

What's the **Most Critical** (but also most overlooked) **Healthcare Metric** for Self-Insured Organizations?

Second biggest "people" cost is spiraling

That's a challenging question, because it depends, to some extent, on an organization's culture, the industry it operates in, senior management's perspective on healthcare, and whether you ask the employer or the employee.

But, while it's generally agreed that healthcare coverage is absolutely critical to attracting and retaining top talent, healthcare costs have been spiraling over the past 10 years, and have rapidly escalated to become the second most costly "people" expense behind salaries (growing at nearly three times the rate of inflation).

This trend is not sustainable, and has led to a variety of strategies to minimize the negative impact on corporate profitability – including, for example:

- Planning design changes to minimize cost;
- Shifting costs to employees;
- Eliminating dependent and spousal subsidies;
- Increasing use of incentives to promote screenings/health assessments;
- Direct negotiation with health systems (by employers like Boeing, Walmart and GE); and
- Creation of wellness/disease management programs to "bend the curve" on healthcare costs.

Here are some of the metrics that are commonly used to track healthcare costs – and an evaluation of their accuracy in reflecting healthcare costs (stars awarded out of a maximum of 5).

Cost Per Employee **

One of the more popular metrics is “Cost per Employee”. This is a relatively simple metric, and fosters an easy to understand baseline to convey and track cost direction. However, it is not particularly actionable.

Ultimately, “Cost per Employee” is far more impacted by employee demographics than efficiency and plan effectiveness. Facebook’s “Cost per Employee” is going to be vastly different than that of General Motors due the age of their employee population and their associated health habits.

Average Provider Rating ***

In searching for an objective metric to evaluate the quality of medical care provided by the health system, a “Provider Rating” (for example, an average across your provider base) would be a big win. Ultimately, this is the measure that your employees and their families are most interested in, which can literally mean the difference between life and death. Centers for Medicare and Medicaid Services (CMS), part of the Department for Health and Human Services, has made huge strides in recent years through their use of metrics to equip consumers with better information to make informed decisions regarding medical care. However, none of those measures are perfect or complete. CMS has the most robust current measures for hospitals through their Hospital Compare program. In addition to patient satisfaction measures on anything from the cleanliness of their hospital room to explaining their medications to the care provided by their Medicare physician, CMS also tracks specific statistics regarding surgical complications, hospital-borne infections, readmissions for the same cause, and more. Their Provide Compare is helpful as well, but is not nearly as comprehensive. Other organizations like CastLight, Healthgrades, Zocdocs and more are available to consumers, as well.

Sadly, the level of resources is overwhelming and not organized into a convenient web app to serve as a true advocate during the decision-making process.

Medical Loss Ratio ****

What about the “Medical Loss Ratio”? This measures the proportion of dollars invested in health plans that go toward the provision of medical care versus into an intermediary’s pocket for administration, marketing and profit. This gets a little closer to the efficiency of your healthcare expenditure, and is valuable to benchmark with peers to ensure your costs are competitive.

Unfortunately, it is not particularly actionable and it does little to evaluate whether claims are being paid accurately and at competitive prices.

Cost Per RVU (Resource Value Unit) ****

How many of you are familiar with the “Cost Per RVU”? Back in 1989, the Medicare administration shifted from paying based on the rates submitted by the hospital toward a more value based approach. Working closely with the American Medical Association, every medical procedure was assigned an RVU (“resource value unit”) based on the level of physician skill, time and complexity of a surgical procedure. Think of it as akin to a “time & motion” study for medical procedures. As an example, repair of a complex brain aneurysm (CPT code “61698”) is assigned a total RVU of 138.22, while repair of an ACL using an endoscope (CPT Code “29888”) is assigned a total RVU of 28.41. The fee paid to the medical provider is computed by taking the RVU’s assigned value times an inflation-adjusted dollar figure to calculate the payment to the provider. Adjustments are made for status as a teaching hospital, certain capital improvements, and geographic pricing index (ranging from 95-105%).

This metric can be incredibly valuable when comparing the cost of health systems to evaluate their relative efficiency versus trying to compare the cost of 10,000 distinct

procedure codes. If you are evaluating competing health systems within a geography, it can be a valuable measure to negotiate competitive pricing.

Healthcare Waste Index (HWI) *****

Given the lack of actionable metrics available to healthcare decision makers, finHealth has developed the Healthcare Waste Index (HWI). The Healthcare Waste Index was created to quantify the proportion of waste within healthcare expenditures AND enable decision makers to take targeted actions to further streamline the healthcare supply chain. The HWI has three distinct components: billing errors, “above market” prices, and administrative waste.

The billing errors represent “black & white” overpayments that should not have been paid, including payments outside of eligible coverage dates, duplicate payments, ineligible spouse/dependents and various types of medical coding errors.

The “above market” prices component represents prices charged by medical providers for procedures in excess of the median cost by more than a designated percentage (typically 25%). These prices are “outliers”, typically having little to no correlation to the quality of care delivered and are likely the result of arbitrary costing assignment by the health system.

“Administrative waste” is intended to measure the percentage of charges for administration higher than what is considered an efficient level (i.e. 15% versus 10%).

As an example, the cost of CMS to pay for Medicare patients is \$8.9 billion on a spend base of \$672.6 billion (1.3%). Before you jump to the incorrect conclusion that corporate healthcare expenditures are better controlled than government healthcare expenditures, understand that most corporations perform limited to no audits (versus detailed reviews by Medicare of at least 50,000 claims annually), have no “guardrails”

on what they are willing to pay for a procedure (versus Medicare's RVU approach), and most corporations pay 10-20% for administration of their health plans (versus 1.3% for Medicare). On average, Medicare pays \$35 per RVU compared to our review of corporate plans that show a rate closer to \$82 per RVU (OUCH!!!).

finHealth's approach is highly automated, calculating the HWI in a matter of minutes. More importantly, it is actionable as the full claim detail for "waste" identified can be delivered. It also provides enormous power through its ability to question a third party administrator as to why they paid for incorrect or "above market" claims.

finHealth is passionately committed toward driving down healthcare costs incurred by large self-insured organizations. By deploying a deep knowledge base of health plan best practices, delivering actionable metrics and benchmarks, creating exceptional transparency to your healthcare data and harnessing powerful algorithms to flag claims paid incorrectly by your third party administrator, finHealth seeks to partner with your organization to ensure your healthcare dollars are safeguarded and spent wisely. Our solution & services are delivered purely on a contingent fee basis, to ensure we always deliver exceptional value. Call us today (336-314-9955) or check out our 2 minute video that explains why "healthcare cost governance" should be a critical focus for your organization: www.finhealth.com/finhealth-navigator.

