Session C-13

Healthcare Industry

Issues affecting both SOA and CAS Actuaries

Presented by:

Art Baldwin, FSA, MAAA
Principal & Consulting Actuary

Scott Jones, FSA, MAAA
Consulting Actuary

CAS Annual Meeting, Seattle, WA
Wednesday, November 19, 8:00 a.m. – 9:30 a.m.

Milliman

Topics

- Health Care Delivery: Trends in Utilization and Costs
- Medicare reimbursement rules for "Never Events"
- Predictive Modeling of Health Care Costs
- Employer initiatives to control costs
- Uninsured individuals
- Electronic Records and transactions
- Fee Schedules
- Topics from the audience

Headline Snapshot, Thursday October 23, 2008
California Healthline, California HealthCare Foundation

1. Changes in Health Insurance Market Met With Resistance
2. More People Skipping Health Care Because of Financial Concerns
3. Study Documents Improved Trauma Care at L.A. County Hospital
4. Growing Budget Gap Pushes Nurse Staffing Cuts in Fresno County
5. Hawaii Pulls Plug on Universal Coverage Program for Children
6. Lawsuit Targets New California Rules Barring Balance Billing
7. Report Raises Questions About Access to Care for California Kids

Health Care Delivery: Trends in Utilization and Costs

Drivers of Medical Trend

- Technology
- Health status (e.g., obesity)
- Delivery system and practice pattern changes
- Demographic changes
- Provider reimbursement and cross-subsidization (private vs. public)
- Percentage uninsured
- Mandated benefits
- Employee cost sharing and contribution
- Direct to consumer advertising of drugs
- Health care management (case management and disease management)

Milliman

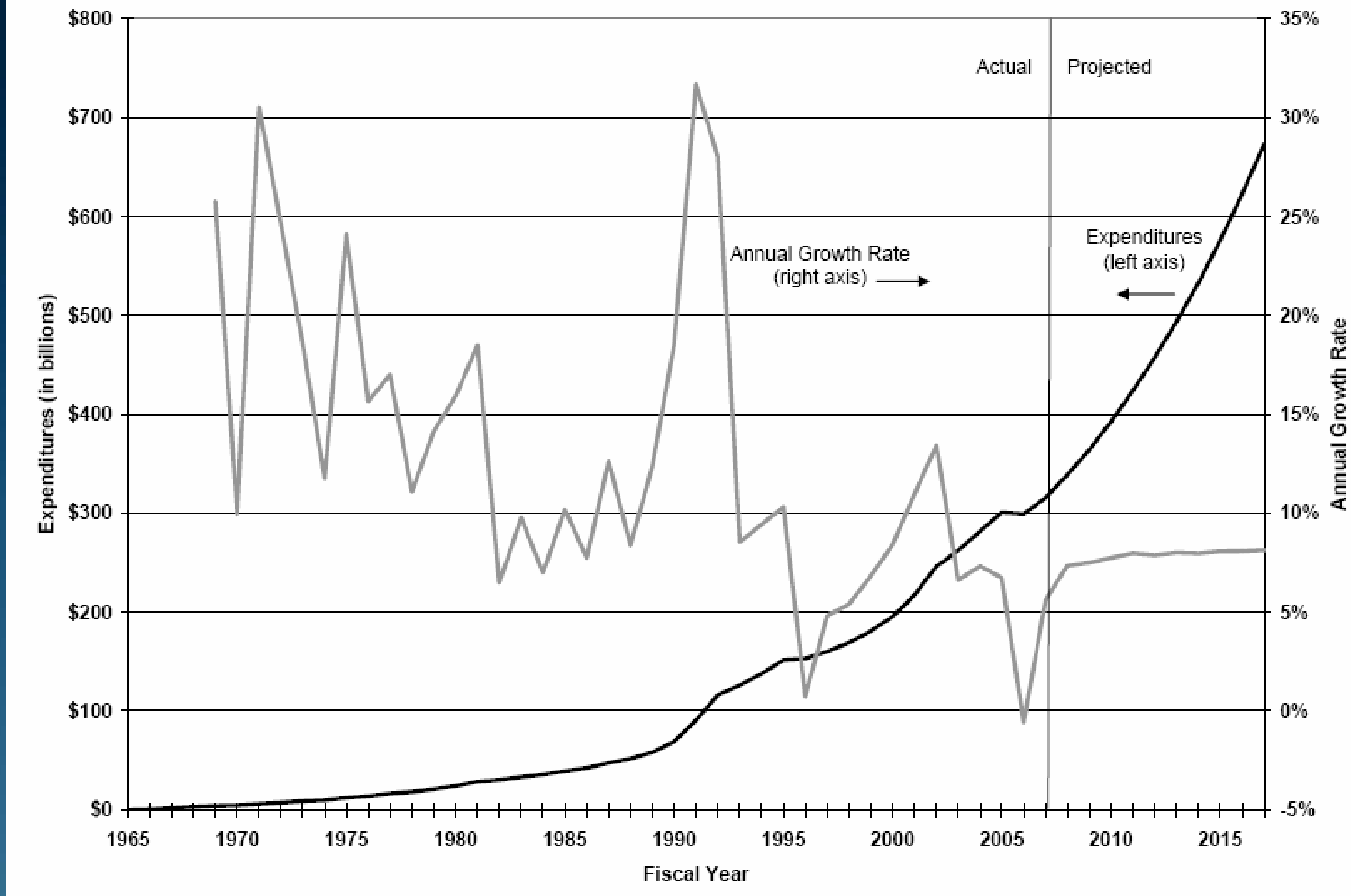
Health Care Delivery: Trends in Utilization and Costs

