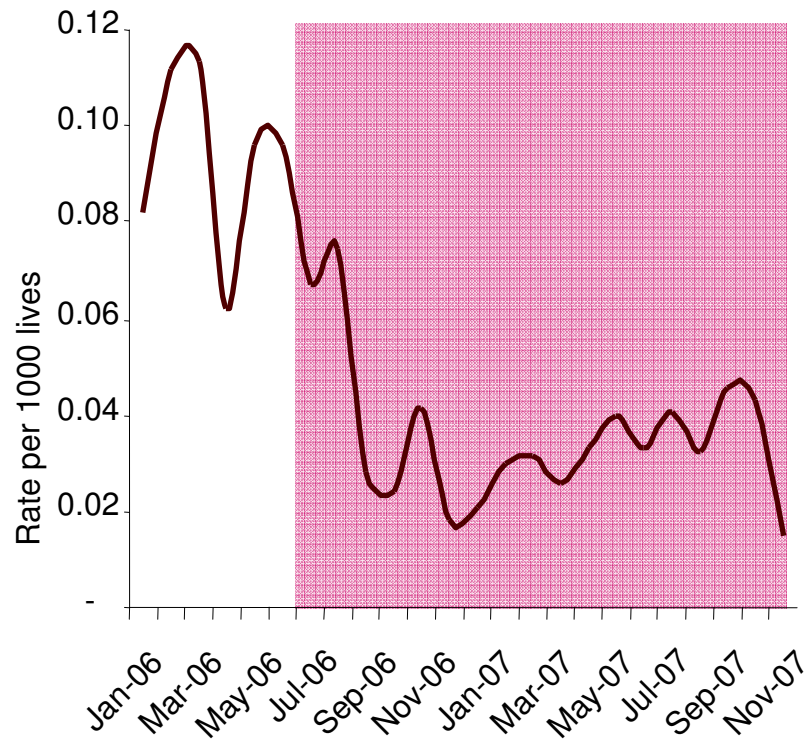
- Pay for performance
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Medicines & Technology

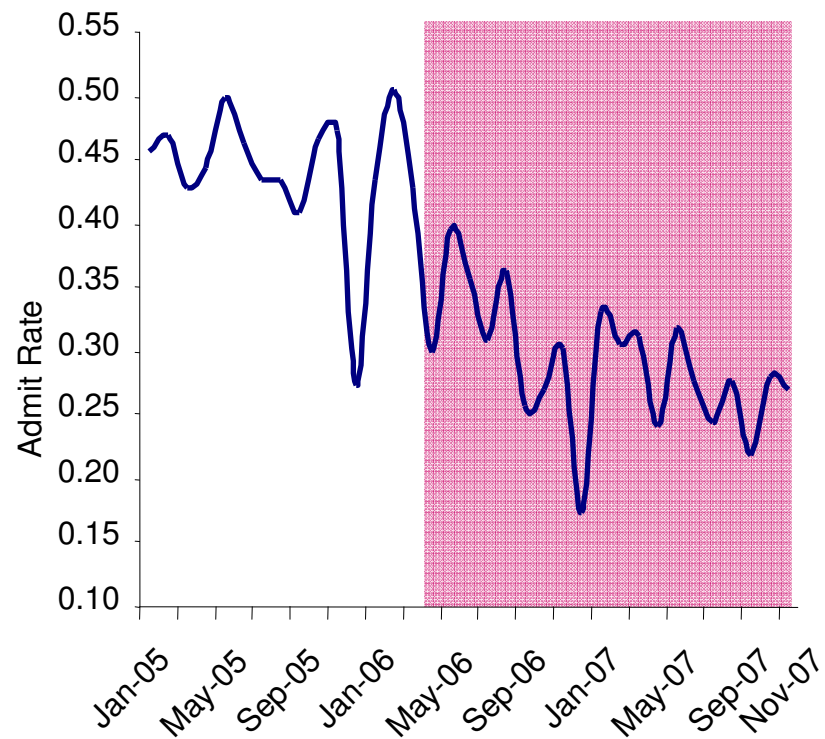
- **Benefit design**
- **Funding Policies**
- **Price negotiations**
- **Protocols & Pilot projects**
- **Targeted Interventions**

