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## Defining a Winning Health Care Growth Strategy

By David Axene, FSA, FCA, CERA, MAAA

One of the most challenging tasks in today's highly competitive marketplace is defining a winning strategy. This is particularly critical in the dynamic health care market. The morphing of lines of separation between health care providers and health plans complicates the process.

## The Key Issues

The US health care system continues to cost more than it should and considerably more than a few of the high performance delivery systems. Health care costs are often defined in terms of premium rates since most of today's health care costs are paid by health plans. So one of the big questions might be "what is the lowest premium I might expect?" or "where do I go to get that rate?".

Another issue is: how does a health plan optimally offer health care coverage so I can also offer a highly competitive premium rate? Also, what does supply and demand have to do with competitive positioning?

A third issue is the synchronizing of how we access today's health care system with the availability of resources to meet our needs. One solution might be a primary care focused system with limited and controlled access to appropriate specialty care.

Another important issue is the assurance of quality health care providers, providers you can trust, and providers that charge a reasonable amount to perform this service.

## The Kaiser Approach

Kaiser is known as a highly competitive health plan beating the price of most of its competition in its markets. In many markets competing health plans have not found an effective way to compete with Kaiser. Kaiser's premium rates are often viewed as the lowest in market or the standard for the lowest you can get.

Kaiser carefully builds programs based on demand in a market, gradually building supply until it can support itself. Frequently Kaiser will open up additional resources in a market near one of its centers. They begin with a primary care clinic and gradually add services as the growing enrolled membership reaches levels that can support additional services. A good example of this is in the community I live in. Up until fairly recent times this community had two clinics with pharmacy, lab, limited radiology and an urgent care center. If you needed specialty care you had to commute to regional clinics with these services, usually within a 30 - 45 minute drive. If you needed hospitalization there were multiple Kaiser hospitals within that same 30 - 45 minute drive. Urgent or emergent non-scheduled services could be provided through local non-Kaiser hospitals with a strong preference to use Kaiser hospitals where possible. Sometimes this involved transfers to a Kaiser hospital where appropriate.

Kaiser's enrollment in this market has grown, now leading to a new medical center with plans to build both a specialty care system and acute care hospital in the next several years.

Kaiser builds supply to meet the needs of enrollment focusing on a primary care centric model. The quality of care as measured both internally and externally is one of the best or best in the market. For example, Kaiser is one of the only health plans in the country that has achieved a 5-Star rating in each of its markets for its Medicare-Advantage population.

In most of California, Kaiser's overall cost of care in 2017 prior to benefit offsets (i.e., deductibles and copays, etc.) was less than \$400 PMPM for its commercial population while at the same time most of its competitors were at or above \$500. Clearly Kaiser's model has been successful.

## CVS/Aetna Approach

The recently announced CVS acquisition of Aetna surprised many. CVS is one of the largest pharmacy chains and supplier of outpatient drugs and supplies. They have experimented with urgent care clinics or "doc in the box" convenience clinics at many of their stores. Now that they plan to integrate the health plan into their operations, it seems they are aggressively pursuing the primary care model approach.

The convenience of a local CVS store combined with local primary care access provides a unique opportunity to build a cost effective delivery system. This approach is building capacity around local communities. Most likely it will incorporate specialty and institutional care as needed, while relying heavily upon Aetna's contracting prowess. As long as they contract with an appropriate number of specialists and institutions in their markets and control supply to a reasonable level, this has the potential for considerable cost savings. If they oversupply the provider network, as many health plans have done today, the cost competitiveness will suffer.



**Competitive prices with providers will also be required to achieve a competitive price point."**

Aetna has been actively measuring quality of providers. The results of this information will most likely be integrated into the provider selection process. Competitive prices with providers will also be required to achieve a competitive price point.

This is a different approach from Kaiser, but similarly builds on the primary care based structure where the patient first enters the health care system.