Approaches to tracking utilization and cost

- Cost Models
- Normalizing for demographic mix

Milliman

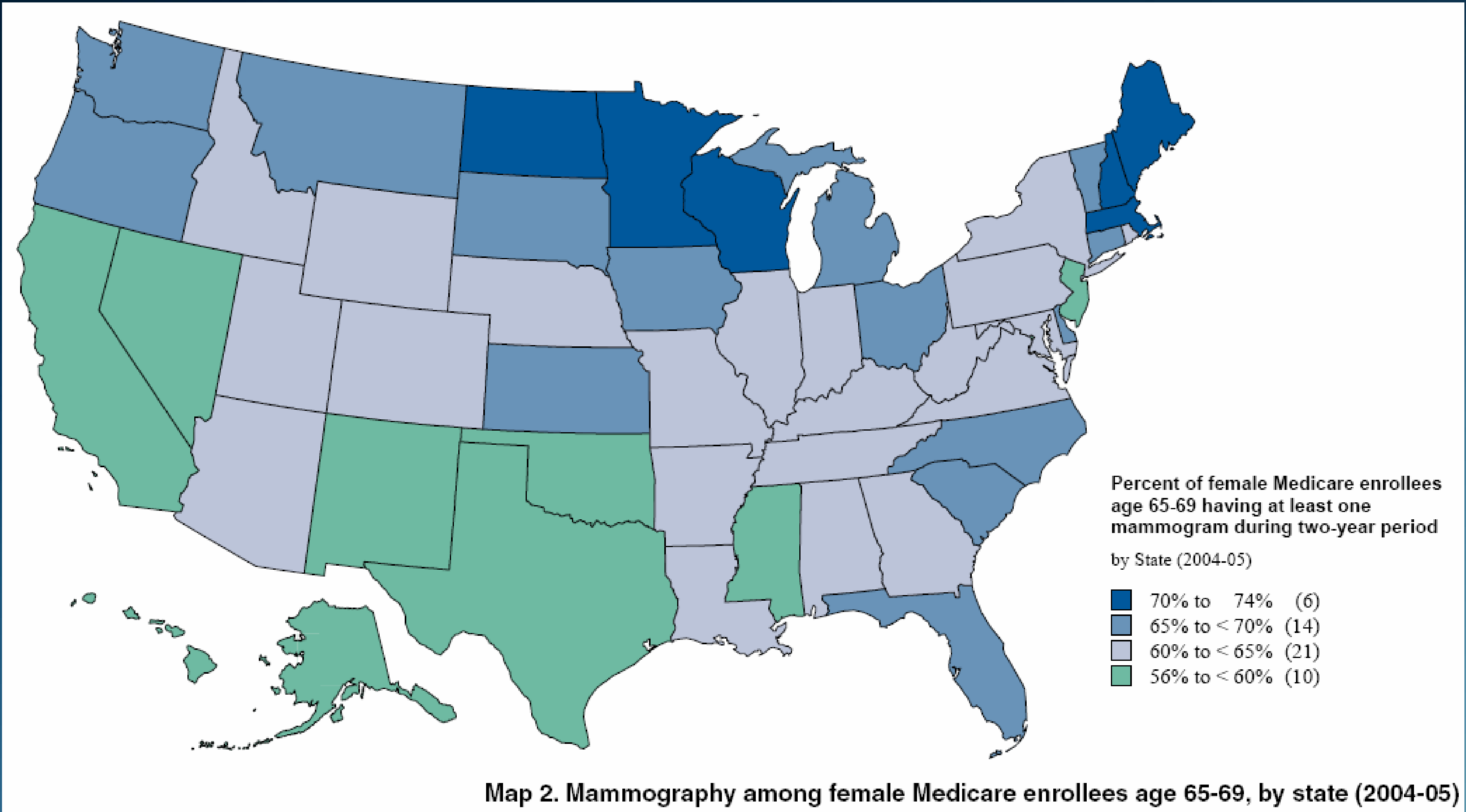
Medicaid Trends



Source: DHHS 2008 ACTUARIAL REPORTON THE FINANCIAL OUTLOOKFOR MEDICAID

