

## What's Really Driving Health Care Spending?

In 2005, health care spending in the U. S. totaled more than \$2 trillion (that's \$2,000,000,000,000)! This is more than the combined market capitalization of GE, Exxon, Microsoft, Citigroup, Bank of America, Wal-Mart, Proctor & Gamble, and Johnson & Johnson. Nationally, employers experienced an 8.4% increase in costs over 2004.

The question, is, why?

According to USA Today and the Kaiser Family Foundation, people vary widely in their perceptions of what drives health care spending:

- 71% blame excessive profits from the carrier and managed care sector
- 58% believe it is due to excessive lawsuits
- 46% think that high tech equipment is the problem
- 30% believe providers drive health care spending

In reality, the actual drivers of health care costs are:

- 30.4% hospital costs
- 31% professional costs
- 13% prescription and medical equipment costs
- 7.2% administrative fees
- 6.5% research and investment
- 3.5% average profit margin of managed care companies and carriers

So, what really drove last year's 8.4% increase in spending? Simply stated, there really are only two factors that **can** drive the cost of health care. The first is **price**—the cost per unit of service—and the second is **utilization**—the number of services per person. Thus, health care spending can be expressed as **price x utilization = employer costs**—what employers are paying on a per-person-covered basis.

### What's Driving Per-Person Costs?

Five factors stimulate the escalation of per-person costs:

- **Cost Shifting.** Government funded programs don't create any margin for hospitals. In order to stay in business, hospitals are forced to shift costs. As Medicare and Medicaid represent an ever-increasing portion of spending, hospitals will continue to shift costs to the commercial market.

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## Managed Care Contracting Strategies:

### The Hospital Perspective

MBS recently asked two North Carolina hospital providers, Richard Sparks of Appalachian Health Care System, and Brenda Turbyfill of CaroMont Health, to share with us some of their perspectives about contracting strategies. Here are some excerpts from their comments:

#### Financial Challenges

**Sparks:** "It's challenging and difficult to operate a hospital where there's such pressure from charity care, bad debts.... And it can vary. In Watagua (County) 50% of our business is Medicare; about 8 to 10% is Medicaid. An additional 12% is state employees. 17 miles away in Linville, 75% of business at Cannon Memorial is Medicare-Medicaid... So you have dramatic differences in the financial background of each institution."

**Turbyfill:** "...what we are concerned about in the immediate future is getting sufficient reimbursement to cover the costs—just cover the costs—of services."

#### Managed Care Contracting Strategy

**Turbyfill:** "Volume does not work, especially in the environment that we work in right now. It only takes a few cardiac defibrillators to put you in financial straits—I don't want you sending me all your cardiac defibrillators if I'm losing money... more and more hospitals have to contract based on what it costs them to provide a service, and if they can't provide that

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# What's Really Driving Health Care Spending?

- **Technology.** Up-to-date health care technology is the industry standard. Staying on the cutting edge in any business costs money. Notable examples include advances in heart septum defect recognition, treatments such as drug coated stents, and genomics.
- **Capital Expenditures.** Of necessity, there is a building boom going on—new inpatient wings, children's hospitals, parking lots, and facility expansions.
- **The Need for High Dollar Services.** Our aging population is in need of certain highly profitable services. This presents an opportunity to capitalize on key cost drivers. For example, the billed price of cardiac procedures has gone up by 10% per year for the past 3 years. Similarly, the cost of colonoscopies has gone up by 25-30%.
- **Single Source Markets.** The Carolinas abound in single source markets. Without competition, prices rise.

## What's Driving Per-Person Utilization?

In addition to the increased medical needs of our aging population, utilization is also driven by:

- The declining health status of the general population. For example, obesity and diabetes are on the rise, increasing the need for more health services.
- Advertising campaigns promoting certain drugs and procedures drive utilization by influencing consumers' choices.
- Emotional versus rational decision making, often especially during the last 6 months of life, leads many to pursue costly and extraordinary life-extending measures.

## How MBS is Tackling the Drivers of Health Care Spending

**1. Per Person Costs:** Our PPO network partner, MedCost, maintains an ongoing focus on provider network discounting. In keeping with this, MedCost recently rolled out new NC fee structures for physicians, and has a similar SC rollout planned. MedCost also monitors annual cost-per-claim growth, and monitors cost outlier specialties like radiology, anesthesiology, emergency medicine, and oncology, addressing issues with providers as needed.

