

Next Generation Product Design

SOUTH EAST ACTUARIAL CONFERENCE

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- Associate Partner in Health Systems and Services practice focused on payor strategy, health benefits, payor product and network design
- Expertise in designing payor products and employer benefits to reduce costs while maintaining health and outcomes
- Experience in product design across Commercial / TPA, Individual, Small Group and Medicare Advantage
- Served payors across a number of broader analytics-related initiatives (e.g., setting up an analytics COE, prioritizing use cases, etc.)



Tara Bishop
Medical Director
New York

- Medical Director at McKinsey HA&D and leads the Clinical Center of Excellence which oversees an external clinical network
- Expertise serving public and private payors for a number of programs, including episodes of care and population health management
- Board-certified general internist with experience practicing in both inpatient and outpatient settings
- Former Cornell Medical School professor of Medicine and Healthcare Policy with extensive work evaluating New York City Department of Public Health programs

Financial sustainability for patients, employers, governments, and payors remains a challenge in the U.S.

3x

Employee insurance contributions versus wage growth (2010 to 2015)

29%

Workers enrolled in HDHP

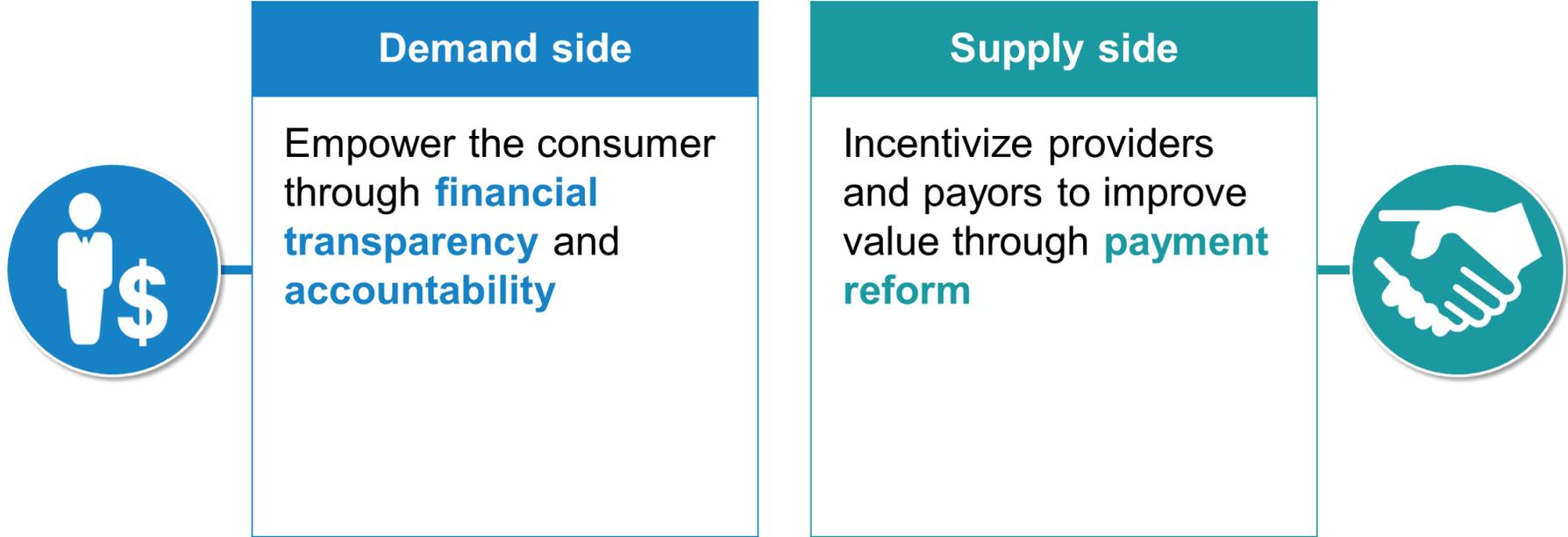
20%

Healthcare spending as percentage of GDP (expected in 2025)

\$750

Billions of dollars spent on unnecessary care

Removing market distortions would require demand- and supply-side interventions to align incentives