Milliman

Variations in Practice Patterns - Mammograms

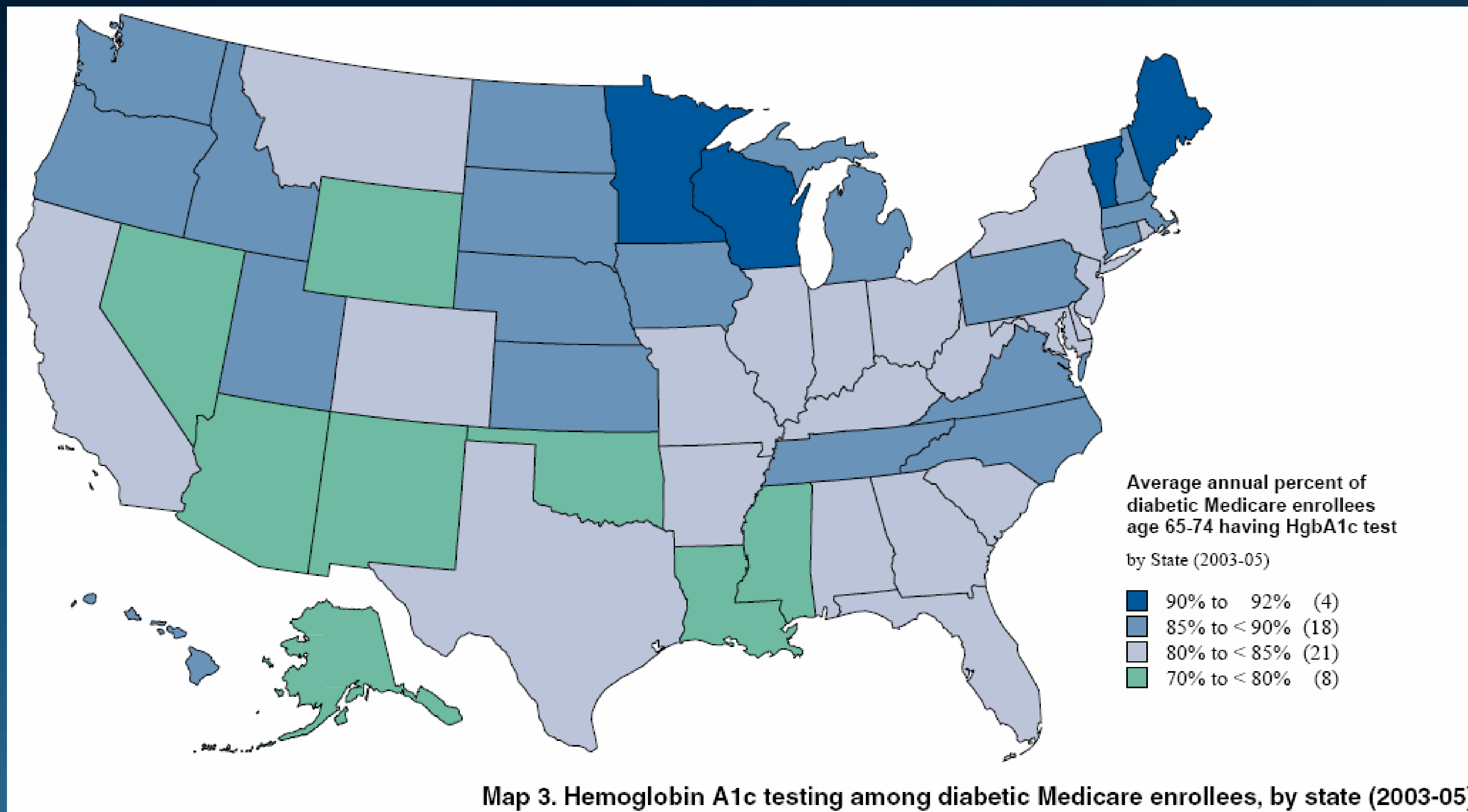


Map 2. Mammography among female Medicare enrollees age 65-69, by state (2004-05)

