

Health care affordability
Opportunity assessment

Hidden in plain sight—30 percent of health care spend is unnecessary.¹

Are you looking in the right places for it?

Studies from Dartmouth and Rand support the contention that 30 percent of health care spend is unnecessary.¹ Any way you look at it, wasting nearly a third of the \$3.3 trillion National Health Expenditure² is a huge problem. Looked at through a different lens, however, health plans also have a tremendous opportunity: to reduce unnecessary spend, attract new members through more competitive premiums, and ultimately help increase profitability.

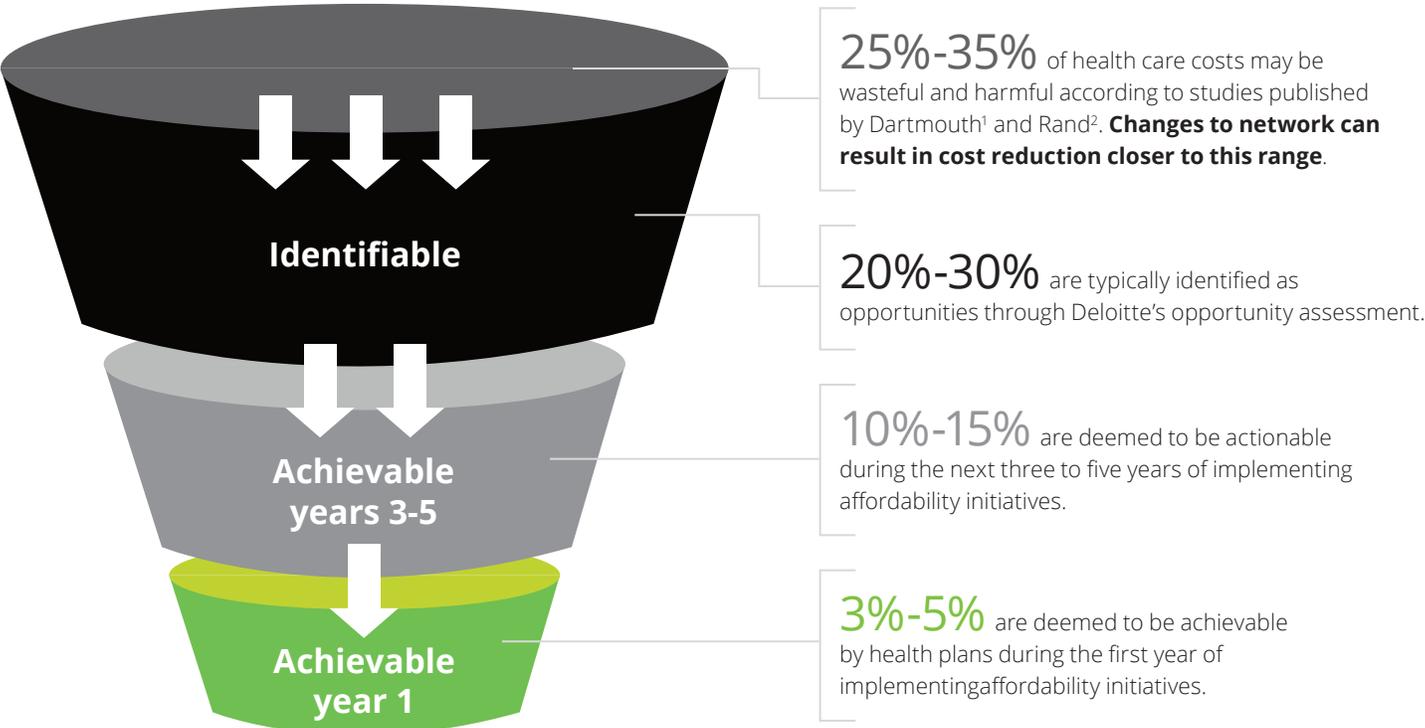
Identify opportunities for cost savings:

There are many methods to affect change within a health plan, but starting with identifying specific areas of opportunity allows you to develop strategies to increase efficiencies and cut runaway costs. Given the large base of costs and common overuse of services, medical and pharmacy costs are prime areas to meet goals around increasing health care affordability.

Our experience suggests the following:

- At least 10 to 15 percent in savings can be achieved through opportunities that are actionable within three to five years
- Up to 5 percent of medical and pharmacy spend reduction can be achieved in the first year of implementing cost-reduction initiatives

Deloitte's experience with health plans has indicated...