Prices for uncovered services have decreased while overall prices have increased

Change in price for elective, non-reimbursable services, 2006-14¹

%



1 Prices adjusted to 2014 dollars, according to US Consumer Price Index

2 LASIK costs reflect price for one eye

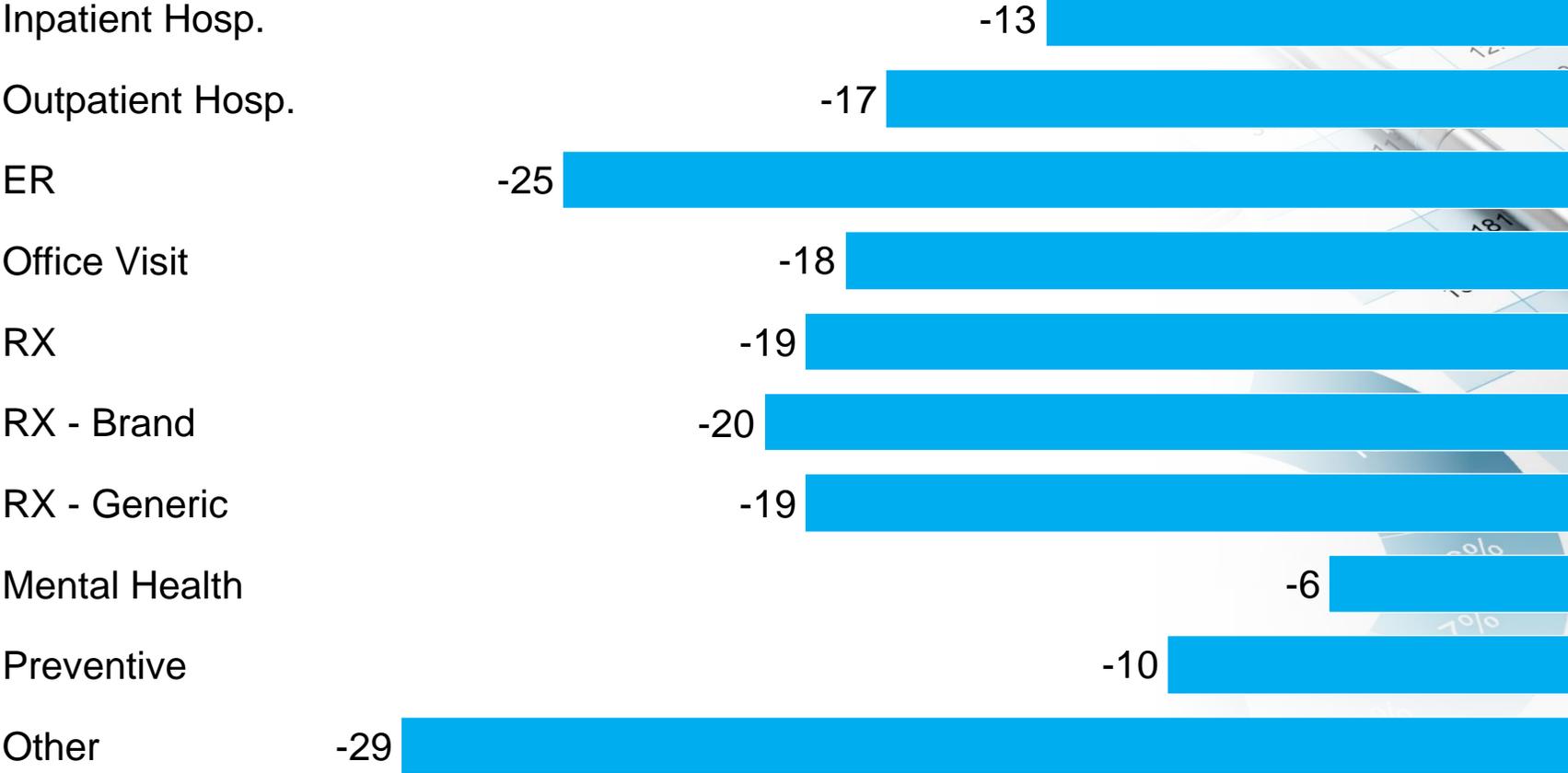
3 Prices are national average surgeon's fee. Not included are fees for hospital services, anesthetist, pathology, or radiological investigations

