



ACHIEVING IMPROVED HEALTHCARE MEDICAL COSTS BY DELIVERING STRATEGICALLY DESIGNED SPECIALTY SERVICES

Andrew Shirer

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EXECUTIVE SUMMARY

The landscape upon which health plans sit is ever-changing, and new challenges are on the horizon. Mergers, acquisitions, and partnerships are occurring at an unprecedented rate. Disruptive players, like Apple, Google, and Amazon, have entered the market. The government continues to introduce mandates to which the plan must adhere. These factors add demands on plans that are already facing budgetary and resource constraints.

The days of addressing financial stress through administrative cost reduction are over. There isn't much more a plan can do. The real plan costs are not administrative; they are in the space of medical costs, payment accuracy, and ensuring the receipt of appropriate revenue.

Over the years, consulting solutions have focused on administrative cost reduction and not medical cost reduction – because reducing medical costs is more complicated and requires different skills, knowledge, people, and tools. Reducing medical costs is more complicated than administrative cost reduction and requires an entirely different set of experts.

This is where Catalyst can help. To help plans address the medical cost reduction and revenue accuracy, Catalyst uses an intelligent data-driven design process to identify probable targets of improvements. Once those targets are agreed upon, Catalyst manages an integrated and coordinated portfolio of services that drives to substantial and measurable annual cost savings.

In addition to reducing the plans medical costs, Catalyst's service lowers the plan's administrative costs and frees internal staff resources to focus on other value-added services, such as consumer/member engagement and value-based payment provider support.

ABOUT CATALYST

Catalyst Solutions helps health plans focus on three core areas:

- Technological optimization
- Operational efficiency
- Strategic planning

In a high-pressure and ever-changing industry, we guide health plans to simplify operations and technology for better resiliency and adaptability.

For more than 20 years, we've partnered with health plans with membership ranging from 1K to 25M, across all lines of business. Our focus on payer-system and business-process optimization ensures that the technology genuinely supports business goals, priorities, and strategies. Catalyst's unique core competency is to help clients assess, implement, upgrade, and enhance core and ancillary systems and processes.

As a boutique firm, Catalyst's approach differs from most product vendors and large consulting organizations. We create independence, not dependence. We're responsive, consistent, cost-effective, and place a genuine focus on knowledge transfer to the client throughout the project. Our clients receive prompt responses to requests, our project teams contain the same consistent staff, and our objective isn't to multiply the project footprint.

Our priority is to act as impartial advocates for our clients. We do not partner directly with product vendors to ensure our recommendations are unbiased and our allegiance is exactly where it should be - with our clients.

ISSUE

Nearly all sectors of public healthcare have projected increased spend into the next decade. In addition, the U.S. population is increasing, which will result in more enrollments into government programs. In fact, CMS projects nearly half (47.3%) of the U.S. population will be enrolled in Medicare, Medicaid, or CHIP programs by 2026.

National healthcare spending will reach \$6.0 Trillion by 2027 (a 67% increase from today's annual spend of \$3.6T). Health plans must place emphasis on medical cost-saving initiatives and better manage their Medical Loss Ratio (MLR) (for additional details, please refer to *Appendix A – Economic/Demographic Projections*).

Moreover, when the Affordable Care Act (ACA) was enacted in 2010 and included an MLR provision known as the 80/20 rule. This stipulation requires that health plans must spend 80-85% of their premiums on health care costs and quality improvement activities - the

remaining premiums for admin costs and marketing initiatives. Many plans struggle to achieve this requirement. Some plans cannot achieve it.

Consequently, plans do not have sufficient funds to make much-needed improvements to their infrastructure, undertake modernization efforts, or implement government mandates.

SOLUTION

Catalyst's Specialty Services Management solution serves to maximize overall cost reduction efforts by:

- Achieving medical spend containment
- Recognizing accurate revenue for members
- Offering access to the right care in the right setting
- Addressing the unique needs of the plan's members
- Reducing abrasion with the provider community

The foundation of Catalyst's proposed program is the relationship in place with specialized partner vendors. Partner vendors have been identified based on the combined experience and success in assisting plans. Specific partner vendors and solutions will be determined based on the results of the initial readiness assessment and evaluation and could include:

- MLR Reduction
 - Pharmacy
 - DME Management
 - Diagnostic Imaging
 - Utilization Management
- Premium Enhancement
 - Recoup any underpaid capitation
 - Identify underpayments and overpayments
 - Social Security disability benefits identification

THE CATALYST PROCESS

By serving as the prime contractor and lead program manager, Catalyst minimizes administrative coordination requirements and lowers administrative costs. The primary point of contact for this engagement will be the designated Catalyst Program Manager. The Program Manager will be responsible for:

- Program direction
- Oversight of the Specialty Services Management solution
- Management of all subcontractors

- Ensuring achievement of delivery expectations
- Ad-hoc cost and clinical management improvements

This approach ensures Catalyst is appropriately managing cost, project integrity, as well as the needs of members and providers.



