An Employer Perspective on Health Care Reform

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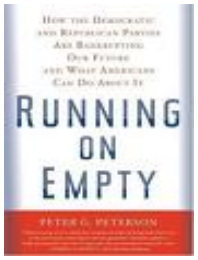
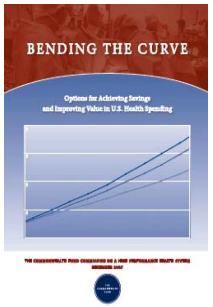
Part 1: An informed consent process – "Where I stand"

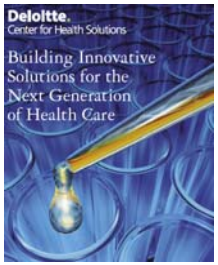
1. Not here speaking to you today with my University of Chicago hat on
2. Experience base is as a CEO (4X) & 25 year healthcare veteran consultant
3. I tend to have contrarian views with a good deal of urgency
4. We have an obligation as large self-insured employers (and healthcare provider systems) to lead the transformation of American medicine"

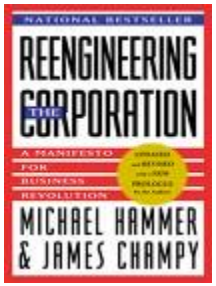
Part 2:Informed consent process – “Where I stand”

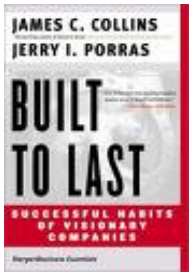


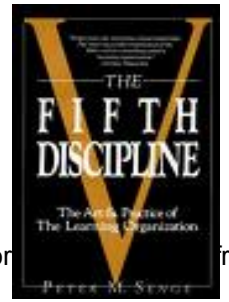
5. We have a wholly unsustainable “system”
6. Universal Coverage + Financing ≠ Reform
7. Pre-occupation with the Revenue Curve (which we are incredibly parochial and protective of)
8. Real reform lays under the Cost Curve by eliminating the waste, duplication, redundancies, inefficiencies, unnecessary variations ($650B of $2.0T)
9. The Pathway to Quality is Through the Doors of Cost
10. Heathcare requires fundamental reengineering enhanced by Information Technology & Leadership Development for sustainability
11. *“Culture eats strategy everyday from lunch (and breakfast and dinner)”.* If we don’t have the courage to lead a state change, then we should stop complaining











Agenda

1. Let's admit that we have a bigger problem
2. Summing up the current disconnects
3. Consider our options and initiate holistic actions
4. How can a Provider (who is also a large Employer & Researcher) make a difference?

How Big Is Our Challenge?

Comptroller General David Walker

"I would argue that the most serious threat to the United States is not someone hiding in a cave in Afghanistan or Pakistan but our own fiscal irresponsibility."

"As life expectancies increase and the cost of health care continues to rise at twice the rate of inflation, radical reform in health care will be necessary."