**2. Per-Person Utilization:** MBS/MedCost provides health utilization management programs that span the continuum of care:

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- **Inpatient Review.** Every reduction in inpatient days saves employers approximately \$2000 a day. In 2005 our clients had 187 days of hospital care for every 1000 covered lives, with an average length of stay of 3.9 days. This is well below our largest competitor and the national average (296 inpatient days per 1000 covered lives and 4.6 days average length of stay).
  - **Outpatient Review.** We manage outpatient utilization by reviewing key procedures for medical necessity. For example, avoiding unnecessary MRI or CT scans saves \$1,500 - \$2,000 per scan. In 2005 MedCost found that 8% of requested MRIs and CT scans were medically unnecessary, saving our clients thousands of dollars.
  - **Case Management.** MedCost case management nurses provide special intervention when certain cancers, strokes, spinal cord injuries, or serious illnesses occur. Return on investment for 2005 was 4:1.
  - **Prospective Case Management.** This innovative health coach program helps individuals with certain health risks to achieve and maintain stable status. 81% of participants show positive health status change. (See page 4): "Why Employers Need Prospective Case Management.")
  - **SmartStarts Prenatal Program.** SmartStarts provides expectant mothers with maternity education. Assessment by a prenatal nurse helps identify costly high-risk pregnancies early. 2005 program participants gave SmartStarts a 97% satisfaction rating.
  - **Disease Management.** MBS and MedCost have partnered with FutureHealth to provide disease management for six costly chronic conditions.

## 3. MBS Reports Reveal the Big Picture.

Our comprehensive reporting package brings the whole picture into focus for our clients. Our reports show our clients exactly what is driving utilization and costs in their own employee population, enabling them to create a plan for improving results.

## MBS' Trend

Across the nation, 5% of patients drive 60% of costs. Managing the upward trend in costs clearly depends on successfully managing utilization trends. MBS is pleased to report that in 2005 the MBS/MedCost utilization trend line, on a per employee basis, was in the 4-5% range—at or better than the national average for inpatient, outpatient, primary care, and specialist claims.

## Managed Care Contracting Strategies: The Hospital Perspective

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service and cover their costs then they'll be moving that service elsewhere and letting another hospital have it."

**Sparks:** "We decided in our strategic plan that we wanted to partner with 4 or 5 payers that can get excited about wellness. And what we're going to ask those payers is, if you're going to do business in our neighborhood, we'll negotiate with you, we'll show all our information, all our data, if you'll be honest with us and be fair with us. We want you to also provide a little bit of money so that people who live in our region have the opportunity to enroll in wellness activities. That way you will help control health care costs. We think the future is together, a combined effort to create a healthier patient, a healthier person, and a higher quality of life."

"...please get away from talking to employer groups about discounts. That is the most bizarre thing I've ever heard of."

**- Brenda Turbyfill, CaroMont Health, Gastonia, NC**

### Leveling the Playing Field

**Sparks:** "We are encouraging more diversity in terms of managed care firms. We are already dealing with Medicare, which is half our business, and another portion is Medicaid, and the significant market that Blue Cross Blue Shield has, state employee business. That's basically all our business in two boats—the government and BCBS. That's not good. That's not healthy. So when local businesses call us we try to point out other options. That's why we adopted the philosophy of identifying 4 or 5 other commercial businesses that we have partnered with so we (can say), 'These are good programs for you to take a look at.'"

**Turbyfill:** "I want to encourage (brokers to) please get away from talking to employer groups about discounts. That is the most bizarre thing I've ever heard of. ...Every hospital in every location in this country has a different charge master and a different methodology for charges. If I give you, at Gaston Memorial—these are fake numbers—a 50% discount, you can go back and tell your employer that, but I might be 40% higher than the hospital down the road."

## National Benefit Resources' Dialysis Network

Due to our national epidemic of high blood pressure, diabetes, and obesity, advanced stage chronic kidney disease populations are growing fast. The cost of dialysis services is enormous, with ongoing care costing between \$15,000 and \$40,000 per month. Without negotiated contracts, clients can face markups of over 500% on dialysis services.

National Benefit Resources (NBR) recently announced their Dialysis Network offering for MBS and our clients. This dialysis network arrangement is through United Resource Network and will provide an aggressive and competitive pricing solution for dialysis treatment. This great new option became effective May 1, 2006.

### The NBR/MBS Partnership

"Part of our pricing methodology for stop loss—a significant piece—is the networks. We spend a lot of time from an actuarial perspective evaluating networks, and we find that the MedCost network is one of the best in Carolinas. It can stand up to anybody."

**- Benson Porter, NBR**

## Why Employers Need Prospective Case Management

Brenda Turbyfill of CarolMont Health recently told us that she would tell brokers,

*“The one thing I would encourage you to do as a broker consulting with your employer groups is start encouraging your employers to know their employee population. They don’t know if their population is heading for heart attack, if they’re headed for amputation... I think one of the things you can do for employers is to refocus these folks on managing their own population and designing some programs to address what their health needs are.”*

The MBS Prospective Case Management Program is designed to assist employers with this very task. Prospective Case Management focuses attention and resources on employees with health issues which, if addressed early, may not develop into more serious and costly conditions.

To find out more about this innovative, uniquely proactive type of case management, contact your MBS sales representative.

“The key to controlling health care cost is behavior change.”

– **Mike Cornwell, MBS**

“It’s been documented that 80% of the health care dollars that we spend are unnecessary and avoidable. I walk around my own hospital and I want to grab people and say, ‘Excuse me, what’s wrong with you — you’re 100 pounds overweight and you’re smoking.’ ”

– **Brenda Turbyfill,  
CaroMont Health**

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