THE PHIA GROUP

EMPOWERING PLANS

Self-Funding, Free Markets, and More!

- Critical Strategies in Self-Funding to Promote the Free Market -

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The Phia Group

Learn

- Various Legal & Consulting Services

Plan

- Plan Document Services & Software

Save

- Claims Recovery, Negotiation, Network Alternatives

Protect

- Plan Administration Defense & Outsourcing Fiduciary Duties

Our Mission: *To reduce the cost of healthcare through innovative technologies, legal expertise, and focused, flexible customer service.*
We support employment based group health insurance and are confident that self-funded health plans lead the way.

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Today's Goals & Focus Points

1. Overall Goal: critical strategies in self-funding to promote the free market
2. How the employer-sponsored, self-funded model helps to create a free market
3. Real mechanisms to promote the free market
4. The miscellaneous "laundry list"

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Healthcare Costs – Out of Control

Why….

- Lack of transparency
- Convoluted and confusing system
- The wrong incentives
- Payer, Provider, and Plan Sponsor tolerance
  - We have made this mess together – we can fix it together

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Healthcare Costs – Out of Control

Lack of Transparency

- $57 for a FRED (Fog Reduction Elimination Device) = a 2 inch square gauze strip used to wipe moisture from lenses in the O.R.
- $200 for a bag of IV solution
- $985 pair of scissors
- $1,028 for a 1oz container of contrast solution
- $11 for a “mucous recovery system” … aka, a box of tissues
- $350 for an IV kit

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Healthcare Costs – Out of Control

Some of the worst offenders:

- Air Ambulance
  - Charges are typically 400% to 500% of Medicare allowable rates
- Implantable Devices
  - Devices typically marked up between 500% and 1,000% of cost
  - Providers getting gouged on the procurement side as well
- Dialysis
  - Dialysis facilities routinely charge 1,000% to 2,000% of Medicare allowable rates

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Healthcare Costs – Out of Control

The Wrong Incentives

- Rx kickbacks
- Culture of protectionism
- Praise for “curing” provider-created problems
- Over-treating
- Use the “big boys” and get a discount off of billed charges, based on….?
  - Discount is ultimately higher than the market rate – if there were such a thing

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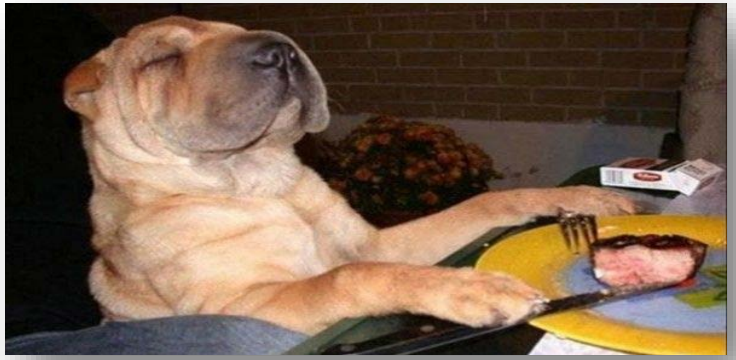
Healthcare Costs – Out of Control

Payer and Plan Sponsor Tolerance

- If you feed a dog steak when you bring him home, he'll expect steak for every meal
- We have to work together and eat tofu sometimes… or just cheaper steak



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How the employer-sponsored, self-funded model helps to create a free market

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Self-Funding

The Ingredients

- Employer, Plan Sponsor
  - Private / public employers; tribes; churches; governmental entities
  - MEWA; VEBA; Captives
- Plan Administrator (outsourced TPA or ASO model)
- Plan Document
- A Whole Mess of Vendors
  - Stop-loss / MGU; networks (leased, none, direct K-ing); UM/CM/DM; re-pricing; patient advocacy; claims negotiation; subrogation; wellness

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Self-Funding

ASO

Fixed risk – “Premiums”

Set it & forget it

Standard claims administration

No balance billing
(but limited cost containment)

No stop-loss gaps (but no options)

Less control over claims dollars

Discounts

TPA

A La Carte (“unbundled”) options for stop-loss, networks, negotiations, etc.