Source: Disparities in Health and Health Care Among Medicare Beneficiaries (2008), The Dartmouth Institute for Health Policy & Clinical Practice

Milliman

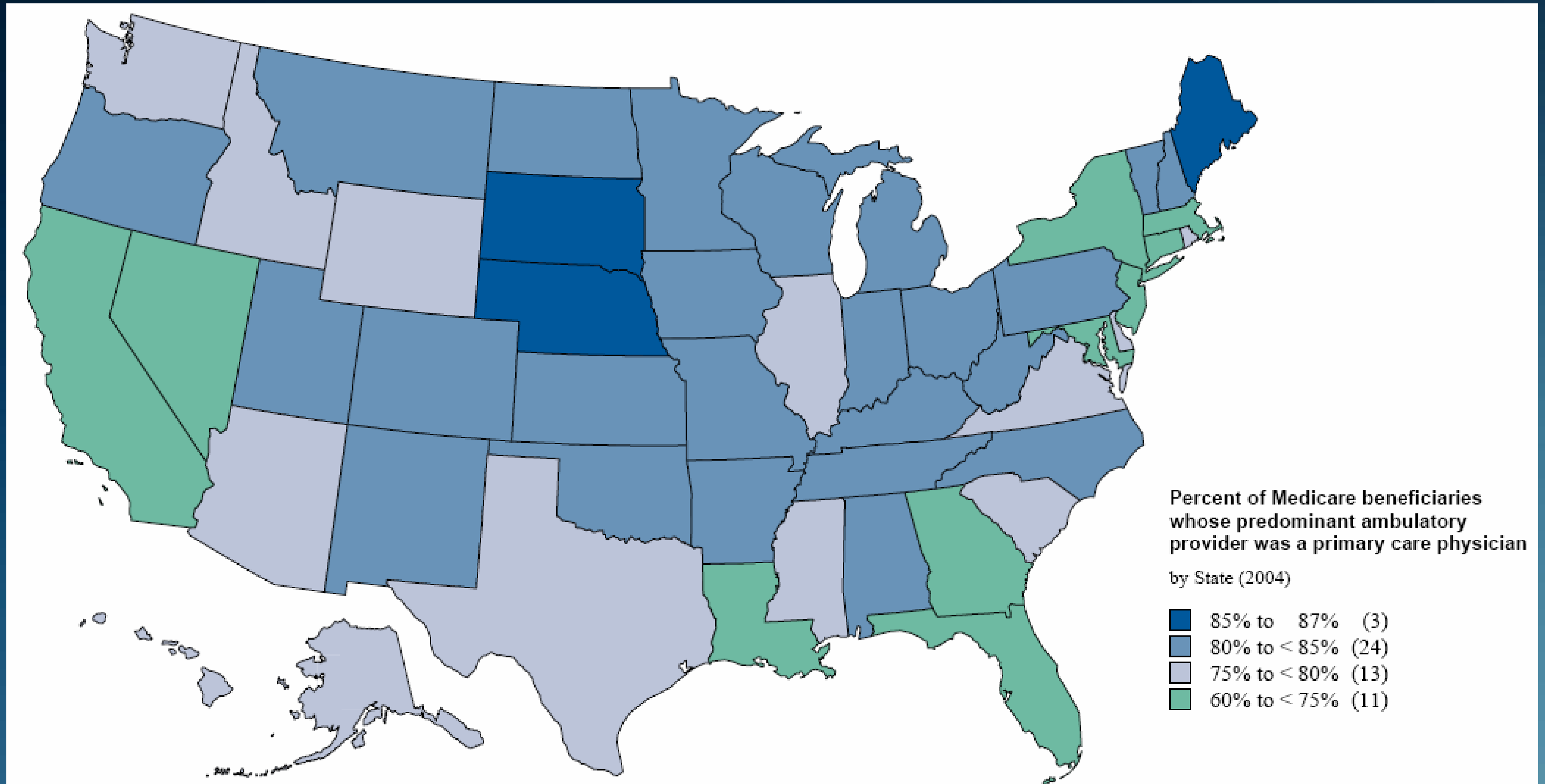
Variations in Practice Patterns – HgbA1c Test