Managing the admission rate

Back Surgery: Rhizotomy

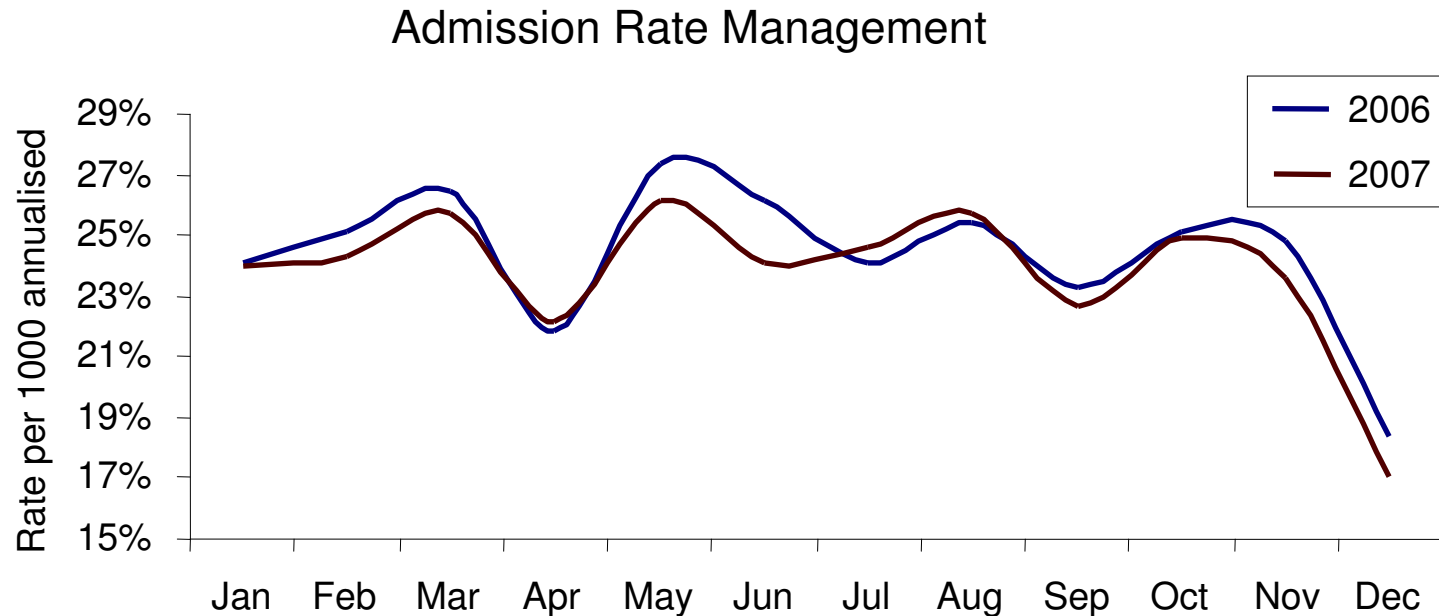


Low Back Medical Admissions



Multiple other interventions

Managing the admission rate



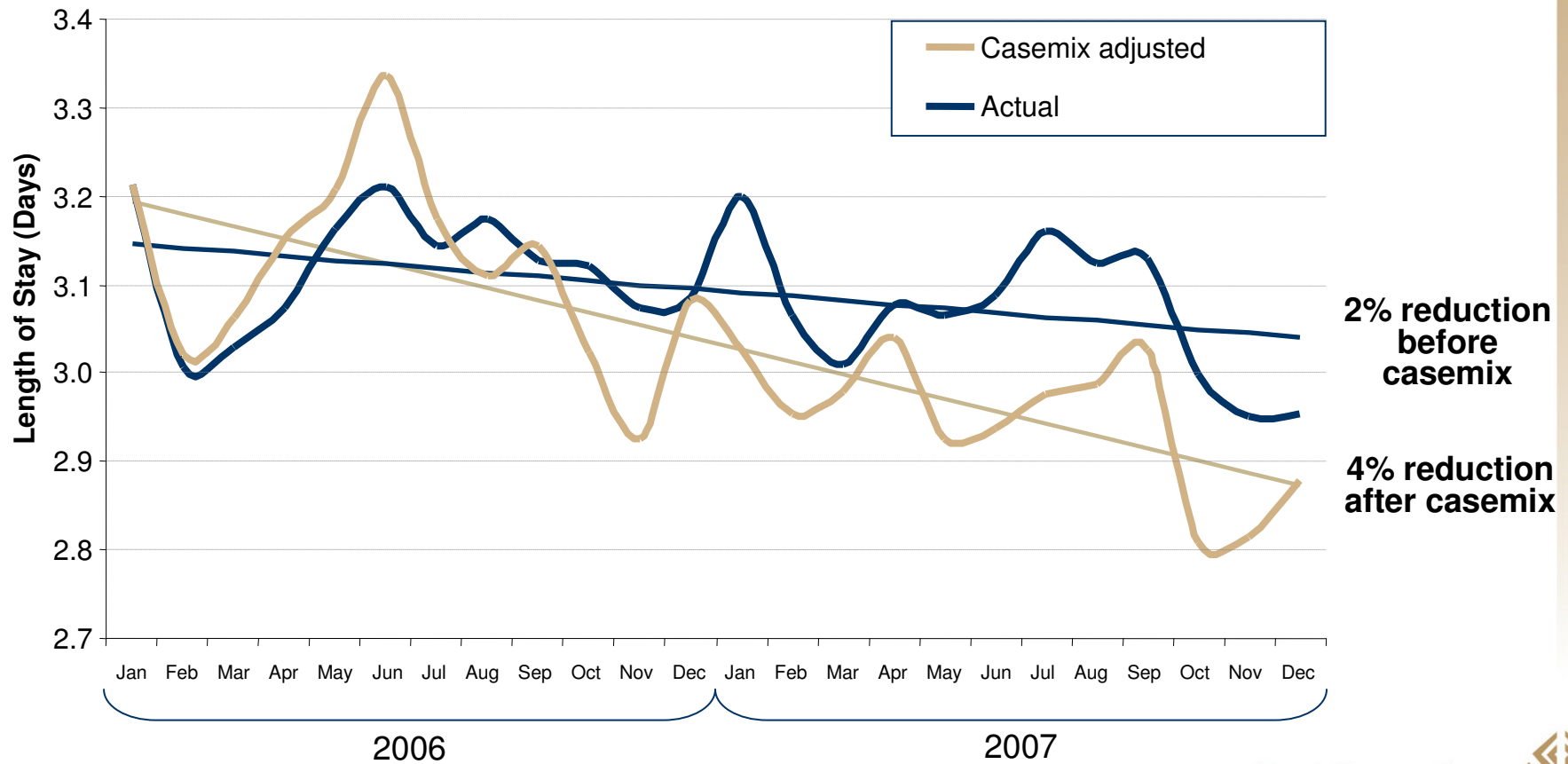
- 1.8% reduction from 2005 to 2006
- 2.1% reduction from 2006 to 2007
- Overall 3.9% reduction over 2 years despite ageing and deteriorating case mix

Managing the admission rate

Estimated savings	R 2008
Specific clinical protocols	96 million
Non-clinical efficiency interventions	85 million
Total	181 million
Savings do not take account of the impact of aging and deteriorating case mix	

Interventions to reduce length of stay

Length of Stay Management



Hospital tariffs & Alternative reimbursement models

Discovery hospital, pathology tariffs significantly below market

- Independent research

ARM's cover 70% of total hospital admissions

Conservative savings estimate: R434m

- Excludes impact of length of stay reductions
- Excludes long term effect of ARM's

Surgical Devices: Key Short Term Strategies

Issues

Solutions

- High volume of new nappi codes
- Nappi Manipulation
 - 6 finger glove
 - Pack size changes
- Volume and mix



- Review new items for price and clinical appropriateness
- Multiple other interventions