Strong ability to contain costs

Customized claims handling

Ownership of claims data

Control over plan assets

Loyalty to plan members

Exceed discounts through cost-containment

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Self-Funding

Employer-sponsored, self-funded health plans have the freedom to do…. Anything (sort of)

- Not bound by the terms of a pre-designed health plan, owned by a carrier and beholden to a network
- Legal structure: ERISA saves the day
- Real cost-containment
- Fair, benefit payment structures based on real numbers

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Self-Funding

Avoiding networks:

- Arbitrary and inflated billed charges – lack of accountability or objective metrics
- Severely unequal bargaining power
- Cookie-cutter networks and agreements
- “Insurance Company” mentality – stuck in the past
- Network loyalty is to providers, not plans or members

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The Plan Document – Plan Design

Cool things self-funded plan docs can do:

- Eligibility provisions
- Fiduciary / administrative roles defined
- Definitions (total control)
- Schedule of benefits (total control)
- Exclusions (total control)
- Coordination of benefits
- Subrogation, reimbursement & overpayment recovery language
- Assignment of benefits (revocation language!)
- Appeals authorization
- Claims audit provisions
- Balance billing provisions

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Real Mechanisms to Promote the Free Market

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But first, a picture of a beer, a bloody paper towel, a blood-soaked flip flop, and a puncture wound

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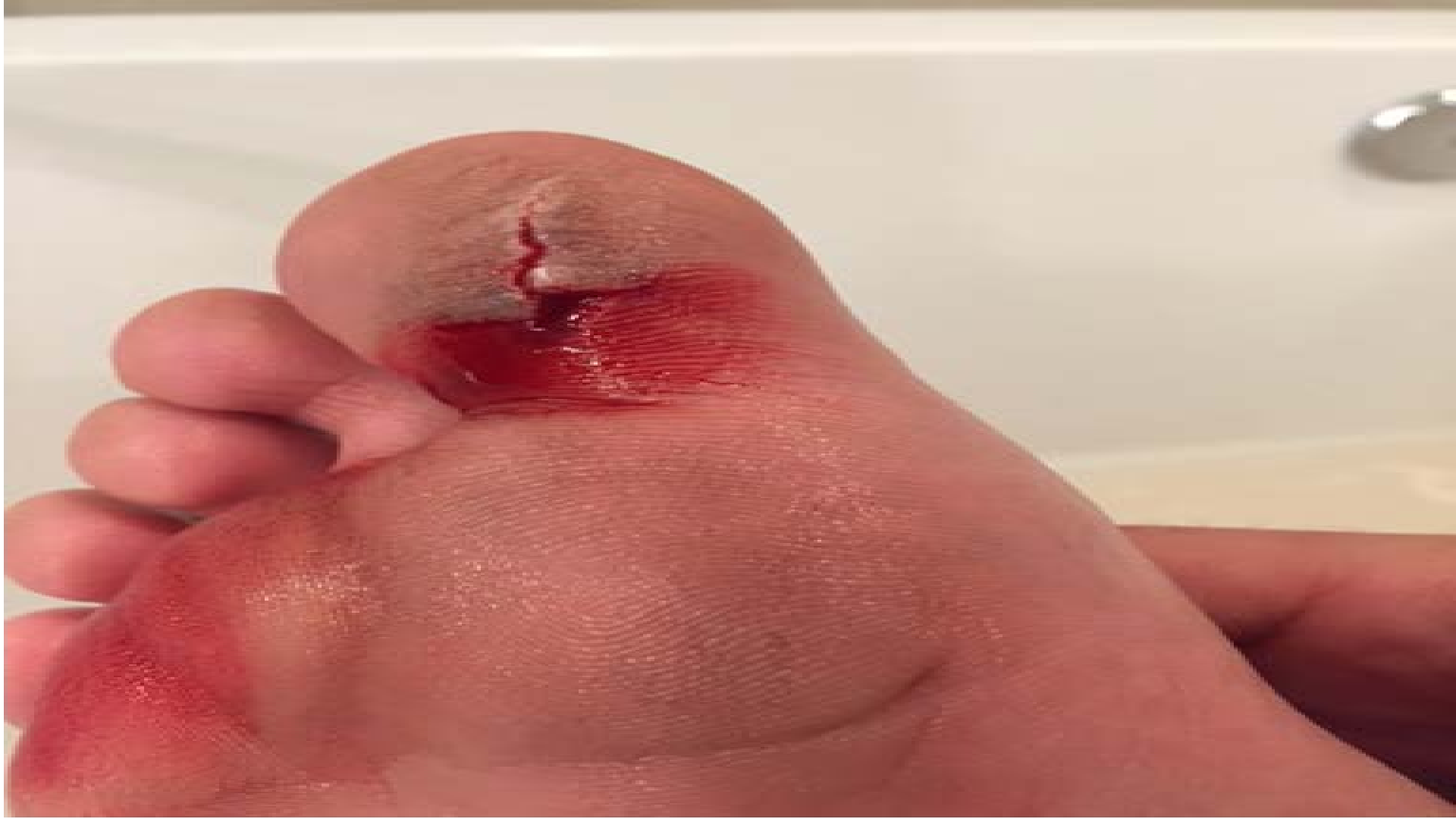