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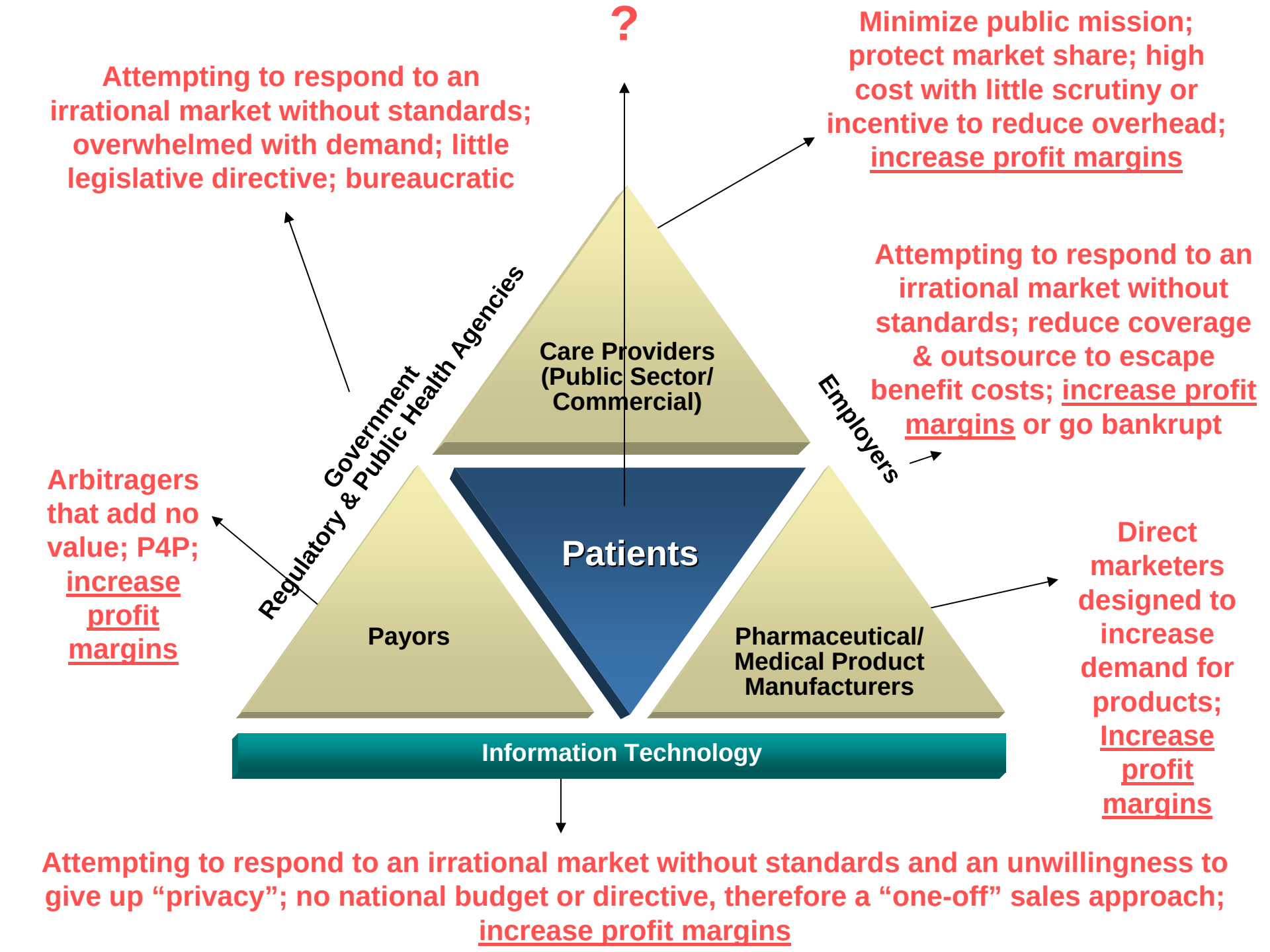
?
Minimize public mission; protect market share; high cost with little scrutiny or incentive to reduce overhead; increase profit margins
Attempting to respond to an irrational market without standards; overwhelmed with demand; little legislative directive; bureaucratic
Attempting to respond to an irrational market without standards; reduce coverage & outsource to escape benefit costs; increase profit margins or go bankrupt
Arbitragers that add no value; P4P; increase profit margins
Direct marketers designed to increase demand for products; Increase profit margins
Attempting to respond to an irrational market without standards and an unwillingness to give up "privacy"; no national budget or directive, therefore a "one-off" sales approach; increase profit margins
Government Regulatory & Public Health Agencies
Employers
Care Providers (Public Sector/ Commercial)
Patients
Payors
Pharmaceutical/ Medical Product Manufacturers
Information Technology

Underlying Entitlement Mentality Challenge

What Americans want from the Healthcare system:*

- We want the best care;
- We want it immediately;
- We want the most advanced drugs and technology;
- We want someone else to pay the bill; and…
- …if anything goes wrong, we want to sue someone.