Source: Deloitte analysis

1 Are you looking in the right places for it?

Identify commonly overused services: One area where cost-reduction opportunity typically exists is the overuse of services. In a fee-for-service arrangement, health plans can see a direct benefit in reducing these services:

- *Overused medical services:* Common examples include inpatient and outpatient surgery, high-cost imaging, and emergency room visits.
- *Overused or inefficiently used pharmacy:* Use of brand drugs when a generic option is available or use of high-cost specialty drugs when other lower-cost drugs or therapies are clinically supported.

An in-depth claims analysis supported by clinical review can highlight service categories where savings can be achieved by reducing unnecessary use. By drilling down further, health plans can identify specific services, providers, and physicians driving higher use. Plans can then collaborate with clinical review to achieve actionable solutions.

Optimize site of service: Health care services are often performed at higher-priced sites when less expensive sites are clinically viable and reasonably available. By shifting services to lower-cost sites of care, health plans take a targeted approach to achieving savings and bending the cost curve. Additionally, the same high-cost specialty drugs can be administered in lower-cost treatment sites.

Transforming the service delivery model: As risk-based arrangements become more popular, plans and providers will share in the up and downside of the financial risks of managing an attributed population. Having lower-cost, in-network sites of care will allow for greater flexibility when prescribing and referring services. To create meaningful change, health plans can educate physicians on what services can be performed at alternate sites of service, and tie physician incentives to the overall cost of care.

Take a proactive approach to condition management:

A portion of medical spend occurs due to use of avoidable or unnecessary services, which occurs during treatment- or condition-based episodes. Episodic costs for avoidable or unnecessary care can vary widely, but they typically stem from:

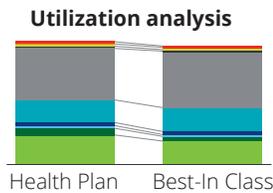
- Lack of patient engagement in managing their condition(s)
- Potentially poor episode management by the provider
- Lack of preventive care, which can help avoid future avoidable costs (this often occurs due to financial pressures on the health systems)

Health plan, provider, and patient shared responsibility: To reduce episodic costs and cost variation, health plans should expand beyond the traditional complex care management to target chronic and at-risk members through initiatives focusing on managing and preventing medical events. Patients bear a responsibility to participate in the management of their health and use of services. To help them take appropriate actions, patients should first be educated by providers on their condition and triggers. Altering patient behavior is a longer-term opportunity and requires a well-developed care management program, and a structural change in how providers deliver care.

Act on assessment insights: The results of an opportunity analysis should include actionable insights for next steps to be taken to achieve the savings opportunities. Next steps may include care model redesign, VBC transformation, provider/health plan collaboration, PBM relationship maximization, and next-generation product redesign.

While studies have indicated 30 percent of health care spend is unnecessary, tremendous opportunities to achieve savings are available. Identifying appropriate, targeted measures can drive near-term and long-term change in your organization.

Health plans can identify achievable and actionable savings and opportunities through a variety of analyses...



Metropolitan Statistical Areas (MSAs) are compared against best-in-class to determine use management opportunities. Typically, the first place plans look for savings is through unnecessary services.



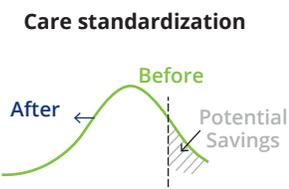
Managing pharmacy costs continue to be increasingly important for plans (e.g., generic use, specialty drug pricing).



Opportunities are identified to shift services to a more cost-effective setting, suggesting new ways to approach care.



The distribution of scripts dispensed through retail vs. mail order is reviewed to gauge the savings opportunity from directing use to more efficient channels.



Innovative tools can be leveraged to identify issues that drive high costs for given conditions. This, along with clinical insights, provides actionable areas to focus on.



The current contract's pricing, terms, and conditions are compared against a market-based sample of comparators to identify areas of focus for future contract negotiation.

The results of our opportunity analysis include actionable insights for next steps to be taken to achieve savings opportunities, such as care model redesign, VBC transformation, provider/health plan collaboration, PBM relationship maximization, and next-generation product redesign.

Source: Deloitte analysis

Endnotes

1. Institute for Health Policy and Clinical Practice: "Reflections on Geographic Variations in U.S. Health Care" (Dartmouth), and Berwick and Hackbarth: "Eliminating Waste in US Health Care" (Rand)
2. NHE Fact Sheet, 2016: <https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nhe-fact-sheet.html>

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