Seizing The Opportunity Of Health Care Change

How Health Care’s Cost Crisis and the Drive Toward A Marketplace Will Change Everything

Brian Klepper, PhD

Did Health Care Think It Could Hold Market Forces At Bay Forever

June 3, 2015
Orange County, CA
**Been On All Sides Of Health Care**

1. Health Care Analyst With Focus on Health Care Market Dynamics/Economics.

2. Former CEO of National Business Coalition on Health, representing 5,000 organizational purchaser and 35 million lives.

3. Principal And Chief Development Officer In A National Worksite Clinic/Medical Management Firm That Exploits Health Care Excesses And Market Vacuums To Produce Savings And Improved Health Outcomes For Purchasers.


5. Spearheaded Campaign Against CMS’ Sole Source Relationship With the AMA’s RBRVS Update Committee.
The Emergence of Health Care Markets

Market forces are influencing mainstream health care for the first time in decades.

This means health care vendors will ultimately need to appeal to purchasers on the basis of cost, quality and safety performance.
What Are Purchasers Thinking Now?
Purchasers’ Perspective: Core Health Care Problems

1. Crushing Cost

2. Half or More of All Cost is Inappropriate or Unnecessary.

3. Poor Management: Health Plans Haven’t Managed Care/Cost Like Businesses Manage Any Other Process

Institutionalized Excess in Care and Cost

Health Plans
- Paying (and Passing Through Costs) For Services At Multiples of Market Rates
- Primary Care Payment That Encourages Specialty Referral
- Control and then Non-Management of High Cost Acute and Chronic Patients
- Open, Performance-Neutral Networks

Physicians and Vendors
- AMA RVS Update Committee

Pharma
- Excessive Pricing Not Tethered To Anything Knowable
- FDA Approvals Based On Surrogate Metrics Without Evidence of Impact

EHR Vendors
- Slow Progress in Facilitating Seamless Exchange of Health Care Information
“Our research found that wasteful spending in the health system has been calculated at up to $1.2 trillion of the $2.2 trillion (54.5%) spent in the United States.”

“[R]edundant, inappropriate or unnecessary tests and procedures [were] identified as the biggest area of excess, followed by inefficient healthcare administration and the cost of care necessitated by conditions such as obesity, which can be considered preventable by lifestyle changes.”

*The Price of Excess*

*PricewaterhouseCoopers, 2008*
In the decade preceding 2009, **79%** of all household income growth was siphoned off by health care.

Health Care’s Growing Burden on Federal Budget Crowds Out Other Needs

Source: White House Council of Economic Advisors
# US Health Care Unit Pricing Is Much Higher

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Avg. U.S. Price</th>
<th>Canada</th>
<th>Switzerland</th>
<th>Spain</th>
<th>New Zealand</th>
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<tr>
<td>Angiogram</td>
<td>$914</td>
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<td>Hip replacement</td>
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Source: 2012 Comparative Price Report by the International Federation of Health Plans. The average prices shown for colonoscopies do not include added fees for sedation by an anesthesiologist, a practice common in the United States, but unusual in the rest of the world. The additional charges can increase the cost significantly.
And Lucrative Pricing Drives Higher Utilization

Magnetic Resonance Imaging (MRI) Units per Million Population, 2006

<table>
<thead>
<tr>
<th>Country</th>
<th>Units</th>
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<tbody>
<tr>
<td>United States</td>
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<tr>
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<td>Germany</td>
<td>7.7</td>
</tr>
<tr>
<td>OECD Median</td>
<td>7.7</td>
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<tr>
<td>Netherlands*</td>
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</tr>
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<td>Canada</td>
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<tr>
<td>United Kingdom</td>
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<td>France</td>
<td>5.3</td>
</tr>
<tr>
<td>Australia</td>
<td>4.9</td>
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</tbody>
</table>

*2005

Global Competitiveness

US Businesses Operating In International Markets Must Overcome >9% Health Care Cost Disadvantage To Be On A Level Playing Field With Competitors In Other Developed Nations (e.g., Australia, Korea, Germany.
Structural Drivers of Excess Risk

• Lobbying

• Fee For Service Reimbursement

• Lack of Quality, Safety & Cost Transparency

• Subjugation of Primary Care
Sources of Excess Supply

• Overtreatment

• Egregious Unit Pricing

• Conventional Steerage

• Lack of Care Coordination
Incentives –
Why Direct (Market-Based) Contracting by Purchasers?

• Everyone in Health Care (Except Primary Care) Is Typically Incentivized To Want Health Care To Cost More.

• Margins Are A Percentage of Total.

