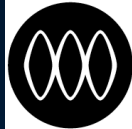


A MILLIMAN GLOBAL FIRM



Milliman USA

Consultants and Actuaries

The Future of HMOs & Managed Care

Southeastern Actuaries Conference
Longboat Key, Florida
June 20, 2001



Stu Rachlin, FSA, MAAA

Summary

- What is managed care?
- What are the various forces at work and what are their roles?
- Product trends
 - what does the future hold?
- Conclusions



Managed Care Perception Vs. Reality

- “Backlash” issue
- Definition: system of HC delivery and financing in which targeted clinical outcomes are achieved using an optimal level of resources.
 - Some think it is “managing doctors”
- More perception than reality
 - Created by press, politicians, others



Managed Care Perception Vs. Reality

- Satisfaction surveys poorly constructed and results misused
- Many people don't even know what kind of plan they have
- “Managed Care” getting all the blame
- Perception that less services is not good



What Is Right With Managed Care?

- Legitimate attempt to provide value and meet needs of purchasers
 - met a market need but providers weren't responding
- Held providers more accountable for actions
- Slowed cost trends
 - Negotiated fees, did lower the cost per service
- Reduced unnecessary utilization
 - lower days per thousand



What Is Right With Managed Care?

- Numerous quality initiatives (mostly unrecognized)
 - disease management
- Scorecards
- Wellness, reminder cards
- Changed practice patterns
 - ex)movement from IP to OP
- Offered **potential** for systematic change



What Is Wrong With Managed Care?

- Lost PR battle to anecdotal stories
 - cost reductions vs quality
 - *thinking it was an either/or situation*
- Poor interfaces with constituents
 - claims payment, contract language
- Became mainstream
 - employees lost choice

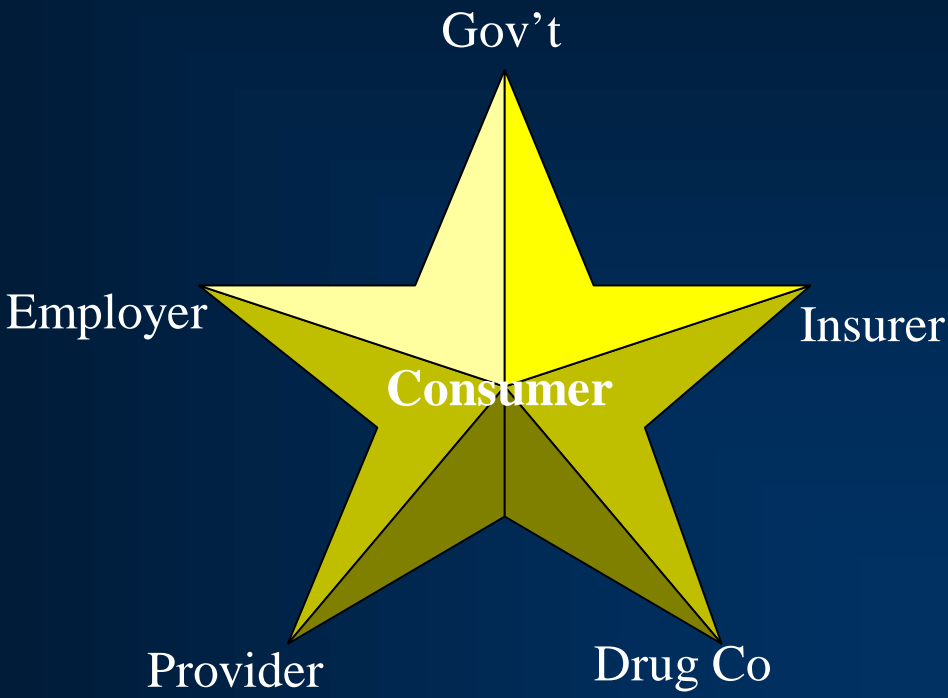


What Is Wrong With Managed Care?

