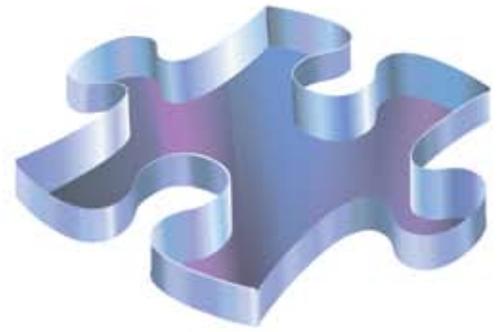
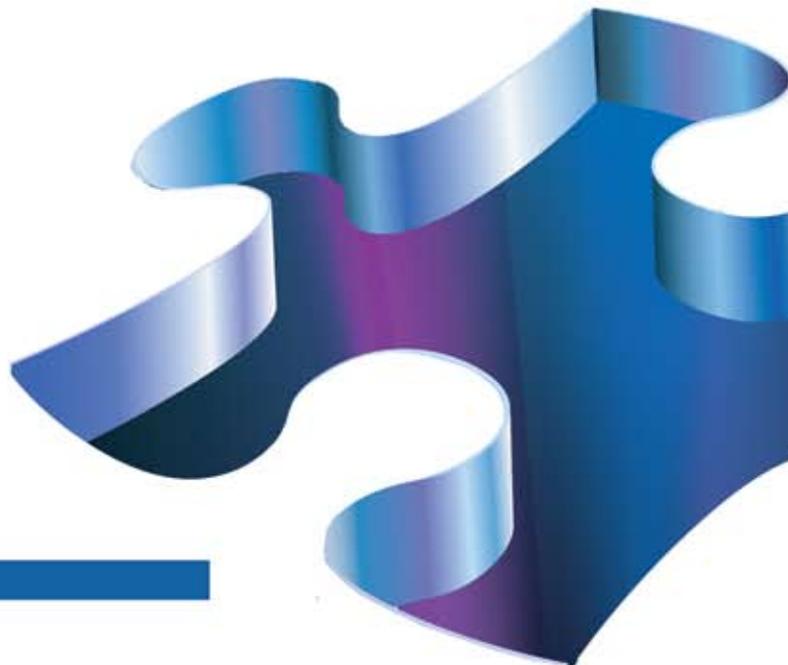


COST

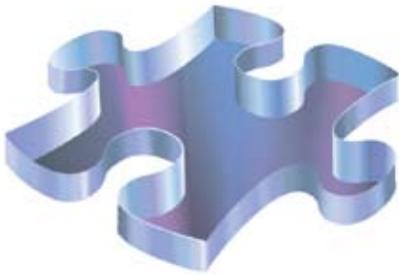
TMG Health *white paper series*



Perspectives on Cost
in the BUSINESS PROCESS
OUTSOURCING *discussion*



 TMG Health



When it comes to selecting a health plan, one factor in the decision making process has stood out with remarkable stability for years. Whether it is an individual or an employer group sponsor deciding on a carrier and a product, Cost is and has always been King.

THE OVERARCHING IMPORTANCE OF AFFORDABILITY

The country’s recent economic downturn has done nothing to help Americans’ struggles to afford health insurance and needed health care.

The June 2009 tracking poll by the Henry J. Kaiser Family Foundation (KFF) of public opinion on health care issues highlights the impact of health care costs. “Among the hallmarks of this public opinion survey,” writes KFF, “are significant levels of difficulty in affording necessary care.” The survey finds that a majority of Americans (55 percent) say that they or another member of their household have put off some sort of needed medical care because of the cost over the past 12 months.¹

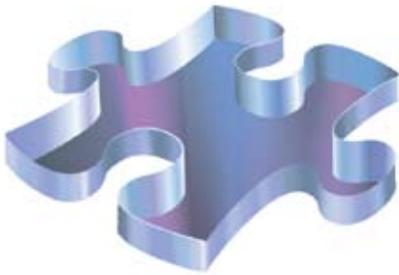
The impact of health costs can be particular acute for women, who are more likely to use health care services throughout their lives, yet have lower incomes and fewer resources than men. Women are more likely than men to report that cost is a barrier to care. Even among privately insured women, 17% report delaying or going without needed health care because they could not afford associated costs such as copayments or non-covered services.² The effects of cost are particularly acute for low-income women.³

When it comes to selecting a health plan, employers’ emphasis on the cost of the plan may be even more pronounced than that of individuals. Health insurance expenses are the fastest growing cost component for employers, and according to KFF premiums for employer-sponsored health insurance in the United States have been rising four times faster on average than workers’ earnings since 1999.⁴

Telling evidence of the importance of cost has been revealed in annual Employer Health Benefits surveys conducted by KFF and the Health Research and Educational Trust. The survey, which is traditionally released each Fall, tracks trends in employer health insurance coverage, the cost of that coverage, and other topical health insurance issues.

For years, a topical issue reported by KFF was “features companies look for in selecting a health plan.” When that listing was last published by the foundation, it illustrated the undeniable role of cost.⁵

PERCENTAGE OF ALL FIRMS THAT SAY THE FOLLOWING FEATURES ARE “VERY IMPORTANT” WHEN CHOOSING A HEALTH PLAN:	
Cost of plan.....	80%
Number of physicians enrollee can choose from	66%
Range of benefit options	54%
Accuracy and speed of claims processing	46%
Internet tools to help with enrollment and claims processing	46%
Measurable employee satisfaction	45%
Tiered physician or hospital benefit.....	19%
NCQA or URAC accreditation status	3%
HEDIS performance measures	1%



There are reasons for the disparity in administrative costs between commercial and Medicare programs that go beyond the costs of plan operating costs such as claims administration and member services.