• Support for the Status Quo
Organizational Purchasers Are Demanding Better

• Explosion in Worksite Clinic Market
• Rapid Uptake of Transparency Tools
• Transition To High Performance Networks
• Growth of Purchaser Collaboratives

Purchasers Will Leverage Their Collaborative Heft, Favoring Organizations That Do Health Care Well and Withholding Favor From Those Who Don’t
Management of Full Continuum Health Care Risk

- Occupational Health
- Convenience/Urgent Care
- Chronic Disease & Lifestyle Mgmt
- Health IT
- Referral Mgmt
- Direct Contracting
- Benefit Refinement
- Stop-Loss Arrangements
- Benefit Refinement
- Utilization Review
- Carrots & Sticks
- Health IT
- Case Management
- Telemedicine
- Centers of Excellence

Primary Care Medical Home
Emerging Competition – High Performance Health Care

• Different Than Group Purchasing

• Unconventional Approaches
  • Driving Appropriate Care/Cost
  • Disrupting Institutionalized Excesses

• Very Strong Track Records of Improved Performance
Players In Nearly Every Health Care Niche

- Cardio-Metabolic Management
- Musculoskeletal Management
- Oncology Management
- Pharmacy Benefit Management
- Surgical Management
- High Cost Diagnostics
- Dialysis
- High Performance Networks
- Centers of Excellence
- Claims Audit
- Reference-Based Pricing
Questions

1. Causality Narrative: What Do You Do That Is Structurally Different And That Allows You To Get A Better Result In Your Niche?

2. Longitudinal Data Demonstrating Better Health Outcomes and/or Lower Cost?

3. Client Testimonials Affirming Performance + Attesting To Execution?

4. Are You Scalable?

5. Willingness To Go At Financial Risk For Performance?
Four Examples:

Integrated Mechanical Care (IMC)

Employers Choice Rx (ECRx)

Colo-Guard

WeCare TLC
1. Integrated Mechanical Care, Tallahassee, FL

- Musculoskeletal Management (17%-30% Total Spend)
- Built On Mechanical Diagnosis and Therapy (MDT)
- Significantly Enhanced Industrial Platform for Scale
  - Advanced Clinical Guidelines
  - Rigorous Training To Performance Standard
  - Quality Management
  - Clinical Decision Support
  - Integration With Clinical Documentation Platforms
- Can Intervene in Approx. 80% of Cases.
1. Integrated Mechanical Care, Tallahassee, FL

- Case Rates of $175 for Triage, $775 for Mgmt.

- Results Show Significantly Better Health Outcomes

- Half the Recovery Times.

- Half the Cost.

- Significant Drop in Volume/Intensity of Recidivism Events

- Major Clients > 3 Years – Capitol Heath Plan, General Dynamics, Michelin North Am.

- Contracting = Approx. 10% Savings Tot. Spend
2. Employers’ Choice Rx – Ft. Smith, AK

- Coalition-Mounted PBM in Collaboration with PBM Consultant (Rx Results, Little Rock)

- Four Major Design Elements
  - Rewrote Contractual Language
  - Collaborated with UArk Pharm School on True Evidence-Based Formulary, Drug Mfg-Sponsored Studies Given Lower Weight, Focus on Independent Studies. Better Drug Mix at Lower Cost. Disrupted Mfg-Controlled Formularies
  - Contract with Major PBM for Admin/Ancillary Programs To Get Scale
  - Narrow Pharmacy Network – Ousted CVS & Walgreens in Exchange for $5/Script Reduction
2. Employers Choice Rx

• Results Show Consistent 35%-40% Savings Over Conventional PBMs, with Strong Testimonials

• PBM is 10%-12% of Total Spend for 3.5%-4.0% Potential Savings
3. Exact Sciences Colo-Guard

- Home Molecular Diagnostic Test
- As Sensitive As Colonoscopy w/Lower False Positive Rates
- Approved by FDA & CMS. FDA Panel Approval 10-0.
- Retail: $550 vs Colonoscopy About $2,000
- Marketed through Primary Care.
4. WeCare TLC Worksite Clinics/Medical Management

- Uses Advanced Medical Home As Platform for Full-Continuum Risk Management.
- Physician-Led Model.
- Core Primary Care and Medical Mgmt, with Customized Services Based On Group’s Dynamics/Experience.
- Participation >65%.
4. WeCare TLC Worksite Clinics/Medical Management

Indiana Manufacturer 1

6.8% Trend

41% Reduction

PEPM Costs Including Shocks

12 month rolling average  trend  Linear (12 month rolling average)
The Challenge

• Direct Contract with Employers/Unions

• Demonstrate Better Health Outcomes At Reduced Cost
  • Drive Appropriate Care
  • Disrupt Inappropriate Care

Using Your Own Employees First!
The Reward

- More Market Share
- Competitive Market Advantage
- Lower Per Patient Revenues
- Sustainability
Brian R. Klepper, PhD

is a health care analyst and commentator. He is Chief Development Officer for WeCare TLC, LLC, an worksite primary care clinic and medical management firm based in Lake Mary, FL, and Managing Principal of Healthcare Performance Inc., a consulting practice based in Atlantic Beach, FL. He is the former CEO of the National Business Coalition on Health, representing 5,000 organizational purchasers and some 35 million lives.


Brian is a columnist on Business of Medicine and Primary Care for Medscape. He is a regular contributor to The Doctor Weighs In, the Health Care Blog, the Health Affairs Blog, Kevin MD, Health Care Policy and Marketplace Review, and other expert health care blogs.

Brian is a reviewer for Health Affairs and The Journal of Ambulatory Care Management. He is an Advisor to the Lundberg Institute, the Patient-Centered Primary Care Collaborative, which advocates for medical homes.

In his spare time, Brian is an offshore sailor.

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