The process Catalyst employs is, as follows:

Identify

Catalyst completes an assessment to identify project opportunities. Using highly-specialized mining tools and techniques, Catalyst will analyze a plan's data and determine how it can best be used to drive cost-containment initiatives.

Catalyst's solutions offer a higher probability of realized cost-savings and associated impacts on both the plan's organization and its constituents.

Plan and Prioritize

In the next phase, Catalyst selects the partners that will drive the greatest value. Working in conjunction with the plan, Catalyst will provide a detailed summary of the interventions and a comprehensive savings estimate. Additionally, Catalyst will provide Readiness Impact Assessment for the Plan that:

- Reduces risk/increases the probability of success
- Is sensitive to the plan, providers, and members
- Addresses regulatory impacts

Operationalize, Manage, and Measure

Catalyst and its partners will work to accomplish cost-savings and revenue enhancement goals with the plan, members, and providers. For the duration of the program, Catalyst will provide coordination, alignment, and oversight – acting as the primary point of contact. At year-end, Catalyst will report on results and achievements, as well as future-state forecasts.

Reassess and Repeat

The approach not only manages and contains costs, but also enables health plans to select additional targeted areas to generate year-over-year continuous improvement while accommodating regulatory initiatives as well as integrity, financial, and medical

effectiveness objectives. Catalyst will guide the plan to identify new improvement opportunities and determine which projects that Catalyst and its partners can provide.

VALUE PROPOSITION

With 20+ years in the healthcare industry, Catalyst employs experienced resource pool with expertise in Commercial, Individual, Exchange, Employer, Medicaid, and Government Programs. Moreover, Catalyst has built a network of partnerships that deliver a highly customized, best-of-breed approach, as opposed to an approach that is one-size-fits-all.

Catalyst is committed to partnering with health plans to pursue initiatives that decrease a plan's overall expenses while being sensitive to market and provider populations, as well as the plan's processes and policies. In most cases, the amount of savings and avoidance is enormous – and Catalyst utilizes a performance-based or risk-based pricing, so there is minimal risk to the plan.

Additionally, this offering helps plans manage financial regulatory risks, while simultaneously improving the health of its constituents.

Immediate Benefit

- Immediate reduction of PMPM capitation costs of Specialty Services
- Performance-based service/Risk-based pricing
- Measurable and reportable results
- Healthcare plan business process improvement

Long-term Benefit

- Reduction of overall medical costs
- Improved quality of care
- Reduction in risk to the healthcare plan
- Consistent and predictable outcomes
- Lower administrative expenses

CASE STUDIES

The following case studies provide a representative summary of benefits that can be achieved by a healthcare plan using Catalyst's Specialty Services offering, specifically in the space of:

- Medical Benefit Specialty Drug Savings
- Home Ancillary Services Savings
- DME Savings

MEDICAL BENEFIT SPECIALTY DRUG SAVINGS

The spend and savings estimates below are based on market knowledge and experience with large health plan payers.

The methodology Catalyst utilized started with the PMPY spend and savings expectations for similarly-sized Managed Medicaid plan. From there, Catalyst backed into the spend and savings estimates (see below). Savings was calculated for Medical benefit specialty drugs only.

Estimated annual savings was in excess of \$7M.

Estimated Spend by Benefit and LOB			
Medicaid	Benefit	Spend	PMPY
375K Members	Medical	\$ 48,750,000.00	\$ 130.00
	Rx	\$ 61,875,000.00	\$ 165.00
	Total	\$ 11,062,500.00	\$ 295.00

Estimated Savings by Type and LOB			
Benefit	Savings	PMPY	
Payment	\$ 990,000.00	\$	2.64
Clinical	\$ 2,471,250.00	\$	6.59
Site of Care	\$ 3,757,500.00	\$	10.02
Total	\$ 7,218,750.00	\$	19.24

Upon further analysis of the health plan's pharmacy benefit claims, Catalyst was able to anticipate greater savings. Therefore, Catalyst considered these estimates to be conservative. Greater savings opportunities were identified after Catalyst was able to complete a complete claims analysis using client data.

HOME ANCILLARY SERVICES SAVINGS

The below savings are calculated for home ancillary services, specifically for DME, Medical Supplies, Home Health, and Home Infusion services. Using an actuarial model based on historical experience with plans of similar size, Catalyst prepared the projections (see below) and showed the estimated plan expenditure and possible savings.

Preliminary savings was in expected to be over \$23M.