- Price Inflation



- Engage in price negotiations

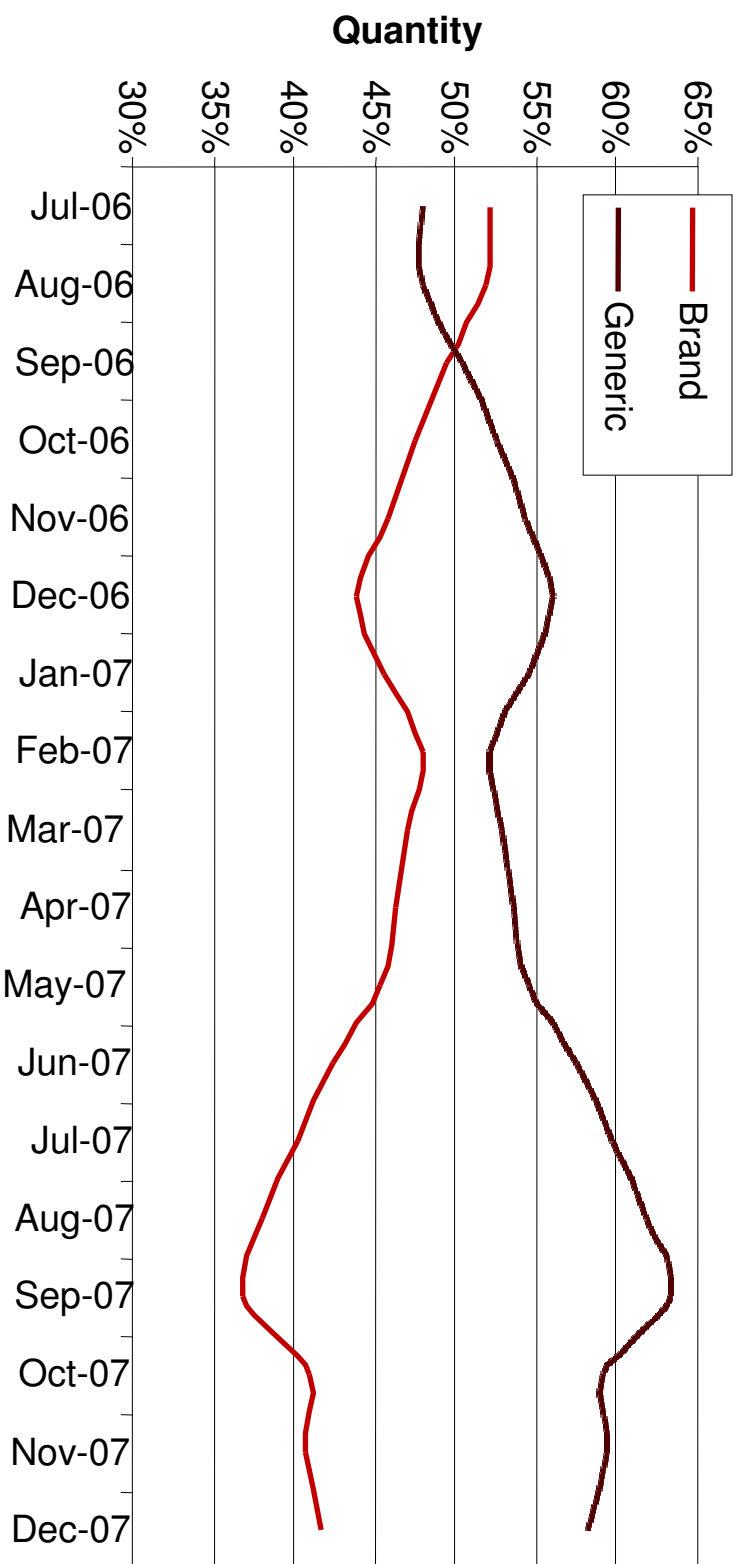
- Gaming of Kits and Packs



- Transparent billing

Cost effective use of medicines

Impact of Hospital Drug Initiatives



Significant early progress

Review of new NAPPI coded items

- Over 8000 new products reviewed since January 2008
- Resulting in attractive market prices in many cases

