Optimatum

OPTIMIZE BENEFITS COSTS

Managing Health Care Costs with Accountability:

A Whitepaper

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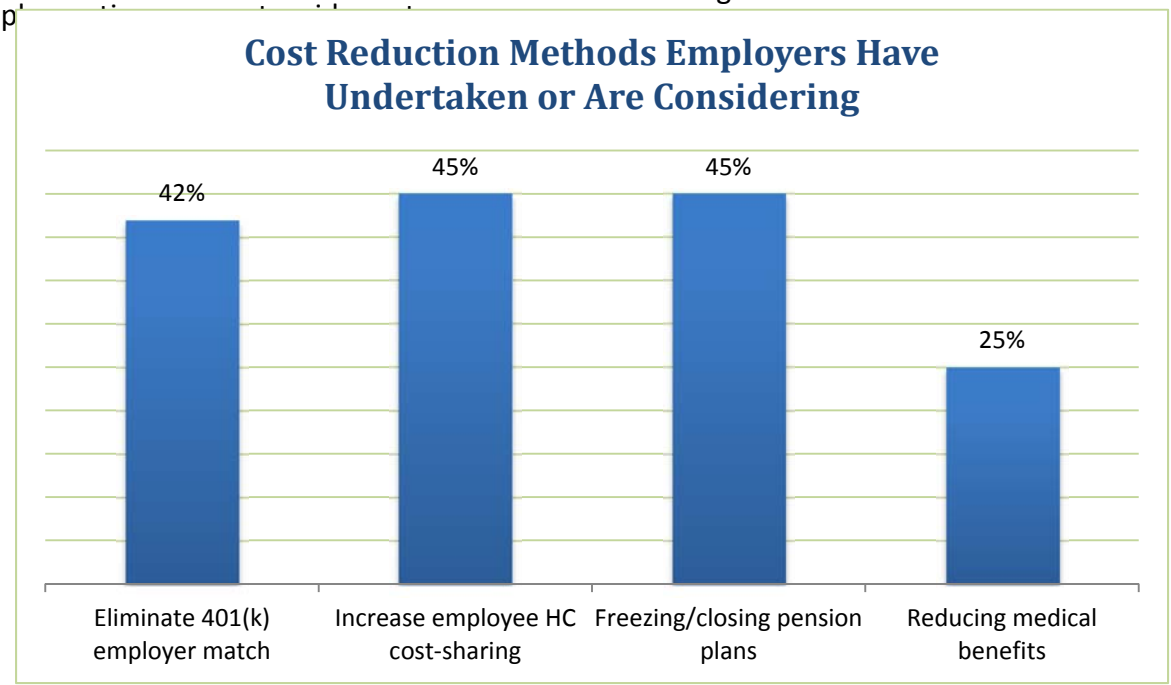
The Recession's Economic Impact on Health Care Benefit Programs

Despite the fact that revenue growth has been slowing down for many companies in this economic downturn, costs of health care continue to accelerate and are expected to climb up by another 9% in 2010.[1] While the average healthcare expenditure of OECD countries, most of which have socialized healthcare, is at 9% of its GDP, the United States has been ranked highest in healthcare expenditure, spending 16% of the nation's GDP. A study by Duke University further ranks healthcare cost as one of the top concerns among U.S. executives.

Countless employers are aggressively imp

reduction, including reassessing and adjusting their employee benefit programs. In fact, many employers are making last minute changes to their benefit program in response to the economic climate.[2] A recent survey conducted by Hewitt Associates on 518 U.S. companies indicates that a large percentage of employers have undertaken or are considering eliminating 401(k) matches, increasing employee health care cost-sharing, freezing or closing pension plans, and reducing medical benefits.[3] The thwarting state of the U.S. economy has no doubt made a considerable impact on employers' health benefits strategies.



Inefficiencies in the Ailing Health Care System

Some have criticized the U.S. health care system to be dysfunctional, because it has failed to promote transparent, cost-effective, and value-driven care. Consequently, the system creates numerous wastes that contribute to the incessantly escalating cost in health care benefits. Each year, these inefficiencies account for many leakages in health plans that lead to billions of employers' dollars lost; and there are no shortages of such examples.

