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What's Driving Your Medical Cost Trends?

An Overview of Health Plan Trend Analytics and Management

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Overview

Traditional trend analysis is all about using historical results to predict future outcomes. For health plans, it can be a powerful way to minimize risk, maximize efficiency, and price products appropriately. But it is one thing to identify key trends and quite another to consistently manage them in ways that benefit your organization and its members.

New treatments and technologies emerge. Drugs go off patent or become available over the counter. Government policies lead to new legislation. Medical and operational costs seem to change daily. These events drive medical cost trends and make it challenging for health plans to price their products and services. Health plans must actively anticipate and manage trends in order to wisely design benefit packages and maintain adequate reserves. Anticipation and management requires advanced trend analytics capabilities that can help to determine which short- and long-term trends are vitally important to the key drivers of those trends, at any level of granularity.

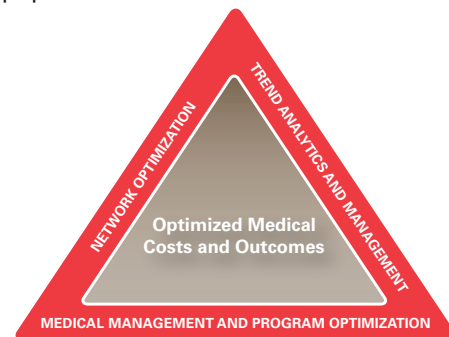
In order for a trend analytics and management program to be effective, it must address business needs by continually making progress in the following areas:

- Medical expense and utilization management
- Administration and financial management
- Trend analysis, management, and forecasting
- Integration of clinical cost/quality management with measurement programs

Of course every health plan has astute staff who know what their trend lines are. But far too often there are several trends competing for attention, and decision-makers' areas of interest fracture along predictable lines: The clinical analysts concentrate on important medical discoveries, the actuarial team focuses on anomalies in financial numbers or member populations, and underwriters and marketing favor any trends that enable more competitive pricing. A successful program must maintain a delicate balance and bring all of this disparate thinking together around the bigger picture—a single version of the truth—so that everyone is committed to goals that are consistent across all data and all teams.

In more concrete terms, how do you get everyone on the same page in efforts to increase your bottom line without raising premiums? What mechanisms can you put in place to reduce medical expense inflation? What can you do to eliminate unproductive programs and processes? The answers are in the trend lines.

As health care reform continues to dominate media attention, it seems like everyone is decrying the high costs and inefficiencies of the current system. But with or without reform, there are ways for progressive health plans to gain efficiencies and cost savings while enhancing benefits for member populations.



Three Key Imperatives for Success

It may look like an oversimplification, but one can distill trend analytics and management program essentials down to three key imperatives:



Know Your Trend

(Retrospective and Historical Analytics)—Utilize claims and other existing data to develop analyses that cover areas such as trends in cost per service, utilization, and intensity by enrolled member and by patient. Reports can be tailored to focus on specialty, service category, therapeutic class, and condition/disease. The reports identify trend drivers and outliers, variations in specialties, and diagnosis categories, as well as changes in products and markets.

Bend Your Trend (Benchmarking and Mitigation)—Analyze trend drivers and statistical outliers to determine root causes. Start with detailed claims data at the patient, provider, and code level. One path of investigation may lead to analyzing claims by age and/or gender to identify whether the appropriate patients are receiving treatment. A second path may follow detailed CPT code analysis, allowing you to determine if there are issues with new or retired codes, or if providers are changing the codes they use to gain payment for denied procedures.

Predict Your Trend (Trend Forecasting)—Manipulate historical claim and eligibility data sets to derive projections via actuarial methods to be used for underwriting, sales, and management strategies. This allows for forecasting the financial impact of a variety of changes including contractual relationships, forecasted membership, and emerging technologies—enabling you to proactively manage anticipated changes from strategic and financial perspectives.

The Tools of Effective Trend Analytics and Management

In order to establish a clear picture of current and future trends—and associated risks, costs, and opportunities—health plan trend analytics and management programs should have at their disposal:

Resource datamart—An integrated, robust, decision support solution that gives your organization the flexibility to analyze and dissect data using a wide array of dimensions or measures. Report views should be customizable to allow individual users to focus on the data they need most.