AND

We don't want to change any of our lifestyle choices and habits, even when they know their health suffers and costs rise because of them.

We want to live as long as possible, regardless of the cost or the quality of the extended life we get.

* Tom Gorrie , Johnson & Johnson

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So What Are Our Options

- Continue an aggressive “whack-a-mole” strategy.
- Hold on until it’s someone else’s problem.
- When faced with a health benefits crisis, do what other industries do… outsource.
- ✓ Create a employer-led transformational initiative that meets the challenges simultaneously with alignment across the research, education & patient care missions!

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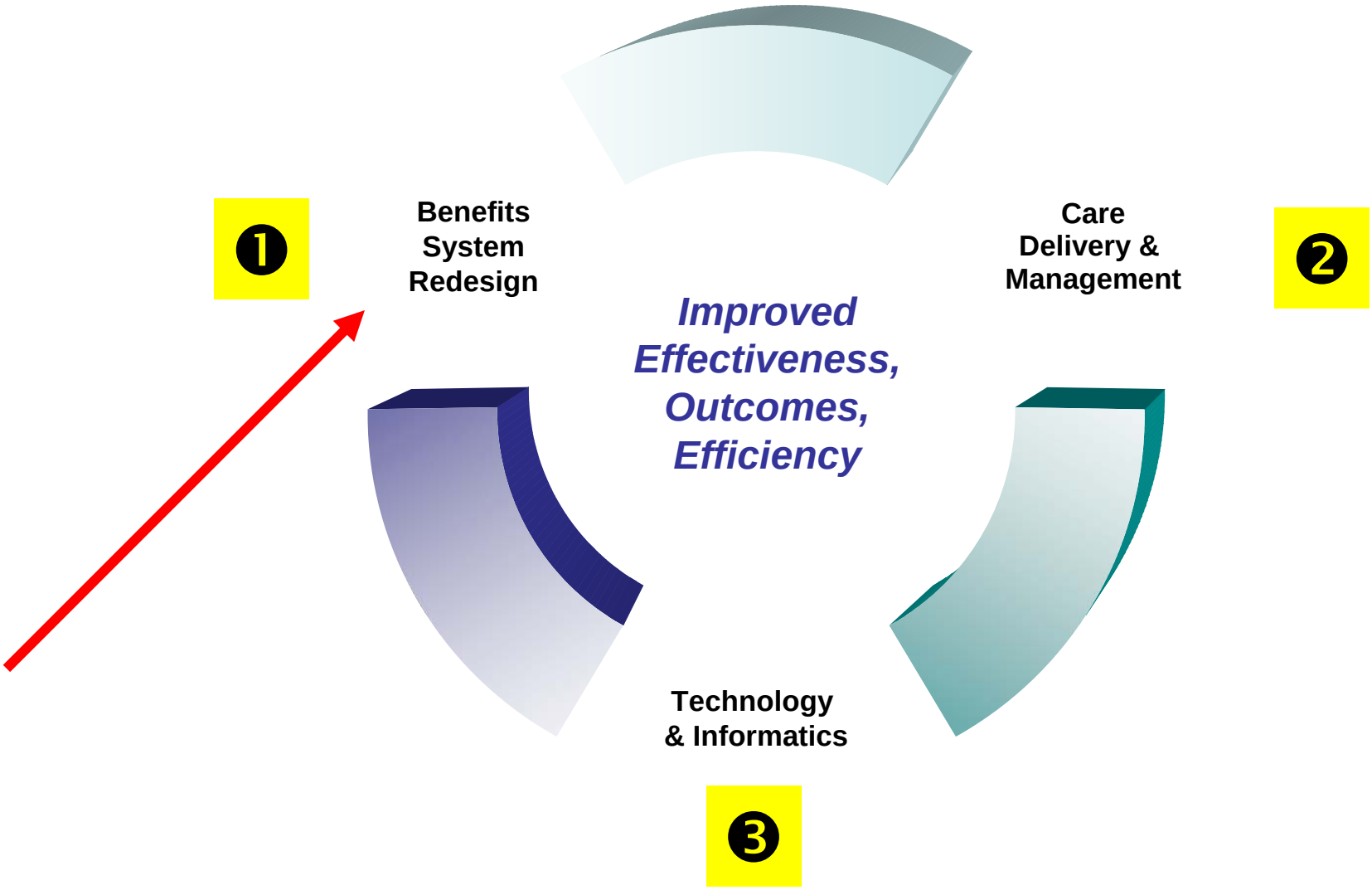

