Employer Groups

Request for Proposal Analysis

Presented by
Kevin Geurtsen
A.S.A., M.A.A.A.

Southeastern Actuaries Conference
June 19, 2008

Milliman

Agenda

Choosing a Health Carrier – An Employer's Perspective

- General Structure of the RFP
- Technical Component
  - RFP Questionnaire
  - Performance Guarantees
- Financial Component
  - Administrative Fees
  - Expected Claims Costs
- Evaluating Results
- Discussion

General Considerations

- Look at RFP for healthcare services
- Assume a large employer
- RFP is for self insured business
- Perspective: Actuary assisting in evaluation of RFP

Agenda

Choosing a Health Carrier – An Employer's Perspective

- General Structure of the RFP
- Technical Component
  - RFP Questionnaire
  - Performance Guarantees
- Financial Component
  - Administrative Fees
  - Expected Claims Costs
- Evaluating Results
- Discussion

General Structure of the RFP

- Submission procedures
- Contract language
- Scope of work
  - General requirements
  - Minimum qualifications
  - Services to be provided
  - Responsibilities of chosen vendor
  - Employer responsibilities
- Financial cost proposal

General Structure of the RFP
(Continued)

- Evaluation Process / Procedures – Sample Scoring Approach

Technical Evaluation	
Experience and qualifications of staff	20 points
References	50 points
Understanding of scope of work	200 points
Presentation	30 points
Total Technical	300 points
Price / Cost Evaluation	
Administrative fees	100 points
Claims repricing / network strength	600 points
Total Price / Cost	700 points
Total Possible Points	1,000 points

Agenda

Choosing a Health Carrier – An Employer's Perspective

- General Structure of the RFP
- Technical Component
  - RFP Questionnaire
  - Performance Guarantees
- Financial Component
  - Administrative Fees
  - Expected Claims Costs
- Evaluating Results
- Discussion

RFP Questionnaire

- Verify the understanding of the requirements
- Usually correspond to sections of the scope of work
  - Test understanding of each section independently
- May include provider disruption analysis
- Form of the questions vary significantly
  - Example: What percentage of claims and quality-related member complaints were responded to in writing within two (2) business days?
  - Example: How are individual providers monitored? What quality standards do you use? Include samples of performance data supplied to network providers and description of measures.

RFP Questionnaire

(Continued)

- Scoring Example
  - What percentage of claims and quality-related member complaints were responded to in writing within two (2) business days?

Response	Points
<80%	0
80%-89%	1
90%-94%	2
95%+	3

  - How are individual providers monitored? What quality standards do you use? Include samples of performance data supplied to network providers and description of measures.

Response	Points
No Response	0
Respond	1
Include Samples	2

Performance Guarantees

- Compares actual performance to some pre-established standard
- Penalties assessed for failure to meet standard
- All penalties are retrospective - pay at end of evaluation period
- Discount guarantees

Examples

	Standard	Penalty
Administrative		
Membership tape testing protocols completed by September 1, 2008	100%	$0.20 PMPM
Accuracy		
Financial accuracy (based on dollars paid)	99.90%	$0.10 PMPM
Customer service		
Percent of calls answered within 30-seconds	90%	$0.10 PMPM
Percent of calls abandoned	<=4%	$0.10 PMPM
Percent of written inquiries responded to within 5 business days	97%	$0.10 PMPM

Agenda

Choosing a Health Carrier – An Employer's Perspective

- General Structure of the RFP
- Technical Component
  - RFP Questionnaire
  - Performance Guarantees
- Financial Component
  - Administrative Fees
  - Expected Claims Costs
- Evaluating Results
- Discussion

Financial Component

- Administrative Fees:
  - Fixed and guaranteed costs
  - Typically represent 10% to 15% of total medical cost

- Expected Claim Costs:
  - Network reimbursement (most significant factor)
  - Medical management
  - Underlying risk of enrolled population
  - Other factors
  - Typically represent the remaining 85% to 90% of medical costs