## Intermountain Health Care Approach

For quite some time, the dominant health system in Utah has been Intermountain Health Care. For more than 30 years Intermountain has been structuring a health care system that achieves a favorable cost position. One of the early structuring approaches implemented by Intermountain was segmentation of inpatient care into Basic, Mid-level and Tertiary (i.e., we call this the BMT model). The primary purpose was to help structure and provide access to basic care around the member's neighborhood much like their schools, grocery stores, and churches. Their strategy suggested it was acceptable to drive a reasonable distance to obtain mid-level care and even farther for tertiary care provided at a center of excellence.

This strategy also worked on pricing for these three levels of care to be sure the mid-level and tertiary health centers provider basic care at as favorable of a price as the basic facility. The desired result was consistent and favorable pricing at each facility to assure the most favorable price. In many markets the tertiary facility's prices are higher than average for the basic services which drives up the price of care for the system.

The Intermountain approach also focused on the primary care side positioning multi-specialty medical groups where appropriate. Some medical groups were owned by Intermountain, others were used under contract as with other health plans.

Intermountain leadership was nationally recognized as a health system that focused on delivering high quality cost effective care. They developed both a PPO and their own health plan, both of which have been quite successful.

## Common Market Approach

The most common market approach we have seen is to negotiate as big of a network as possible with the best possible discounts. This essentially creates lots of supply, more supply than needed for the inherent demand. The marketing side of the house suggests we have to offer a broad network to attract members. Some are pursuing narrow or narrower networks since they see they can negotiate more favorable arrangements with providers if the providers sense they have a greater chance for more business.

The health care market is a non-traditional marketplace. It doesn't often respond to traditional supply/demand economics. The greater the supply the greater the induced demand by providers to perform potentially avoidable procedures which drives up the cost. One of Kaiser's key success factors is their strong efforts to match supply and demand. Health plans which ignore this have a significant disadvantage in producing competitive costs.

Much of the market is focusing less management effort on care management and offering PPO styled products offering significant patient choice in providers. Whereas Kaiser has implemented care management throughout their entire system with a strong focus on quality and maximizing the value of any patient impact they have. This approach tends to drive down costs more than the typical market approach.

In the typical market experience, the specialist has little electronic connection with the primary care physician's electronic patient record and is focused on the situation at hand and not the entire health care situation of the patient. In the Kaiser system there is a comprehensive electronic medical record with reminders accessible to all providers. In many markets the non-Kaiser providers have access to the patient's entire health history via the electronic medical record. As a result, cohesive health care recommendations are offered during any encounter by any clinician. For example, reminders of certain health care tests, procedures, vaccinations, etc. are offered at primary care visit, at cardiologist visit, at the lab getting a blood draw and by telephone during a follow-up visit.

## Sources of Excess Health Care Cost

In a recent assignment that compared the health care cost of a major health plan in comparison with the local Kaiser plan, we learned the difference in health care cost was allocated as follows:

- Risk-adjusted utilization differences (i.e., potentially avoidable care): 60%
- Health care unit costs (i.e., different reimbursement levels): 35%
- Administrative cost differences: 5%

Of the approximately \$120 PMPM difference:

- A \$72 PMPM reduction in health care cost was achievable through more appropriate utilization, appropriate use of services (i.e., inpatient vs outpatient, site of service, etc.) improved health status and more effective care management.
- A \$42 PMPM reduction in health care cost was potentially achievable through improved contracting to meet the unit cost experience by Kaiser. Some of this may never be achieved unless the system was controlled in a similar manner as Kaiser.
- A \$6 PMPM reduction in administrative costs

## Recommendations

Kaiser is a formidable competitor and has developed a program that is hard to compete with. There are many approaches that can be tried other than just replicating the Kaiser model. The winning strategy will likely include many of the following items:

- Recognize the financial impact of excess supply
- Recognize the value of effective care management approaches
- Recognize the importance of a primary care coordinated care system
- Recognize the importance of understanding quality of care and being willing to utilize high quality providers
- Recognize the importance of a centralized and utilized electronic medical record to mold care planning on a homogenous basis
- Recognize the importance of patient education throughout their journey of the health care system.

## About the Author:

David Axene, FSA, FCA, CERA, MAAA, is the President and Founding Partner of Axene Health Partners, LLC and is based in AHP's Murrieta, CA office. David can be reached at (951) 294-0841 or [david.axene@axenehp.com](mailto:david.axene@axenehp.com).

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