4 National Health Expenditure Accounts price proxy for physician and clinical services (composite index: produce price indexes for offices of physicians, and for medical and diagnostic laboratories)

Utilization of services decreases when beneficiaries are more exposed to higher deductibles

Service utilization after switch to high deductible health plan

%



Most payors continue to offer traditional plan designs that do not differentiate incentives for high- and low-value services

Common elements of traditional benefit designs



Minimal variation in cost-sharing across service types



Cost-sharing not based on value of care



Misaligned incentives for consumers to optimize for value



Limited or no alignment between provider and consumer incentives



Current benefit changes simply increase out-of-pocket costs for consumers with a 'one-size-fits-all' approach, rather than intelligent design around appropriate care and care settings

Next Gen Product Design: An innovative product design that aims to successfully align demand-side levers to improve overall value and affordability

Principles

- Variable cost-sharing based on value, consumer choice, and consumer ability to absorb risk
- Redefine coverage for low-cost and elective care
- Engage consumers to make high-value choices
- Enable development of a competitive, retail market for non-urgent medical spending

Benefits

- Consumers likely to make more value-driven decisions for care
- Increased competition and innovation that can drive down prices
- Overall costs will reduce leading to lower premiums and ability to cover a broader population
- Encouraging use of high-value services while decreasing use of low-value ones will enable more efficient medical spending

Four fundamental sources of financial impact

Source of value		How it drives impact	Potential PMPM reduction
Demand-side levers	Incentivize use of clinically valuable services 	Offer financial incentives to members (demand-side interventions) for services or medications with strong clinical base that demonstrate enhanced clinical outcomes and increase efficiency of treatment (e.g., Pap tests for women 21+ or regular monitoring of glucose levels for diabetic consumers)	3-5%
	Increase cost-share for low-value services 	Increase consumer cost-sharing to decrease utilization of low-value services , which are those with weak clinical base with minimal clinical benefit that decrease efficiency of treatment (e.g., knee arthroscopy for arthritis, MRIs for back pain)	6-7%
	Redefine coverage for low-cost or elective spend 	Increase consumer's personal investment in their own healthcare by unbundling coverage for low-cost procedures for minor illnesses or injuries from typical plans (e.g., sprained ankle, use of ER instead of going to PCP for non-urgent care) and using reference pricing for elective care (e.g., knee replacement)	10-15%
Supply-side levers		Lower medical costs and improve outcomes through provider-side levers (e.g., narrow networks, bundled payments, episodes payments, site-of-care steerage)	7-11%

Medical risk serves as a framework to classify services and align incentives



Factors define the nature of medical risk...

Consumer discretion

Consumer ability to absorb risk (cost)

Value



... leading to 8 medical risk categories

- Routine
- Preventive
- Chronic care
- Catastrophic: chronic
- Discretionary
- Purely elective
- Catastrophic: not chronic
- End of life