Administrative Fees

- Chart / spreadsheet approach
  - $ basis x units = $ total cost
- All inclusive or ‘cafeteria’ approach
- Cost basis:
  - PMPM
  - PEPM
  - Ad-Hoc (reporting, programming, etc.)
- Examples
  - Claims Adjudication - $17.10 PMPM
  - Imaging paper claims - $1.10 per claim imaged
  - Customized reports - $80 per programming hour, $260 per CPU hour
  - Transplant management – $3,000 evaluation, $9,000 access

Expected Claim Cost Component

- Network Reimbursement
  - Largest impact on medical claim costs
  - Different ways to measure
- Network Size
  - Number of facilities and physicians in carrier's network
  - Benefit plan may drive higher in-network penetration
- Medical Management:
  - Utilization Management
  - Disease/Condition Management
  - Case Management
- Demographics and health status of enrolled population
- Other factors: number of disableds, members on COBRA, network efficiency, hospital billed charge levels, etc.

Network Reimbursement

- Traditional RFP Requests:
  - Discounts by major service category- I/P, O/P, Physician
  - Inpatient per diems by bed type and DRG case rates for top DRGs
  - Physician code sampling for top CPTs
- Complete re-adjudication of claims is ideal - but generally not feasible
- Access to provider contracts generally not available

Best Practice Approach for Network Discount Comparisons

- Claims Repricing
  - Estimate the savings or cost to the group if they had been with a different carrier during the same time period
- Process:
  - Use a detailed historical claims data from incumbent carrier(s)
  - Reprice each claim to the alternative network discount;
- Advantages
  - Reflects service and utilization patterns specific to the group
- Disadvantages
  - Retrospective, not prospective
  - May be difficult to evaluate if each carrier reprices claims using a different approach

Repricing Example

- Claim repricing example:
  - Claim Type: physician
  - Place of Service: office
  - Procedure Codes: 99213 and 97110
  - Member 3-Digit Zip Code: 480 (Detroit, Michigan)

Repricing Example

(Continued)

Claim Number	Patient Zip	Claim Type	Place of Service	Procedure Code	Billed Charge	Contracted Rate
----------Historical ----------						
9187330	480	Physician	Office	99213	$80	$65
9187330	480	Physician	Office	97110	$90	$75
---------- Repriced ----------						
9187330	480	Physician	Office	99213	$80	**$60**
9187330	480	Physician	Office	97110	$90	**$65**

Network Size & Medical Management

- Network Size
  - Smaller network can lead to higher out-of-network utilization and costs since little-to-no discounts for out-of-network claims
  - Benefit design may keep members in the network
- Medical Management
  - Becoming a hot topic since medical trends are high
  - Plays a role in managing costs through prevention, early detection, and critical pathways
  - 80/20 Rule: 20% of a population may account of 80% of the costs, so managing the high dollar cases may lead to additional savings

Health Status & Other Cost Factors

- Differences in age, gender, and health status of population that enrolls with each carrier in a multiple choice environment will impact cost differences between carriers

- Additional factors affecting medical costs:
  - Disabled employees
  - Members on COBRA
  - Hospital billed charge levels
  - Network efficiency

Agenda

Choosing a Health Carrier – An Employer's Perspective

- General Structure of the RFP
- Technical Component
  - RFP Questionnaire
  - Performance Guarantees
- Financial Component
  - Administrative Fees
  - Expected Claims Costs
- Evaluating Results
- Discussion

Evaluating Results

- Scoring Matrix completed prior to RFP release
  - Points allocated to each question
  - Points for each response
  - Evaluation of financial results done objectively

- Expected Claims Analysis
  - May be done after RFP due date
    - Can use technical component to qualify responses
    - Simplifies analysis
  - Establish procedures to deal with irregularities
  - Must review results for reasonableness

Discussion