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MedCost Benefit Services invited its clients to an informative meeting on August 9, 2006 at Pinebrook Country Club in Winston-Salem. Jeff Thornburg with MBS started the day with an overview of how trend impacts health care costs. Jeff was followed by Sara Hyman, R.N. who discussed the tools MBS offers to impact trend in your health plan. Julia Harshbarger with Catalyst discussed pharmacy trends, giving an update on current and coming drugs. After lunch, Paul Harnett with Moses Cone Health Systems and Brenda Turbyfill with CaroMont Health participated in a moderated panel discussion—addressing health care issues from the provider perspective.

## How Trend Impacts Health Care Costs

**In 2005, health care spending in the U. S. totaled over \$2 trillion, which 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.**



So, what drove last year's increase in spending? 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.
- **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 during the last 6 months of life, leads many to pursue costly and extraordinary life-extending measures.

## 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.

## Tools to Impact Trend in Your Health Plan

### *MBS Health Management Programs*

The bottom line on health management programs is that a small segment of the population drives short-term costs. Therefore, managing the short-term and the long-term is critical. Some employers are trying to impact trend by cost-shifting and raising deductibles. MBS takes a different approach: Looking at conditions vs. utilization, essentially managing the whole person and through behavior modification, which has the highest impact on all populations.

Care Management from MBS is the result of this approach. Focused on total health management, Care Management is an innovative approach to managing the entire person, not just episodes of care. Experienced nurses coordinate care to best serve your employees and create customized, personal plans for each individual. Care Management is uniquely proactive, aiming to prevent rather than treat and relies heavily on patient education, coaching and mentoring for improved self-management. The components of Care Management are:



### **Health and Wellness**

Preventable illnesses are responsible for about 90% of all health care costs. Wellness programs help health plan members develop lifestyles that promote health and wellness and are customized to meet the needs of your employee population. MBS Wellness programs include:

- Health Risk Assessment (HRA)
- Weight Management
- Smoking Cessation

- Nutrition and Exercise
- Stress Management
- Online Health & Wellness
- Nurse Advice Line
- Preventive Care Reminders
- Biometric Screening

### SmartStarts Maternity Education

Proactive steps to ensure the healthiest possible outcome for both mother and baby, including:

- One-on-one phone calls to keep mother on track throughout the pregnancy and postpartum
- Coaching and advice available at any time during pregnancy
- Web site dedicated to tools and information

### Personal Care Management

Personal health coaching and mentoring by experienced nurses that encourages lifestyle changes for healthier living. Year-to-date, 81% of participants have positive change. Personal Care Management impacts those living with difficult conditions that have previously fallen through the cracks. Candidates are identified through:

- Claims data
- Pharmacy data
- Internal referrals

### Disease Management

Personalized care program with periodic interventions, educational materials and nurse coach to promote self management and adoption of a healthy lifestyle. Designed for employees living with chronic diseases:

- Asthma
- COPD
- Diabetes
- Heart Disease
- Low Back Pain

### Case Management

Nurses advocate for employer and employee, focusing on catastrophic and long-term illness or injury.

### Utilization Management

Experienced nurses evaluate medical necessity of inpatient and outpatient services with strong emphasis on concurrent review and proactive discharge planning.

## What's Happening With Your Drugs?

The pharmacy world has its own unique challenges. Particularly when it comes to branded vs. generic drugs. Generic drugs account for 56% of all prescriptions dispensed in the United States, and the generic industry is expected to grow by roughly 13% in 2006.

Because of this growth—and the loss of revenue the large pharmaceutical manufacturers face—they are combating generics in a number of ways:

- Launching new formulations
- Defensive pricing



- Increased marketing and promotion
- Approval for new indications
- Next-generation product launches
- Patent litigation
- Negotiations for authorized generics
- Production transitions to generic subsidiaries
- Pediatric extensions
- Rx-to-OTC switching

So, what is the best strategy to control pharmacy trend? Be aware of patent expirations: make plans for generic promotion and encourage use. Be aware of patent extension techniques/products and question their place in formulary management. And most importantly, **promote generics!**

## Specialty Drugs

Because there is not one clear definition of specialty drugs in the industry, drug coverage under specialty drug programs vary among organizations. Some typical characteristics of Specialty Medications are:

- High cost
- Unique administration
- Specialized uses
- Unique manufacturing processes (e.g. gene therapy, biologics)

This is the fastest growing drug category today. It is estimated that by 2010, one half of all new drug applications approved by the FDA will be for specialty drugs. Specialty trend is increasing at double the rate of traditional drug spend. So what is driving this growth?

- **High Cost**
  - In an average managed plan with specialty coverage, less than 3% of members use specialty drugs but these patients account for up to 25% of the client's overall cost
- **Increasing Utilization**
  - More products available
  - Decreased "stigma"
  - Comfort with safety and effectiveness
- **Expansion of Indications**
  - Traditionally specialty medications were used for rare, genetic disorders (e.g. hemophilia, Gaucher disease)
  - Specialty medications now being used to treat conditions including rheumatoid arthritis, allergies, and diabetes

## How Can you Manage Specialty Trend?

- **Specialty Network**
  - Enhanced discounts
  - Manage compliance and care
- **Utilization Management**
  - Step therapy/prior authorization
  - Ensure appropriate utilization and direct use to first line agents when appropriate
- **Patient cost sharing through appropriate co-payment design**
  - Increased member cost-sharing
  - Consideration to population and "barriers to care"

## The Provider Perspective

### *A Panel Discussion with Paul Harnett and Brenda Turbyfill*

Just as employers are facing issues with health care costs, providers have their own set of unique challenges. Paul Harnett with Moses Cone Health Systems and Brenda Turbyfill shared their perspectives on some of these issues.



#### On Challenges...

- Serving the population while covering the cost.
- Taking care of patients in the safest environment by trained professionals, while keeping technology and facilities up-to-date.
- Bad debt – consumers are less concerned with their credit.
- Increasing competition – “Keeping up with the Joneses”
- Uninsured and underinsured patients.

#### On Network Contracting Strategy...

- Diversity in the payer market is a good thing for everyone. Nobody wants to be dominated by one or two large carriers. It’s time to level the playing field.

“We recently signed a contract, and there is a negligible discount differential between the largest carrier and the second largest. Super-inflated numbers no longer exist. We don’t give anybody anywhere a 60% discount. Call your local hospital if you question what is put in front of you. We will tell you the truth.” – Paul Harnett

- Shift from fixed pricing, to preferred percent of charge. Very few capitated arrangements.
- We are in a reactive market. Managed care is two steps ahead of providers, and they get creative faster than we do.
- Cost shifting from outpatient to cover inpatient – we can’t afford to take care of the sickest of sick. Focus is not volume, not name, but on who pays to cover their patients.

“I hate the word discount. I think it has a negative impact and is bothersome related to health care. No one deserves second rate care at a discount.” – Brenda Turbyfill

## Client Satisfaction Survey Winner

Mary Ann Delphias, MBS Account Manager, awarded \$500 to Kristy Witherspoon with the Charlotte Regional Visitors Authority. Kristy won \$500 for completing the Client Satisfaction Survey conducted in July. Feedback from the survey assists MBS in planning and setting priorities.