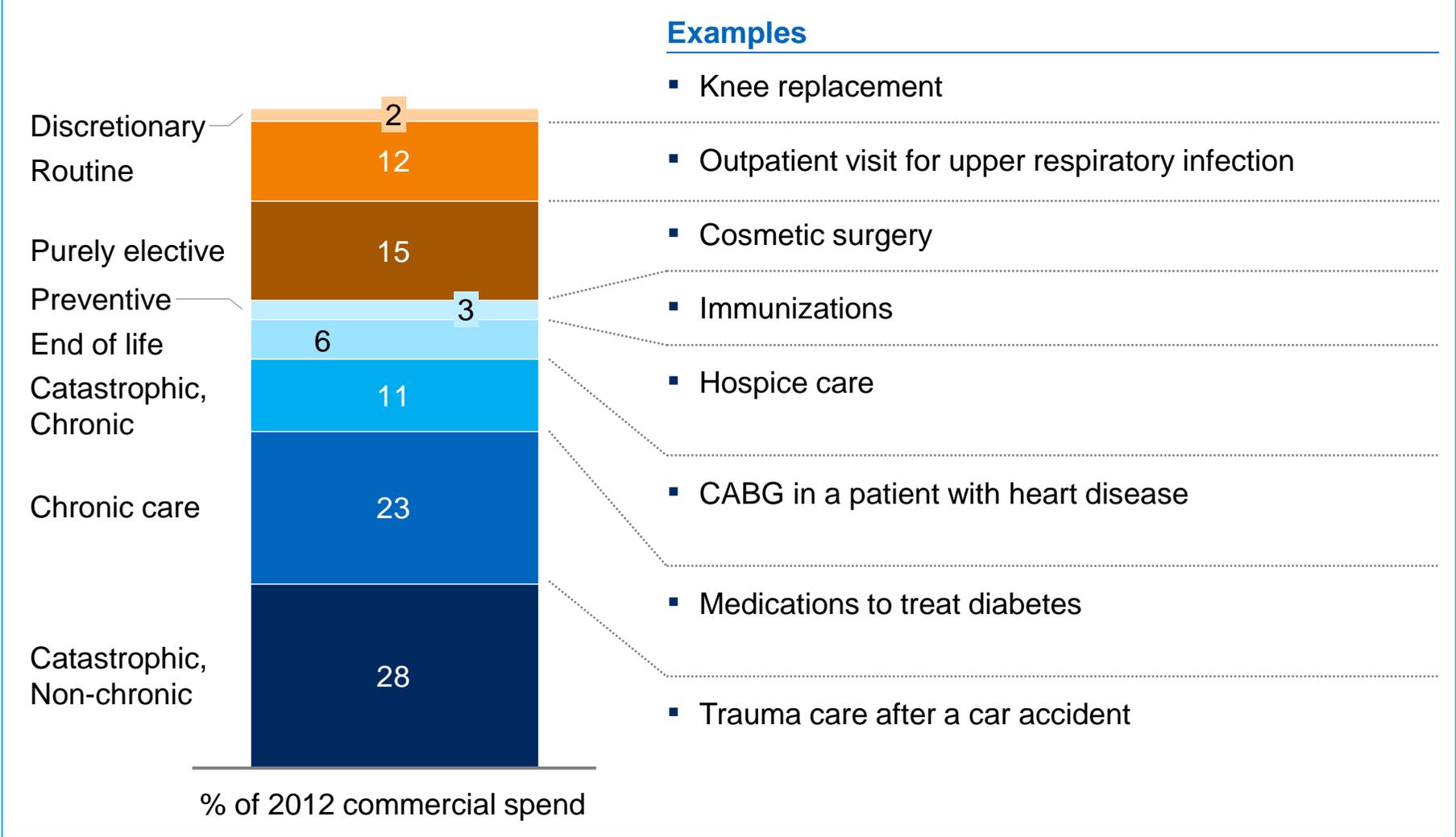
Classification architecture defines services under these medical risk categories

● Low ● Medium ● High

Risk category		Consumer discretion	Consumer ability to absorb risk (cost)	Value
Routine 	Minor acute low-cost conditions; usually require outpatient medical care	●	●	●
Preventive 	Evidence-based preventative care	●	●	●
Chronic care 	Evidence-based chronic disease management	●	●	●
Catastrophic, chronic 	High-cost chronic disease management	●	●	●
Discretionary 	Shoppable non-emergent services	●	●	●
Purely elective 	Procedures often not covered by medical benefits	●	●	●
Catastrophic, not chronic 	High-cost acute care	●	●	●
End of life 	Specialized care at the end of life	●	●	●

Risk for approximately one-third of medical spend could be shifted to consumers

US healthcare costs, by medical risk category



SOURCE: National Health Expenditure Accounts; Medical Expenditure Panel Survey; National Vital Statistics System; Healthcare Cost and Utilization Project; Dartmouth Atlas of Health Care; McKinsey analysis

There are a range of levers that can be used to better align consumers

Cost Sharing

Vary co-pays and coinsurance by treatment/procedure type (e.g., high co-pays for discretionary; little or no co-pays for preventive)

Deductibles

Create multiple and different deductibles by treatment/procedure type (e.g., high deductible for discretionary; little or no deductible for preventive)

