

Get a sharper view of medical costs across carriers

If you're relying on discount analysis, you're not getting the whole picture



Discounts only tell *part* of the story when it comes to medical costs. And with only part of the story, this can be at a costly disadvantage.

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It's time to put your medical carriers' performance under the microscope so you can make the most informed decisions when it comes to managing your company's health programs. Beginning this fall, brokers, consultants and carriers alike will have the opportunity to use an evaluation method called Total Cost of Care. This methodology estimates your medical savings, considering total cost per member per month instead of the Net Effective Discounts (NED) approach.

It's no secret NED has flaws — it's been documented for years as the industry strived to develop a more reliable calculation. Total Cost of Care is a **measure that provides fair comparisons when evaluating how effectively each carrier manages cost in each market**. This view of your overall estimated medical savings means more complete calculations that you can share up the chain of command.

You're in the driver's seat with the performance of your benefits program, so make sure that you leverage the tools available to assess and choose the right administrator.

Let's take a more detailed look at how Total Cost of Care works.

Big-picture thinkers need big-picture calculations

Risk-adjusted total cost of care (we'll just call it **Total Cost of Care**) provides a complete financial picture of a carrier's cost-management capabilities. Simply put, it is the total cost per member per month that a carrier can achieve in a particular market. Here's what is factored in:

A. Everyone begins with the same data

Each carrier submits a uniform set of data points so consultants can establish a consistent baseline. Since the data includes total cost, everything is accounted for:



Unit cost (allowed charges) — The *actual* price of health services, not just the discount percentage off of medical care.



Utilization results — How well the carrier manages programs in each market; for example, effectiveness of clinical programs, policy edits, engagement strategies, etc. Your total costs include the medical service costs and how many services a member obtains. NED measures only the discount off the retail price of each service.



Impacts of the carrier's network management and contracting practices — In simple terms, actual network costs achieved. Some carriers manage networks aggressively with an eye on quality and efficiency, while others focus on network breadth.



Cost of local market value-based solutions — Local programs' effectiveness with health care providers depends on the delivery and reimbursement for care. You pay for these services (such as accountable care organizations) to help keep employees healthy and productive, so this value is important to your overall cost management.

B. The numbers are adjusted to level the playing field

Using the uniform data specifications(UDS), each consultant factors in demographic and population health profile differences to calculate the apples-to-apples number by market.

Some carriers may cover an older and/or sicker population, so this adjustment helps to create equality among carriers.

C. Cost comparisons give you the whole story

Your consultant should provide a summary of the results and what they mean to you.

This will help you understand how each carrier's total cost of care stacks up in each of your markets. For now, you may receive some discount comparison data, too, so you can see the cost differences in each method as the market shifts to Total Cost of Care.

How the numbers add up

Below is an example of “raw” Total Cost of Care numbers from two carriers. Without the risk adjustment, Carrier A’s monthly cost per member appears higher. But, when adding in the risk factors (such as average demographic and health profiles), an average risk score is obtained and Carrier A comes out lower.



Here’s the math: $1.00/1.05 \times 315 = 300$

You can see how important the risk adjustment is in the selection process.

The NED Effect: Beware of chasing the discounts

Establishing a level playing field to fairly evaluate carriers has not been easy. NED leaves big gaps in your evaluation process, and focuses on the pricing of medical services — even though other factors, such as quantity and quality of services, can weigh heavily on the ultimate cost.

The NED approach might work well enough if all things were created equal — utilization, network size, billed charges and population demographics. But, studies have shown that NED’s results will vary widely from carrier to carrier.

Can you make accurate decisions with only a piece of the cost picture?

Some of NED’s shortfalls can answer this question for you:

- NED accounts for some elements of pricing of services (discounts off retail prices), but **doesn’t recognize quantity differences**
- The “price” used for comparison is only one element of the overall price for services. In addition, the price is represented as a negotiated discount percentage, which begs the question, “Discount off of what?”
- The NED approach is applied **without regard to network type**
- NED can give too much “credit” for network breadth, so network quality and efficiency strategies that help control costs aren’t reflected in the analysis

Why is the industry moving to Total Cost of Care methodology?

- Analysis is more comprehensive and fair across carriers. Differing group characteristics that can cause distortions in the data are removed.
- Studies have shown that the NED methodology can overestimate savings by as much as five discount points. Some plan sponsors move forward with a carrier expecting savings that never materialize.
- Medical carriers are rapidly moving to value-based contracts with providers (accountable care organizations, patient-centered medical homes, bundled payments, etc.) to increase quality and efficiencies. Inaccuracies in NED are inflated with these types of contracts since the focus is on managing the efficiency of medical services.

Total Cost of Care methodology . . . Coming soon to a broker or consultant near you

Using Total Cost of Care financial projections in your next financial review or RFP is as easy as **1-2-3**

1. ASK

Contact your broker or consultant to learn if they have a new Total Cost of Care tool.

Tip: Actuaries often give a 3 to 5 percent credit to carriers known to have superior medical-management capabilities.

2. LEARN

Compare market-by-market risk-adjusted Total Cost of Care results with the carrier(s) you have today.

Do a full market side-by-side comparison against a discount-based analysis. In many cases you will find discrepancies, and can see that the risk-adjusted Total Cost of Care results show your cost savings.

Tip: Don't "blend" Total Cost of Care results with discount-based tools. This will only distort the accuracy of the new methodology.

3. COMPARE

Total Cost of Care analysis provides you with the most complete look at today's total costs.

With medical trends increasing and the Cadillac Tax looming, you should explore all your options to ensure the greatest savings.

Tip: Aligning your benefits to the right carrier(s) is one of the easiest ways for you to get the optimum results.

Helpful tips:

Below are a few questions to ask your broker or consultant about the new methodology:

- Do you have Total Cost of Care methodology available?
- If so, how are you developing your risk adjustments? If not, how are you accounting for differences in carrier medical-management capabilities?
- Can I see the straight Total Cost of Care results without the discount methodology incorporated?



Here's a few reasons it pays to learn more about the Total Cost of Care methodology

- It's more representative of your bottom line
- It's better at predicting the competitive cost differences
- Carrier utilization practices are incorporated
- Network management practices are reflected
- Network breadth is reflected more appropriately
- You can better understand total employee costs vs. your total portion of the cost
- Local-based Accountable Care Organization (ACO) models are factored in, so costs are more accurate
- New contracting methods are included



Fair results. Detailed analysis. Accurate big picture.

Contact your Aetna representative to learn more or ask your consultant or broker about Total Cost of Care.

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