- Major flaws in system
 - employers don't give enough plan choice, provider networks too large, leaves out consumer
- Never got enough cooperation from providers
- Focused too greatly on managing providers *rather than the care itself*



The Health Care Balancing Act



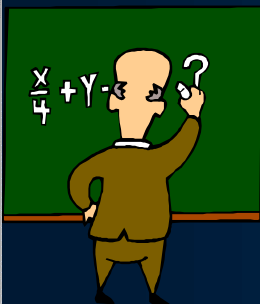
The Health Care Balancing Act

- *Consumers*
 - Learn greater cost consciousness
 - Hold more realistic expectations
 - Take more personal responsibility
 - Use collective power to make change



The Health Care Balancing Act

- *Insurers*
 - Pursue efficiency
 - Build appropriate financial incentives into plan design
 - Reward providers for quality and prevention
 - Educate consumers on appropriate use of resources
 - Do a better job explaining their role to the public
 - Less “black box”



The Health Care Balancing Act

- *Employers/Purchasers*
 - Give employees the right incentives
 - Design responsible cost-sharing plans
 - Educate employees
 - Join forces with other purchasers



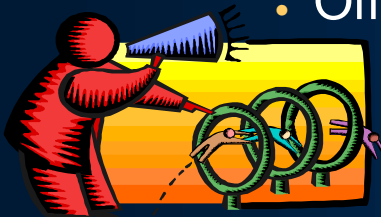
The Health Care Balancing Act

- *Government*
 - Provide balanced information to guide expectations
 - Reduce mandates
 - Create payment mechanisms that provide proper incentives



The Health Care Balancing Act

- *Providers*
 - Accept ownership of quality issues
 - Pursue collaborative problem solving with insurers rather than lawsuits
 - Accept accountability for resource management
 - Learn and practice demand and expectation management
 - Offer multiple means of patient contact



The Health Care Balancing Act

- *Pharmaceutical and Medical Technology Companies*
 - Curb development of “me too” drugs
 - Pursue responsible direct-to-consumer marketing
 - Reduce direct marketing to physicians
 - Collaborate with one another and with providers



Technology To The Rescue?

- Tools to Improve Relationships
 - Providers – on-line claims payment, simplified claims payment, electronic medical record, online access to coverage
 - Members – online enrollment, access to claims status, provider directories
 - Telemedicine, risk adjusters, clinical info interfaces



Technology To The Rescue?

- Web/Internet Role
 - Significant
 - Started already but will take some time
- Hurdles?
 - HIPAA privacy regulations
 - Money
 - Acceptance- providers, consumers, employers



Product Trends

- Are PPOs the “future”?
 - preference toward out of network access
 - offering OON doesn't need to cost more
 - more easily push costs to members
- Coming full circle
 - back to indemnity
 - less controls rather than more
 - leads to more cost increases



Product Trends

- Open Access HMOs
 - no gatekeeper
- Increase in multi option plan offerings
 - give employee the option to spend more
 - vary cost sharing by provider to account for cost differences, immunize health plan from consumer choice
 - multilevel networks



Product Trends

- Much less risk sharing occurring
 - Providers unable to succeed, more FFS
 - May make a comeback if timing is right
- Defined Contributions



Key Conclusions

- Society has to deal with tough issues facing health care system – any solution involves tradeoffs
- System structural changes needed
 - Consumer skin in the game- dollars, choice, lifestyle
 - Employers offer greater choice to EEs
 - Providers must be committed to change and improvement
 - Gov't needs to be part of the solution
- **System must be actuarially sound**



Key Conclusions

- Rising costs will not be tolerated by employers creating need for some fiscal responsibility
 - Who will pay?
 - This is “The Healthcare Balancing Act”
- Lots of pressure on rising costs
 - Medical inflation, aging baby boomers
 - Educated consumer; Internet
 - Provider backlash
 - Relaxing managed care features
- Managed Care can have a positive role!