Exclusions

Carve out routine, discretionary, and purely elective from standard benefits – leverage reference based pricing where possible

Financing

Make it easier for consumers to 'spread' payments, and if appropriate make beneficiary whole by providing equivalent \$ in tax advantaged account

Example: Cost sharing

From high-deductible health plan

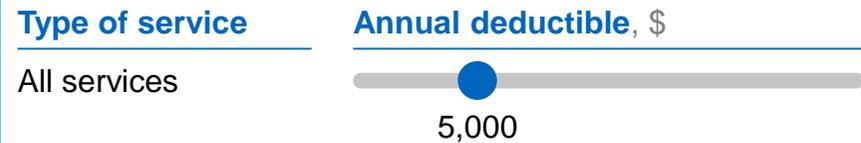
Classification	Treatment	Co-pay	Co-insurance
Discretionary	Knee replacement	\$0	30%
Routine	Outpatient visit for an upper respiratory infection	\$50	0%
Purely elective	Cosmetic surgery	\$0	50%
Preventative	Immunizations	\$20	30%
End of life	Hospice care	\$0	30%
Catastrophic, Chronic	CABG in a patient with heart disease	\$0	30%
Chronic care	Medications for diabetes	\$0	30%
Catastrophic, Non-chronic	Trauma care after a care accident	\$0	30%

To next gen product design

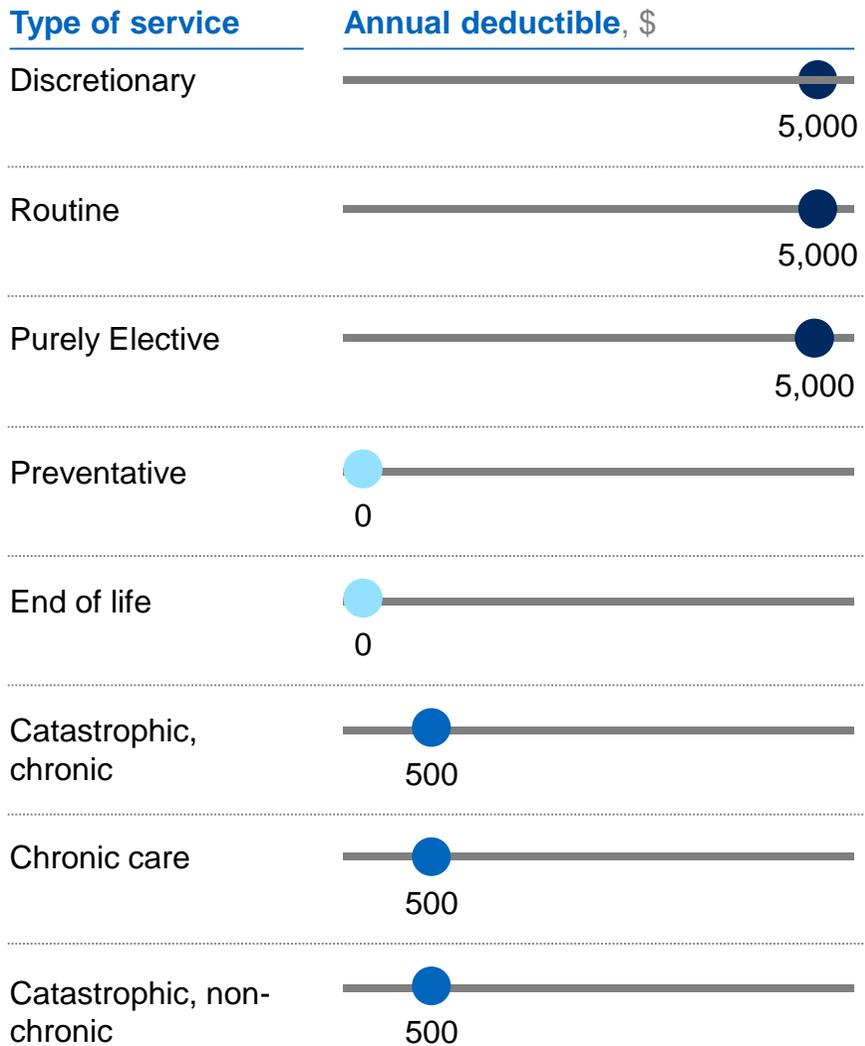
Classification	Treatment	Co-pay	Co-insurance
Discretionary	Knee replacement	\$0	50%
Routine	Outpatient visit for an upper respiratory infection	\$100	0%
Purely elective	Cosmetic surgery	\$0	100%
Preventative	Immunizations	\$0	0%
End of life	Hospice care	\$0	0%
Catastrophic, Chronic	CABG in a patient with heart disease	\$0	20%
Chronic care	Medications for diabetes	\$0	20%
Catastrophic, Non-chronic	Myocardial infarction in a previously healthy patient	\$0	10%