THE ROLE OF ADMINISTRATIVE COSTS – AND WASTE

Many factors which drive the overall premium costs for health plans are variable items, impacted by utilization and provider costs. A notable exception is in the category of administrative expenses.

The role of administrative costs has drawn increased attention as the debate rages over national health care. A recent report by one of the nation’s leading authorities on health care economics, Uwe E. Reinhart, brought the topic into even greater focus. In comparing what countries spend per person on health care, and what the country’s gross domestic product per person should predict that country would spend, Reinhart bluntly labeled as “indefensible” America’s high administrative costs.⁶

A study by McKinsey Global Institute further illustrated administrative waste in the American health care system. It cited the United States as having \$480 billion in excess spending each year in comparison to Western European nations ... with over 20% of the estimated total coming from costs that are mainly associated with “excess administrative costs” and poorer quality of care. The study suggested the United States spend six times more per capita on the administration of the health care system than its peer Western European nations.⁷

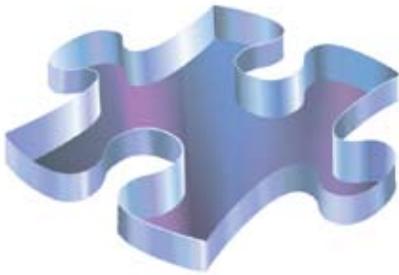
THE ADMINISTRATIVE EXPENSE SLICE

Administrative costs are frequently cited in debates about health system reform. Administrative costs for private health insurance plans are sometimes compared to Medicare’s administrative costs without reference to the significant differences in the two programs and their target populations. Medicare administrative costs as a percentage of total costs are estimated to be 5 percent as compared to an estimated 13 percent for private plans.⁸

There are reasons for the disparity in administrative costs between commercial and Medicare programs that go beyond the costs of plan operating costs such as claims administration and member services. Of note, very different populations with different costs per enrollee enroll in the two programs. Private insurers typically administer a broader range of products and services and invest more in marketing their programs. Private plans must also satisfy state imposed “risk based capital requirements” and are also subject to state and local taxes from which Medicare is exempt.⁸

Administrative cost estimates, however, are by no means an exact science, and the exact differences between private and public program costs may be vastly overstated. Several analyses have sought to compare private and public insurance by addressing common shortcomings of administrative costs estimates.

A pair of studies of Medicare administrative costs that included unreported expenditures on the program made by numerous government agencies concluded that Medicare administrative expenditures were at least three times the amount reported in the federal budget in 2003 - \$15.0 billion vs \$5.2 billion.⁹



Consistency of expected costs is particularly important for health plans operating in Medicare. Seemingly never-ending changes imposed by the Centers for Medicare and Medicaid Services (CMS) force continual upgrades of processes to ensure compliance.

THE ISSUE IS PREDICTABILITY OF COSTS

While there is difficulty in quantifying the exact portion of health care costs that are tied to plan administration, there is recognition the category represents an opportunity for savings. Business Process Outsourcing (BPO) services can help optimize such cost cutting.

Health plans that partner with TMG Health for their program administration are not left to wonder if they have appropriately accounted for hidden costs in determining their administrative expenses. TMG Health helps health plans reduce their risks associated with program administration and much more accurately predict their overall expenses.

Rather than struggle to quantify hidden costs such as management and staff time invested, overhead and space allocations, planning activities and other variable items, TMG Health helps its clients eliminate cost surprises. By offering guaranteed fixed costs on a per member per month (PMPM) basis, TMG Health fosters true cost consistency.

Consistency of expected costs is particularly important for health plans operating in Medicare. Seemingly never-ending changes imposed by the Centers for Medicare and Medicaid Services (CMS) force continual upgrades of processes to ensure compliance. Such efforts can drain the IT resources or any organization that chooses to go it alone.

With BPO services from TMG Health, cost predictability is combined with inherent affordability. Much more so than any individual health plan could hope to achieve, TMG Health's outsourcing platform is better at finding administration efficiencies that can lower costs. The ability to share resources across multiple customers also leads to economies of scale and true cost avoidance.

With more than ten years of experience in the government health programs industry, TMG Health offers time tested and proven industry "best practices" such as fixed pricing to foster administrative cost predictability.

Benefit from our expertise. To truly understand the predictability and affordability of our BPO outsourcing solutions, we invite health plans to conduct a simple cost analysis that can only come from obtaining a quote from TMG Health. You'll see what our many satisfied clients already understand; BPO arrangements provide the exact opposite effect of being "nickled and dimed"... they provide the predictability of meaningful (and substantial) dollar savings. ■

SOURCE ATTRIBUTIONS

¹ Henry J. Kaiser Family Foundation – Health Tracking Poll, June 2009

² Salganicoff A, Ranji U, and RWyn. 2005. *Women and Health Care, A National Profile: Key Finding from the Kaiser Women's Health Survey*, Kaiser Family Foundation.

³ Income below 200% of the federal poverty level.

⁴ Henry J. Kaiser Family Foundation. *Employee Health Benefits: 2008 Annual Survey*, September 2008.

⁵ Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003

⁶ Uwe E. Reinhardt: *Why Does U.S. Health Care Cost So Much (Part II)*; November 21, 2008 Blog.

⁷ McKinsey Global Institute. *Accounting for the Cost in the United States*. January 2007

⁸ *The Factors Fueling Rising Health Care Costs – 2008 – prepared by PriceWaterhouse Coopers for America's Health Insurance Plans – December 2008*

⁹ Litow ME. *Medicare vs Private Health Insurance: The Cost of Administration*, Milliman, Inc. January 2006; and Matthews M. *Medicare's Hidden Administrative Costs: A Comparison of Medicare and The Private Sector*, Council for Affordable Health Care January 2006.