Reference-Based Pricing

RBP Defined:

- Utilizing a “reference point” to establish a fair reimbursement rate for provider billed charges
- Medicare like rates: e.g. 150% of Medicare for OON claims
- Usual, Reasonable & Customary: “we will pay you based upon the usual, reasonable and/or customary reimbursement rates prevalent in this region.”

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Why RBP?

“It’s the prices, stupid…”:

- Bi-lateral cochlear implant: $360,000.00
- Tonsillectomy: $25,000.00
- Arthroscopic Shoulder Surgery: $152,000.00
- Appendectomy: $180,000.00

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Why RBP?

- Significantly reduces cost to the plan and therefore to the member
- Virtually eliminates medical trend increases
- Provides reasonable reimbursement to providers for services rendered to members
- Utilizes accepted and understood rates as benchmarks

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Styles of RBP

Go Naked

- Eliminate networks & agreements entirely – “pure RBP”

Wear Pants, Only

- Bundle direct contracts on some services with RBP on all other, non-contracted claims

Wear Pants and a Tank Top

- Plan using a PPO network while applying RBP for particular, “carved out” services, or for OON claims entirely

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RBP Best Practices

Facets of a successful program

- Member education
- SPD language, EOB language, ID card language
- Patient advocacy & escalation mechanisms
- Conflict / gap analysis with PPO

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Is RBP Illegal? Wait… What?

- Providers (some): Yes, it's illegal – we hate it!
- Networks: We don't care if it's illegal – but it violates our contracts!
- Vendors: It's totally legal.
- DOL: No, it's not illegal. RBP is a network right? Wait. What industry are we talking about?
- Plans: No, it's not illegal. Billing should be illegal.
- TPAs: I sure hope it's legal…
- Bottom Line: RBP is legal. But, balances may apply to max OOP limits and create member disruption.

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Is it Working?

- Yes. But differently depending on the region.

- Threats:
  - Relationship damage between Plans & Health Systems
  - Providers balance billing members = noise
  - Threats of lawsuits = noise

- Solutions:
  - Direct contracting w/ providers (utilization guarantees & prompt payment guarantees)
  - Maintain a strong patient advocacy and claims negotiation program

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Self-Pay

“Hi. I’d like to pay you money for a service!”

- IRC may provide certain protections = end game of promoting a free market!
- The law prohibits the use of gross charges
- Providers may only bill the qualified self-pay patient at the “best” (meaning lowest) negotiated commercial rate, average of the three “best” (lowest) negotiated commercial rates, or the applicable Medicare payable rate

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The Laundry List

Other trends in self-funding:

- Subrogation: a free market holds the right pockets accountable
- Choice of hospitals – patients pay lower or no coinsurance at lower-cost hospitals
- Cash economy in healthcare – report as “self pay”
- Medical tourism – go see Keith!

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The Laundry List

Other trends in self-funding:

- Maternity care: diapers, baby wipes, gift cards
- Revocation of the assignment of benefits
- Percent of savings for finding errors and alternatives
  - Amazon Prime Nebulizer! $300 with a network discount or $118 with free shipping on Amazon!

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Questions?

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THANK YOU

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