One Provider's Health Plan Redesign

- Self-insured employer with 12,000 covered lives; one plan offered with high deductibles (eg, $3000 family)
- Premiums reverse indexed by income level (eg, low income = $2000/yr; high income = $7000/yr)
- Employer-funded HRA component seeded against the deductible; also reverse indexed by income level (eg, low income = $2250; high income = $400), with first-dollar coverage
- Evidence-based, preventative care services covered and paid in full
- Incentives for:
  - using employer facilities for expensive testing, procedures, hospitalization, specialty care ($0 co-pay) [primary care available throughout payer network]
  - engaging in weight loss and stop smoking initiatives ($200)
  - educating yourself in advance directives & arbitration clauses ($100)
- Unspent HRA balance rolls forward each January 1 with new HRA investment added; 5 year vesting period on total unspent balance

One Provider's Health Plan Redesign

- Town Hall meetings with 4,500 employees, staff, faculty
- Trained up 200 executives and managers to answer FAQs
- An extended 45-day, hands-on, open enrollment period
- Transparent pricing and comparison shopping
  - Comparison data for assessing our new plan against external plans
  - Intranet website for internal price comparators (procedures & visits)
  - HR Help Line to answer employee's questions
  - Clinic cheatsheets and physician education
- Exclusive, long term, single payer agreement for low cost ASO and web portal services; incentive terms for maintaining top quartile cost & real P4P quality outcomes

One Provider's Health Plan Redesign

- First year results
  - Highest ever enrollment (96%)
  - 13% total spend reduction against prior year actuals
  - 25% total spend reduction against predicted budget
  - 40% of seeded HRA dollars savings rolled over
- Second year results
  - 9% CAGR after 2.5 years; however, when adjusted for employee growth and inflation, spending is flat !
  - Satisfaction has increased overall with some predictable responses
    - Employees paying less are generally positive
    - Employees paying more were less satisfied
    - Employees with chronic diseases not satisfied due to spent HRAs and deductibles
- Cumulative 4 year results
  - Removed over $9M of costs per year (25% reduction) from projected course and speed

Patriot 2-19-06

HEALTH CARE

Remedy sought for insurance woes

Medical center tests cost-sharing strategy

BY DAVID WENNER
Of The Patriot-News

Penn State Milton S. Hershey Medical Center is no longer limited to battling disease. It has begun testing a cure for what many regard as the biggest threat to health care: out-of-control costs.

The experiment is based on the increasingly popular concept that people must take greater responsibility for their health care, including footing more of the bill. But it has unique features, including a lower level of cost sharing for lower-paid employees and a higher level for those at the top of the income ladder.

That makes it a bitter pill to swallow for some of the medical center's doctors and other high earners, who now are charged more for their health care.

On Jan. 1, the medical center's 7,000 employees were shifted into high-deductible health insurance plans combined with health reimbursement arrangements, known as HRAs.

The employees previously paid part of their health insurance premiums but had low deductibles and co-payments. Now they face annual deductibles of at least $1,000 and significant co-payments.

To help with those costs, the medical center contributes money to the HRAs. HRA contributions vary based on income, with the largest amounts going to those who earn the least.

Dr. Darrell Kirch, CEO of the medical center, said a drastic change in

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Employers aim to stub out smoking

BY LISA CORNWELL
Of The Associated Press

Smokers already feeling pressure from increasing cigarette costs and workplace smoking bans are now feeling squeezed from another direction — health insurance premiums.

