The Magic of Direct Provider Contracting

SIIA
Charleston, SC
April 7, 2010

Roger C. Merrill, M.D., Chief Medical Officer

Agenda

1. Results at Perdue
2. Employers’ view
3. The Value Proposition: health conveyed per dollar spent
4. The Perdue Experience
5. USPs “Unique Selling Propositions” – how can you be better than big national outfits
Results

Cost per Associate: National Business Group on Health vs. Perdue

Employers’ View of US health care

- **Cost:**
  - $2.5T $2.8T
  - $9800 per employee
  - Highest in the world!!!

- **Product:**
  - Life expectancy/ infant mortality
  - Treatment of serious disease
Environment of health care in the US

What’s the problem?
Too much?
Too Little?
Too Expensive?
Too Cheap?

USA – Cost vs. “Product”

**Under treatment:**

A. Prenatal care
B. Stepped Rx of High Blood Pressure
C. Intensive Diabetes Care
USA – Cost vs. “Product”

Over treatment:

A. Arthroscopic Knee Surgery
B. Antibiotics for sore throats
C. Angioplasty

There is a relationship between cost and health status improvement:
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The solution? Chicken!!
The Perdue experience – a Walk Down Memory Lane

- It was 1995, costs were rising...
- We started with hospital deals
  - They had to bring value to the institution... WIFM
- Doctor arrangements much more complicated because:
  - More of 'em
  - 15,000 CPT codes vs. only 500 DRGs

- I knew I could never do the quality and volume, and I heard about AJ Lester, so...
  - We began at 3 locations
  - Immediate success – employee satisfaction and cost efficiency
  - Primary care – don’t hurt them!
- Expansion to all geographic areas
The Perdue experience – refine and develop

- We recognized that the networks could be tailored to our philosophy
- Efficiency of our networks vs. national ones
  - Naturally, we could be more effective, due to relative exclusivity
  - So we tested our networks against national ones

Network Nuts and Bolts

- Flexibility, so we could get anyone we wanted into the network
- Administration: Wells Fargo vs. national insurer
- For providers, the opportunity to partner with the major local employer
  - Agreements are until death do us part.
Direct Contracting with Doctors and Hospitals – Aligns incentives

Hospitals and Doctors have exactly the same goals as we do: improving the health of the population; big insurers have fundamentally different goals.

Conveys permanence – no need for changing networks

Follow the Rainbow: What’s next?

If Primary Care is good, primary prevention is even better. We created the Perdue Health Improvement Program (HIP)
Every participating associate (80% participate) fills out a brief health risk appraisal.
We measure a few things (BP, lipids, blood sugar, nicotine, and fat-o-meter).
All this gets entered into a database that...

Gives us an aggregate ‘health score’ for each plant and the Company.
Generates a personal health score, and a personal plan for health for each associate.
Upstream Health and Wellness

This integrates with the direct networks and onsite Wellness Centers as the locus of lifestyle as well as traditional medical interventions.

HIP example:
- Through screening, we learn you have undiagnosed Hypertension and poorly controlled diabetes:
  - We help you institute lifestyle changes
  - We bring you into the Wellness Center or send you to a network doctor for physician medical care.
HIP example (cont’d):

• …and both HBP and Diabetes are treated over time by the HIP Coach for lifestyle change, and by the physician with science-based, protocol-driven medical care.

HIP thus closes the loop in one magnificent whole to include lifestyle improvements as well as medical treatment linked to our network docs.
Current Status

➢ Cost trends flat.
➢ For our HR folks, the networks run on cruise control
  o Accountants are happy
    ▪ Network fees minimal vs. $1.2M @ $5 PEPM
➢ Doctors, hospitals, patients, and are all happy.
  o So am I!

Unique Selling propositions: USPs

✓ You can be more efficient than big networks.
✓ Maintenance costs are a fraction of network rates
✓ Direct networks help you create a defensible position.
  o Working, efficient networks make employer much less likely to move.
✓ Wellness program bolt-on
Unique Selling propositions: USPs

- TPAs should encourage existing clients to use direct contracting when possible, and
- Offer it to prospective clients as another way to meet their needs. Maintenance costs are a fraction of network rates
- You can do it way better than national insurers.
- This differentiates you from other administrators.

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Direct Provider Contracting

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Direct contracting: What's in it for TPAs?

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    - Customized, quality networks of stable providers
  - Cost savings, less administration, no access fees

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    - Streamlined admin without need for PPO repricing
    - Solidifies TPA’s relationship w/client

Network ownership + results = Client never leaves

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    - Direct networks immune from TPA and PPO M&A activity
    - Employer’s investment in network = stronger commitment

Client’s belief in strategy of direct contracting is the best defense of all.
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    - Direct networks replace ineffective/costly PPO locations
  - Creative/flexible RFP response: Direct networks, PPOs, etc.
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