Risk assessment tools—An integrated platform encompassing clinical resource measurement, risk assessment, predictive modeling, and quality measurement tools. This platform should use a consistent data-mining methodology to transform volumes of health care data into readily accessible, actionable information.

New Technology Alerts—It's important to have a knowledgeable industry leader's perspective on important

clinical research, emerging technologies, and their likely impact on health care costs—so you can better anticipate future medical expenses and plan accordingly. This can simply be a subscription to a reputable think tank's newsletter or other publications.

Drug Benefit Assessment Tool—Enables strategy modeling of Rx plan designs before implementation and provides a clear understanding of the financial impact of benefit changes. This tool should be capable of analyzing formulary changes, drug tiers, co-pays and more.

Consulting Expertise—Consulting assistance for areas where in-house resources are limited or outside opinions can bring in new ideas or support current strategic direction. This may include support that provides a variety of actuarial, underwriting, and strategic services—specifically, actuarial pricing models, clinical management expertise, Medicare bid submission and bid-cycle support, and product and service consulting.

Operational Expertise—Consulting assistance for improving performance throughout “quote-to-bill” administrative processes—helping you reduce operating costs, limit transactional defects, and improve overall member satisfaction and retention. Qualified consultants can assess how the people, processes, technologies, and data that make up your operations can be optimized.

Benefit Design Expertise—As the industry evolves and Medicare benefits change, health plans need to be prepared. The right staffers or consultants can provide accurate trend numbers and predictive modeling that allows the organization to have realistic expectations of risks, while providing members with a variety of plan pricing options.

Underwriting Analysis—Effective process analysis can strengthen and accelerate underwriting. By refining processes and adding automation, health plans can optimize pricing and streamline workflow between underwriting and actuarial departments. Moreover, sales or brokers get the information they need when they need it.

Utilization Benchmarking—Review and revise utilization management protocols for greater profitability. This

The Value of Trend Analytics: An Abridged Case Study

A first-hand account of how Ingenix consultants used trend analytics to realize cost savings for a large health plan

“Our client’s CFO was concerned about a mysterious trend related to out-of-network services. The first thing we did was to make sure their data had the segmentation we needed—the large group, small group, individual, HMO, closed panel, and various provider groups. Which it did, but the health plan didn’t always use this data segmentation for their analysis. Then we looked at the claims data to see if it contained any flags that we could use.

“In addition, we topped things off with ‘completion factors’ or IBNR (Incurred But Not Reported claims). It’s our way of being able to accurately estimate cost per service and utilization by health cost category. We’re even able to segment within Inpatient. So, for example, for a given time period we can estimate transplant costs, whose claims always come in slowly, as well as easy services more quick to complete like maternity.

“We created a set of HCTAs (Health Cost Trend Analysis reports), and then did a financial reconciliation to make sure that the numbers that were being reported were consistent with those that the health plan used to establish trends. You’d be surprised how often those numbers don’t match. Sometimes it’s something as simple as including 1-life groups in individual insurance and not realizing it.

“We prepared our reports and started looking for specific outliers. Our information was complete on the facility side, but the professional side included some capitated providers that muddied the waters and had to be separated out. When we did this, it was clear that their key trend drivers were on the Inpatient side. We drilled down further to look at specific types of services provided in geographic regions and discovered outliers to our national benchmarks as well as outliers to client-specific benchmarks we had derived from their data.

“The data showed that, in general, their year-over-year Outpatient trends were 6 percent, and their net outpatient surgery and specialty procedures were three times what other PMPM trends were.

“With this information, we created a list of key drivers with the top five contributing categories of service that contained those outliers. We split drivers by utilization and cost/service. In cost/service, there’s a mix of services that required a further drilldown.

“We sorted Inpatient service analysis by DRGs, which added a clinical component that allowed us to gain new texture and insights. Then we discovered that the DRG 544 for Major Joint Replacement was accounting for 45 cents of the \$2.74 change in the plan’s per member, year-over-year spend for Inpatient services. In other words, hip replacements were the biggest drivers of that inpatient trend!

“The health plan’s own analysts didn’t see this because Clinical and Finance groups were working in isolation and not sharing data. Ingenix consultants were able to come in, augment their staffs, and provide the information integration and insights they needed. Those insights included the fact that three providers had increased their payments for hip replacement procedures by \$2M, from \$7M to \$9M, in a single year. It was an anomaly with the potential for \$2M in cost savings, which was something their CFO felt was well worth exploring.”