Mitigating Price Inflation

- DH and hospital groups have mitigated price increases in several cases

Various other interventions

Estimated Savings: R75m - R90m in 2008

Medicine management

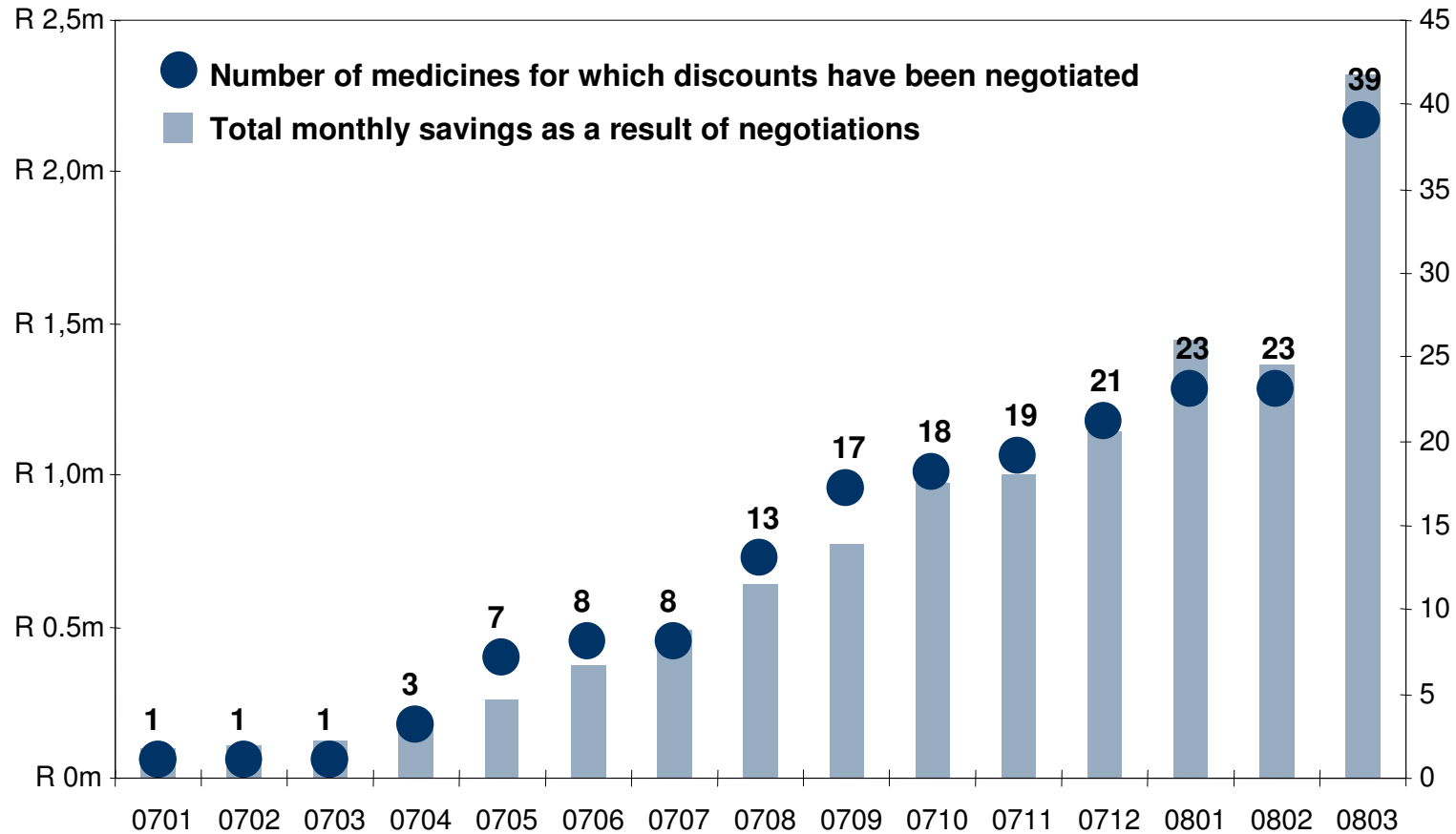
Design and application of formularies

Specific clinical protocols

Medicine pricing and clinical rules

Individual price negotiations - SEP reductions benefit whole industry

Medicine price negotiations



R26m of savings expected in 2008 = R80m savings for the industry

Medicine Management

Estimated savings	2008
Pharmacy benefit management	R 651 million
Specific clinical protocols	R 70 million
SEP reductions	R 26 million
Total	R 747 million

Summary of managed care cost savings

Estimated savings	2008
Reduction in hospital admission rates	R 181 million
Tariff savings	R 434 million
Non-tariff item savings	R 82.5 million
Medicine management	R 747 million
Total	R 1 444 million
ROI	282%

Comments on ROI Estimates

- Highly conservative
- Excludes all standard managed care interventions
 - Hospital pre-auth
 - Bill audit review
 - Length of stay intervention
- Excludes all interventions with professionals and Pay for Performance initiatives
- Excludes all disease management interventions
 - HIV
 - Diabetes
 - Others
- Excludes all quality of care initiatives
 - Hospital
 - Adverse event interventions Rating Index

Conclusions

Discovery administered schemes obtain substantial return on managed care investment

- Return increasing year by year

Requires scale and sophisticated risk management methods

- Risk adjustment
- Predictive modeling
- Clinical and economic technology evaluation
- Negotiation skills

Quantification of savings remains an imperfect science

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