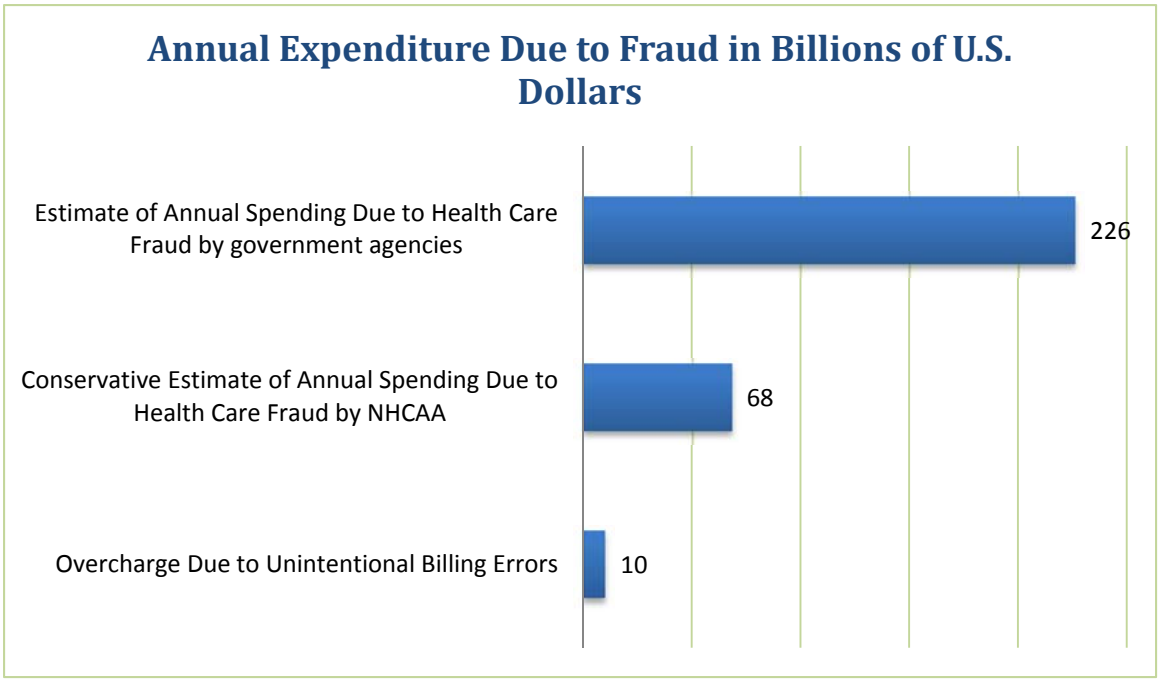
Case Studies: Contracting and Fraudulent Billing

In 2006, Oakland County discovered add-on charges from Blue Cross Blue Shield that were tucked away in obscure contract language. The fees started to accumulate in 1994 and amounted to staggering $16.9 million.[4]

In 2009, Office of Inspector General for the U.S. Department of Health finds that 18% of Medicaid personal care services claims made by providers in New York City did not comply with federal and state requirements.

2006 antifraud initiative for Florida on small cases finds $100 million in overcharges and fraud.

National Health Care Anti Anti-Fraud Association puts the cost of overcharges due to unintentional billing errors at $10 billion.[5]



Source: National Health Anti-Fraud Association

Case Studies: Pharmacy Benefits Management (PBM)

Last year, Walgreens paid $35 million to resolve a lawsuit in which they switched prescriptions without physicians' authorization to increase its profits.[6] This June, CVS AdvancePCS, a PBM, raised conflict of interests questions when it collaborated with Eli Lilly to market the brand name drug Zyprexa for the drug maker, when there is a cheaper generic alternative on the market.[7]

These problems frequently occur when health plans subcontract their pharmacy benefits to PBM; And the importance of monitoring the cost-effectiveness and guideline adherence of these subcontractors are often overlooked.

Recently, the State Auditor of Texas has audited PBM contracts and discovered issues in the areas below. [8]

As a result of these findings, the state auditor has recommended that institutions adopt best practices or obtain professional advice to provide assurance in contract procurement and adherence.