Map 3. Hemoglobin A1c testing among diabetic Medicare enrollees, by state (2003-05)

Source: Disparities in Health and Health Care Among Medicare Beneficiaries (2008), The Dartmouth Institute for Health Policy & Clinical Practice

Variations in Practice Patterns – Primary vs. Specialty Care



Map 4. Percent of Medicare enrollees having a primary care physician as their predominant ambulatory provider, by state (2004)

Source: Disparities in Health and Health Care Among Medicare Beneficiaries (2008), The Dartmouth Institute for Health Policy & Clinical Practice

Never Events

According to the National Quality Forum (NQF), "never events" are errors in medical care that are clearly identifiable, preventable, and serious in their consequences for patients, and that indicate a real problem in the safety and credibility of a health care facility.

- Institute of Medicine (IOM) estimated as many as 98,000 deaths a year
- $700 per case to treat decubitus ulcers (bed sores)
- $9,000 per case to treat postoperative sepsis
- Medical errors may account for 2.4 million extra hospital days, $9.3 billion in excess charges (for all payers), and 32,600 deaths

Never Events

- Surgical Events
  - Wrong body part, wrong procedure, foreign objects
  - Wrong patient
  - Death in a normal patient
- Product or Device Events
  - Contaminated drugs, devices, or biologics
  - A device used other than as intended
  - Intravascular air embolism
- Patient Protection Events
  - Infant discharged to the wrong person, patient disappearance
  - Patient suicide

Never Events

- Criminal Events
  - Impersonating a doctor
  - Abduction, sexual assault, physical assault
- Environmental Events
  - Electric shock, toxic substances
  - Burns, falls
- Care Management Events
  - Medication error
  - Incompatible blood type
  - Hypoglycemia
  - Hyperbilirubinemia in neonates
  - Pressure ulcers

CMS: Hospital-Acquired Condition Initiative

Effective 10/1/08:

- Concise list of HACs are targeted
- Inpatient case rate is reduced by ignoring diagnosis codes that were not present on admission (POA).
- The inpatient payment system (MS-DRG) has three severity levels (uncomplicated, complicating conditions & major complicating conditions). Upgrades due to HACs are no longer recognized.
- Hospitals must report which diagnosis codes were POA; reporting requirement began 10/1/07.