A growing number of employers — private and public — are charging employees who use tobacco more money for their health insurance coverage. Employers hope that the higher charges will motivate more employees to stop smoking, resulting in improved health and lower health-benefit costs for the companies and their workers.

Meijer Inc., Gannett Co., American Financial Group Inc., PepsiCo Inc. and Northwest Airlines are among the companies already

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SMOKE SIGNALS

SOME PRIVATE AND public employers that require tobacco-using employees to pay more than non-users for their health insurance:

- American Financial Group Inc.
- Gannett Co.
- PepsiCo Inc.
- Meijer Inc.
- General Mills Inc.
- Western & Southern Financial Group
- Northwestern Mutual
- Blue Cross of Idaho
- States of Georgia, Alabama, West Virginia and Kentucky

PLAN: Medical center seeks cure for health care costs

Continued from Page C1

health benefits is the only way to prevent the medical center from eventually collapsing under the weight of the health care costs of its employees.

The medical center's position as a payer of employees' medical expenses, as well as the provider of those medical services, makes it a unique "laboratory" for developing a solution to the cost crisis, he said.

The cost of health care for medical center employees was $32 million in 2005, with the medical center paying $26 million and employees paying $6 million, Kirch said.

If spending would continue unchecked, he said, the cost would reach $110 million in 2015, with the medical center paying $88 million and employees paying $22 million. Neither employer nor employee could withstand such costs, Kirch said.

Kirch believes the root of the cost explosion is the expectation of receiving the best possible care while bearing little of the cost.

During months of meetings with employees to discuss the health plan, Kirch said, he and other executives were shocked by employees' "disconnect" with details of their health benefits.

Employees knew details of their auto insurance, said David Hefner, chief operating officer. But they knew little about their health insurance and the actual cost of their health care, and they were similarly uninformed about details of their health, such as their blood pressure and cholesterol levels.

"We sat there and said how did we get so disconnected?" Kirch said.

The theory behind Penn State-Hershey's approach is

KIRCH

HEFNER

that costs can be reduced by establishing a strong connection between the health care people use and the cost of that care, and between employees' personal health and the lifestyle choices that affect it.

The plan encourages preventive care and healthy lifestyles, requiring minimal copayments for preventive care. It gives extra HRA contributions for healthy-living practices, such as quitting smoking or participating in a walking program, and even for learning about important health topics.

It also attempts to impact major cost drivers, such as end-of-life care and medical malpractice. Employees can earn extra HRA contributions by reviewing educational materials regarding advance directives and the use of arbitration rather than malpractice lawsuits.

So-called "consumer-directed" health care, typically involving HRAs or the closely-related health savings accounts, are widely promoted as a way to get people to spend more wisely on health care.

Yet Kirch said consumer-directed health care often amounts to "cost-shifting" of health expenses to the employee.

He contends people with lower incomes are unlikely to adequately fund an HSA and would be driven to avoid primary and preventive care.

With that in mind, Penn State-Hershey sought to ensure that lower-paid employees don't end up with less access to medical care.

Hefner has no estimates on how much money the medical center will save. The plan represents a long-term approach and it will take years to measure the impact, he said.

The plan has the greatest financial affect on the medical center's highest earners. Hefner, the No. 2 executive at the center, said he shopped for family insurance coverage before deciding to stick with the medical center's plan.

The medical center has 461 employers who earn $100,000 or more, with most doctors earning more than $100,000 a year.

As an example, an employee who earns $150,000 now pays $306.25 per month for family coverage — about twice as much as before. The medical center puts $670 per year in that employee's HRA — well below the $2,050 contribution it makes to someone who earns $75,000 or less.

Doctors at the medical center met several times late last year to discuss what they viewed as deteriorating benefits and privileges, and the health plan was commonly cited as an example.