Consumer-Directed Health Plans and Benefit Design

With the rise in high-deductible, consumer-directed health plans, a larger portion of the expenses that would have been incurred by health plans has been shifted to members. Initial trend lines may indicate that members are spending wisely and costs are being contained as CDHP members gain first-hand knowledge of the cost of medical care and respond accordingly. But are those members actually opting for less expensive medical care options, or are they simply seeing their doctors less frequently in the first few months of the year in hopes of avoiding high-deductibles (the “benefit hush”), then seeking medical care in high numbers before the year’s end (the “benefit rush”)? Seasonal analyses can shed light on trends related to benefit design.

requires a database tool for determining everything from appropriate lengths of stay to reasonable and customary service utilization rates related to a particular disease to potential areas of excess care or unfavorable pricing.

Medicare Risk-Adjusted Analysis—Identify and implement the mechanisms that can result in maximum appropriate reimbursement from Medicare. In addition, this type of financial analytics offers unique perspectives to health plans and providers alike. Expertise in this area can be put to good use in the promotion of early detection of disease and allow for early interventions to promote improved clinical outcomes.

The Cost-Savings Potential of Trend Analysis and Management

Consider just a few examples of the monetary power of effective trend analysis and management:

- A major case of Medicare Advantage fraud was discovered in South Florida by focusing on a market-specific historical trend relating to a change in injectable drugs. Those charges resulted in a \$40 million overcharge that was driving the health plan’s cost trend up by 5 percent.

A group of non-participating providers filed an inordinate number of claims for expensive injections. When the health plan’s consultants flagged those claims and looked into the matter, they found that the providers’ address was bogus and no services had been provided to members.

- By doing a mitigation study and benchmarking results against a best-practice population, analysts showed that a Facet Injection procedure was being used as a pain treatment rather than its accepted use as a diagnostic test for pain. This was expected to have more than a \$1 million impact.
- Better knowledge of next year’s trends improves the accuracy of pricing, hence a direct improvement to the bottom line and a quick ROI. Something as simple as workday/calendar adjustments can raise service costs by more than .5 percent year over year.

Historical trends. Benchmarking. Predictions. They can all contribute to enhancing an organization’s collective vision when it comes to costs, utilization, and outcomes. Specifically, they can answer questions of vital importance to decision-makers. Are your medical expenses exceeding norms? Are your operating expenses above what they should be? Are your revenues coming in below expectations?

A key aspect of identifying important trends is to spot inefficient processes and gaps in your medical analysis that dilute profitability.

Ingenix Consulting Can Help

Ingenix Consulting offers two key ways to help payers, providers, and employers understand their trends. First, on an ad hoc consulting basis, we take a direct data feed and push it through our analytics and reporting methodologies, oftentimes using Symmetry™ tools to highlight issues and solutions. The result is insight to help manage the medical cost risk efficiently and actively. Second, we combine the knowledge of Ingenix experts with Impact Intelligence decision support and other innovative technologies to provide a clear, comprehensive picture of current trends and drivers, as well as those that are likely to emerge in the future. The result is again insight to understand and change medical costs, but this time the client has a decision-support tool on a go-forward basis for future analysis.

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Depending on the size of your organization, the technologies you have in place, and your level of in-house staffing and expertise, we can customize a solution to meet your needs. Our trend analytic team has a passion and focus on understanding the medical cost trends and can help you. We also have extensive business operations teams to help move from identifying the issue to implementing operational changes to truly improving performance.

Ingenix Consulting employs more than 1,000 consultants who have built their careers in the industry as actuaries, health economists, biostatisticians, epidemiologists, registered nurses, medical doctors, IT professionals, management consultants, business process engineers,

change management specialists, and health care executives. Ingenix Consulting specializes in Medical Cost & Risk Management to support a variety of actuarial, underwriting, and strategic services to help health plans manage their business. The services include actuarial pricing models, clinical management expertise, Medicare bid submission and bid-cycle support, and product and service consulting.

It's Our Business to Help You Succeed

Ingenix Consulting can help you build powerful trend analysis and management capabilities into your organization. We look forward to starting the process with you.

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