CMS: Hospital-Acquired Condition Initiative

HACs with Payment Implications in FY 2009

- Foreign object retained after surgery
- Air embolism
- Blood incompatibility
- Pressure ulcer stages III & IV
- Falls and Trauma
- Catheter-Associated Urinary Tract Infection
- Vascular Catheter-Associated Infection
- Manifestations of Poor Glycemic Control
- Surgical Site Infection following (a) Coronary Artery Bypass Graft, (b) Certain Orthopedic Procedures, and (c) Bariatric Surgery for Obesity
- Deep Vein Thrombosis and Pulmonary Embolism Following Certain Orthopedic Procedures

CMS: Hospital-Acquired Condition Initiative

- Cost of Hospital-Acquired Conditions
  - More significant for medical malpractice than for health insurance
  - Variance by hospital depends on patient mix, not just quality
- Long term impact of CMS initiative
  - A useful new data source thanks to hospital reporting requirements
  - Improvement in patient care; more for hospital report cards
  - Could be adopted by commercial insurers and employers
  - Is it still too small to influence provider reimbursement methods?

Predictive Modeling of Health Care Costs

Examples of Health Care Predictive Models:

- Medicare Hierarchical Condition Classification
  - Payments to Medicare Advantage plans are “risk adjusted”
  - Risk scores calculated from diagnosis codes present in medical claim encounters
  - Higher reimbursement for enrolling and treating sicker people
- Large Employer Multiple Choice Environment
- Prospective vs. Concurrent Risk Adjustment
  - Payment Adjustment
  - Underwriting and Risk Selection
- Other Examples

Employer Initiatives to Control Costs

- Focus on Provider Cost Transparency and the Medicare/Medicaid "Hidden Tax"
- Health Spending Accounts (HSA) / Medical Spending Accounts (MSA)
- Consumer Directed Health Care
- Wellness programs
- Fatbet.net

Uninsured Individuals

- Long term trends are not promising
- Percentage of employers offering health insurance is dropping
- Percentage of employees covered is dropping
- Recent plateau in total number uninsured entirely attributable to Medicaid and S-CHIP

Electronic Records

- Mandated by HIPAA
- 837s – Sending Bills
- 835s – Receiving Payments
- ISA*00* *00* *ZZ*EMEDNYBAT *ZZ*QCQC
*051129*1300*U*00401*333000022*0*P*:~GS*HP*EMEDNYBAT*QCQC*20051129*13004600*333000022*X*0
04010X091A1~ST*835*201400005~BPR*I*20*C*CHK************20051031~TRN*1*000000099201072*114179
7357~REF*EV*QCQC~REF*F2*004010X091A1~DTM*405*20051031~N1*PR*NYSDOH~N3*OFFICE OF
MEDICAID MANAGEMENT*CORNING TOWER, EMPIRE STATE
PLAZA~N4*ALBANY*NY*122370080~N1*PE*JAMES SMITH MEDICAL
CTR*FI*131740114~REF*PQ*87654321~LX*1~CLP*CPIC1-00098-3*22*-1000*-
110.24**MC*0516500000007620*13*7~CAS*CR*A2*-
889.76*0~NM1*QC*1*DOE*JOHN*J***MI*VU99999J~NM1*82*1******MC*87654321~REF*EA*12458976
01~REF*9A*1609~DTM*232*20050612~DTM*233*20050613~PER*CX*RETRO RATE
REVERSAL~CLP*CPIC1-00098-
3*1*1000*130.24**MC*0516500000007620*13*7~CAS*CO*A2*869.76*0~NM1*QC*1*DOE*JOHN*J***MI*VU9
9999J~NM1*82*1******MC*87654321~REF*EA*12458976
01~REF*9A*1609~DTM*232*20050612~DTM*233*20050613~PER*CX*RETRO RATE
CORRECTION~SE*31*201400005~GE*1*333000022~IEA*1*333000022~

Milliman

Fee Schedules

- Considerations include:
  - Legal constraints
  - Access issues
  - Bargaining leverage
  - Fairness (e.g., RBRVS)
  - Budget
  - Responsiveness to emerging technologies and changing economic conditions
- Differences due to intended use:
  - Workers' Compensation
  - Commercial
  - Medicare/Medicaid

Topics from the floor

- What’s on your mind?

Milliman