Estimated Spend by Benefit and LOB				Estimated Savings by Type and LOB		
	Benefit	Spend	PMPY	Benefit	Savings	PMPY
Commercial 1.5M Members	DME, Medical Supplies, Home Health, and Home Infusion	\$ 90,000,000.00	\$ 60.00	UM, Claims, Network	\$ 18,000,000.00	\$ 12.00
Medicaid 250K Members	DME, Medical Supplies, Home Health, and Home Infusion	\$ 21,000,000.00	\$ 84.00	UM, Claims, Network	\$ 4,200,000.00	\$ 16.80
Medicare 15K Members	DME, Medical Supplies, Home Health, and Home Infusion	\$ 4,860,000.00	\$ 324.00	UM, Claims, Network	\$ 972,000.00	\$ 64.80
Totals	DME, Medical Supplies, Home Health, and Home Infusion	\$ 115,860,000.00		UM, Claims, Network	\$ 23,172,000.00	

DME SAVINGS

The following savings are calculated for home ancillary services, specifically for: DME, Medical Supplies, Home Health, and Home Infusion services. Using an actuarial model, based on historical experience with plans of similar size, Catalyst has prepared projections showing estimated plan spend and possible savings.

In this example, the health plan may experience combined DME savings (after five years) of greater than \$101M.

LOB	Membership	Year 1 Spend	Year 2 Spend	Year 3 Spend	Year 4 Spend	Year 5 Spend	5 Year Combined Spend
Commercial	140,000	\$8,400,000	\$8,484,000	\$8,568,840	\$8,654,528	\$8,741,073	\$42,848,442
Medicare	20,000	\$115,200,000	\$116,352,000	\$117,515,520	\$118,690,675	\$119,877,581	\$587,635,777
Medicaid	1,600,000	\$6,480,000	\$6,544,800	\$6,610,248	\$6,676,350	\$6,743,113	\$33,054,512
Total	1,760,000	\$130,080,000	\$131,380,800	\$132,694,608	\$134,021,554	\$135,361,769	\$663,538,731

LOB	Membership	Year 1 Savings	Year 2 Savings	Year 3 Savings	Year 4 Savings	Year 5 Savings	5 Year Combined Savings
Commercial	140,000	\$1,260,000	\$1,272,600	\$1,285,326	\$1,298,179	\$1,311,161	\$6,427,266
Medicare	20,000	\$17,280,000	\$17,452,800	\$17,627,328	\$17,803,601	\$17,981,637	\$88,145,366
Medicaid	1,600,000	\$1,296,000	\$1,308,960	\$1,322,049	\$1,335,270	\$1,348,622	\$6,610,902
Total	1,760,000	\$19,836,000	\$20,034,360	\$20,234,703	\$20,437,050	\$20,641,421	\$101,183,535

SUMMARY

As health care in the United States progresses into the next decade and beyond, health plans must be ready to face the ever-changing landscape of regulatory requirements and rising medical costs.

Catalyst is ready to help health plans reduce medical costs and improve revenue accuracy by leveraging Catalyst's intelligent data-driven design process. Catalyst will identify probable targets of improvements, then design and manage a unique, integrated and coordinated portfolio of services specific to the health plan that will drive to substantial and measurable annual cost savings. Catalyst will also help the plan reduce admin costs, freeing internal staff resources to focus on other value-add services.

APPENDIX A – ECONOMIC/DEMOGRAPHIC PROJECTIONS

Key economic and demographic factors fundamental to the health sector are anticipated to be the major drivers during the upcoming 10-year period.

U.S. Health Spending ^{1, 2}			
	2018	2018-2027	Delta & Contributions
National spend	\$3.6 Trillion	↑ 5.5% per year	67% increase (\$2.4T) to \$6.0 Trillion in 2027
Healthcare Costs as % of GDP	17.8%	19.4%	by 2027
Healthcare Costs - \$ per person	\$11,009.17	\$17,910.45	62% increase by 2027 327M US population in 2018 335M US population (Est) in 2027
Medicare	↑ 5.9%	↑ 7.6% per year	7.6% is 0.5% faster than 2019 projections Fast per enrollee growth Increased hospital & prescription drug spending
Medicaid	↑ 2.2%	↑ 6.0% per year	Program expansions (5 in 2019); accelerated membership growth influenced by faster per enrollee spending growth
Private health	↑ 4.5%	↑ 5.1% per year	Projected income growth, in turn contributes to increase projected spend growth. Slight decline observed initially due to repeal of ACA individual mandate
Out-of-pocket	↑ 3.6%	↑ 5.0% per year	Rapid increase due in part to less people with private health insurance from individual mandate repeal

¹ CMS National Health Expenditure Data <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index.html>

² Population related calculations based on U.S. Census Bureau data <https://www.census.gov/en.html>