In addition to auditing PBM contracts, employers should also evaluate their generic utilization rates. Numerous blockbuster drugs, including the best-selling Lipitor, are coming off patent within in the next few years. As a result, there will be more than $104 billion of savings between 2009 and 2015.[9] Generics utilization is forecasted to go up from 65% to 75% in 2009. Employers can expect to save a substantial amount in medications as the cost of generics averages at $26 versus $146 for brand name drugs.[10] Although generic drug utilization has increased over the past few years, studies indicate that generics drugs are still underused. Employers seldom are aware their own

State Auditor of Texas: Findings in PBM Contract Audits

Audit rights: Current contract provisions restrict state institutions and auditors' access to information necessary to verify PBM contractors' compliance with their contracts.

Costs, discounts, and fees: Necessary provisions are not in place to ensure clear understanding of the true costs and discounts associated with their plans.

Drug formulary management: Contracts do not clearly state whether PBM contractors are allowed to substitute drugs and do not always required PBM contracts to provide notification before making changes to the list of drugs approved for purchase.

Protection of confidential data: Contract does not define whether PBM contracts are prohibited form selling plan data.

Contract monitoring: There are inconsistencies in how performance standards are defined. Additionally, institutions are not consistently requiring PBM contractors to disclose any policies, practices, or relationships that have conflicts of interests.

Source: SAO No. 08-042

utilization trend and how it compares to the national trend. Furthermore, if the vendors do not pursue these opportunities on behalf of their clients, are not actively managed, these savings often do not incur.

Case Studies: Disease Management

More employers have realized that healthy workers and full care cycle approach lead to cost reduction and consequently have provided these programs to their employees[11] – lately, the most notable being Safeway's Healthy Measures program.[12] In a recent survey conducted by PriceWaterhouseCoopers, the number one decelerator of health care cost in 2009 is disease management (DM); and 63% of employers have contracted with DM programs.[13]

Nevertheless, many employers that offer DM are not seeing the expected return on investment in either improved employee health or long-term cost savings. Simply offering these programs is not enough. The programs do not work, and savings are not realized if eligible employees with the chronic conditions have not been identified and therefore are not participating.

In a recent case study, an employer faced the issue of negligible participation in its DM program. A closer look at the data reveals that the populations identified for each DM class were inaccurate and represented very minor portions of total claimants. This was partially due to the DM vendors' lack of liability. The DM vendors primarily contacted members through mailing and generated few responses. In addition, the vendor was not following up with potential enrollees to increase participation rate.

Moving Forward with Accountability

During plan renewal, plan administrators often work with large amount of data in a compressed time frame. Given nature of this process, one would not be surprise by plan administrators' inclination to act reactively in vendor management.

To weather through the economic crisis, employers should take a proactive approach in their plan and vendor management. Although the Health Care Reform aim to repair the U.S. health care system, its benefits and drawbacks are still unclear as details of the legislation have not been cemented. Moreover, it may take a prolonged period of time to implement the reform and see actual results. Regardless of the eventual result in Washington, employers can seek immediate relief by identifying leakage in health plans and holding vendors accountable and therefore reduce costs without the need to shift expense to employees or cut back on benefits. Employers can negotiate benchmarks and service-level agreements to ensure measurable performances and cost-effectiveness.

Whether a company decides to get training internally or hire knowledgeable specialists externally, evaluation of its existing plan and vendors will most likely unravel leakage that can be repaired and save 10 to 12% in health care costs during the first year.

In the midst of selecting from various cost reduction methods, chief executives have identified the following three factors as the most important criteria upon which they base their decisions: 1) short-term financial impact, 2) impact on business in the long-term, 3) impact on employee engagement and trust.

The Optimatum Solution immediately identifies areas for significant saving and realizes these savings in about three quarters. Moreover, through proper plan and vendor management, a saving of 5 to 7% can be maintained every year, in addition to the initial savings of 10 to 12%. By holding the vendors accountable rather than shifting costs to employees or reducing benefits, employers can demonstrate their respect of employee welfare and avoid impact on employee performance and morale.

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About Optimatum Solutions LLC

Optimatum Solutions LLC specializes in helping clients optimize health plan costs without shifting costs to employees or cutting benefits. We work with senior executives to deliver hard-dollar cost savings quickly and maintain savings year after year.

We provide independent, vendor-neutral expertise in pharmacy, medicine, nursing, actuarial science and plan management. By uncovering and eliminating unnecessary expenses and engaging in active, ongoing plan management, our services lead to healthier balance sheets and P&L statements.

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