The Service Employees International Union, which represents 1,000 registered nurses at the medical center, supports the plan, and nurses pay slightly lower premiums than before, said Neil Bisno, a union official.

Bisno stressed that the SEIU supports national reforms to make health care affordable for all workers. But he said the medical center is sincere in its desire to use prevention to make health care affordable and to ensure quality care for people of all incomes.

"This particular employer is trying to take some creative steps [to solve the health care crisis], and our members have decided to work with the employer to address those challenges together," he said.

The SEIU also likes the HRA, because it provides an opportunity to save for post-retirement medical expenses, Bisno noted.

"It's a whole different way of looking at how you approach health care for you and your family. I think pretty many people are fairly happy with it," said Jamie Coleman, a registered nurse at the medical center.

Kirch said the United States has failed to adequately address the health care crisis, and it may be too late.

But he believes its makes sense for an academic medical center to provide a solution, and he holds out hope the Penn State-Hershey experiment can turn into a model for other employers.

"The health care system is going to decide what the next decade is like in this country," he said.

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Acceptance of options takes time

So-called consumer-driven health plans based on HSAs and HRAs have been slow to catch on.

A survey released in November by Mercer Health and Benefits found they were offered by 22 percent of large companies and 2 percent of small businesses. All told, 1 percent of workers were enrolled in such plans in 2005.

Kevin Erb of Conrad Siegel Actuary, a health-benefits consultant, regards the Penn State-Hershey plan as unusual because of the greater HRA contribution to workers with lower incomes.

"I think that's a very unique and a good approach," said Erb, a vice president with the Susquehanna Twp.-based firm.

A recent survey by the Employee Benefit Research Institute found people in HSA- and HRA-based plans were much more likely to avoid or skip health care because of cost, especially if they earn less than $50,000. It also concluded that people in such plans were making cost-conscious decisions, but they found it difficult to obtain information needed for such decisions.

The Penn State-Hershey plan offers a resource for employees to find out how much procedures cost.

Bob Whalen, an analyst with Mercer, disagrees that people in consumer-directed plans are avoiding care. He said the plans are causing a reduction in unnecessary care, but they are providing an incentive to take better care of chronic conditions such as diabetes.

"It's about reducing the use of some things, but increasing the use of other things that are more important," he said.

He said Mercer, a national firm, has about 250 clients that offer HSA- or HRA-based plans.

DAVID WENNER / The Patriot-News

PLAN AT A GLANCE

HERE ARE SOME basic details about the new health plan at Penn State Milton S. Hershey Medical Center:

- **It costs $985.25 per month** to provide high-deductible coverage for a family in 2006, the medical center said.
- **The portion of that amount** paid by the employee varies by income. For example, someone who earns less than $75,000 a year pays $142.86 per month for family coverage. Someone who earns $150,000 pays $306.25.
- **The annual deductible** — the amount the employee must pay before insurance kicks in — is $3,000 for family coverage. However, the deductible is $6,000 for services from providers not owned by Penn State-Hershey or not within the Capital Blue Cross provider network.
- **Employees get a health reimbursement** arrangement, or HRA, to help pay deductibles and co-payments. The medical center puts $2,050 into the HRA of someone with family coverage who earns less than $75,000. It puts $670 into the HRA of someone who earns more than $150,000.
- **Employees can earn $100** for their HRA by completing a health and wellness profile, and they can get another $100 by reviewing information about blood and organ donation, medical liability and end-of-life issues.
- **An HRA is an Internal Revenue Service-approved way** for an employer to contribute pre-tax money toward employee health care. Employees can't contribute to the HRA. The Penn State-Hershey HRA becomes vested after five years. Employees can't take their HRAs with them if they leave, but they can continue to bill it for medical expenses until it's depleted. HRAs are slightly different than health savings accounts, or HSAs, which allow the employer and the employee to save pre-tax dollars for health care. HSAs are portable, meaning employees can take them with them when they leave a job.
- **Penn State-Hershey is self-insured.** Its health plan is administered by Capital Blue Cross.