Example: Deductibles

From

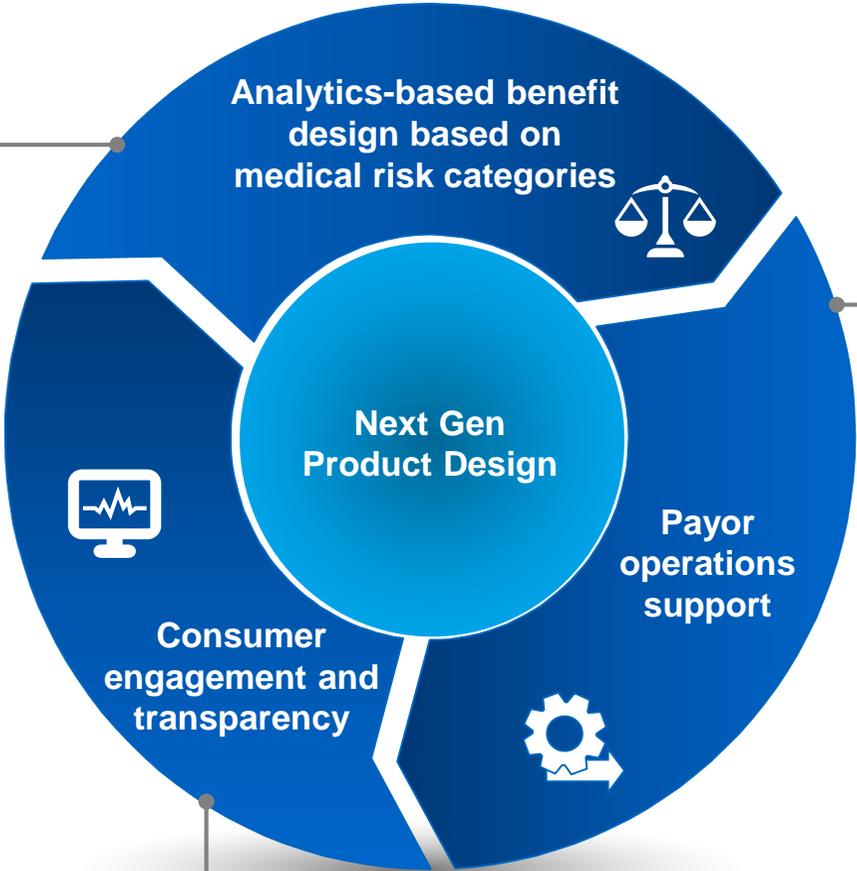


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Product design is the foundation for greater consumer engagement and market transparency

Next Gen Product Design leverages analytics and actuarial expertise to build a benefit design that encourages use of clinically valuable services, redefines coverage and cost-sharing for low-value services, and lowers medical costs through provider-side levers



Next Gen Product Design builds operational capabilities for payors to estimate impact (e.g., cost savings), support claims processing, and create payment integrations (e.g., with HSAs)

Next Gen Product Design leverages digital technology and tools to engage patients and monitor / influence behavior, and track outcomes (e.g., apps to engage employees in choosing high-value evidence-based care, create transparency around costs of care, wearables to track consumer outcomes)

Areas to explore further

- Impact on premiums, deductibles and co-pays
- Operation and implementation considerations
- Patient engagement and education
- Impact on access and quality

