BCBSM Health Care Value - Cost Management Programs

The Early Retiree Reinsurance Program Application requirement states:

A sponsor’s employment-based plan must include programs and procedures that have generated or have the potential to generate cost savings with respect to plan participants with “chronic and high-cost conditions” defined by the Department of Health and Human Services as “a condition for which $15,000 or more in health benefit claims are likely to be incurred during a plan year by one plan participant”.

Blue Cross Blue Shield of Michigan delivers a number of programs that address the rising cost of health care in the realm of medical management for the non-Medicare and Medicare populations. These medical management programs assist members in managing health care costs by promoting quality outcomes and the appropriate use of health care services, particularly those that have effective, proven outcomes. Additional programs provide more broad assurance of claims cost management. BCBSM’s Wellness and Care Management is dedicated to directly addressing the cost impact of chronic and high-cost conditions.

Chronic conditions, when untreated or unmanaged, frequently result in multiple admissions and emergency room visits. For some conditions like congestive heart failure (CHF), the direct costs make the problem evident. For example, in Michigan, CHF is ranked in the top 10 total charges by discharge diagnosis at $24,420. Other conditions, like diabetes and asthma, put patients at greater risk for costly complications and co-morbid conditions that cause costs to further spiral out of control. Complications such as heart attack, respiratory failure, and pneumonia all represent high costs and diminished quality of life.

The following are diagnoses commonly associated with coronary artery disease, chronic obstructive pulmonary disease (COPD), and asthma, demonstrating the need for preventive measures and care management interventions early in the treatment of these chronic conditions.

### Top 10 Total Charges by Diagnosis, Michigan, 2007

<table>
<thead>
<tr>
<th>Diagnosis</th>
<th>Michigan Charges (mean)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respiratory failure, insufficiency, arrest (adult)</td>
<td>$53,016</td>
</tr>
<tr>
<td>Acute myocardial infarction (heart attack)</td>
<td>$41,614</td>
</tr>
<tr>
<td>Coronary atherosclerosis</td>
<td>$37,640</td>
</tr>
<tr>
<td>Pneumonia</td>
<td>$18,324</td>
</tr>
</tbody>
</table>

Source: Healthcare Cost and Utilization Project (HCUP)

For individuals with diabetes, common complications include cardiovascular disease with hypertension, depression, retinopathy, kidney failure and lower limb amputation. Due to

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the rising number of new cases and these complications, the cost of treating diabetes is expected to triple over the next 25 years.²

The following chart shows the impact in Michigan of managing diabetes alone without regard to the looming co-morbid conditions and complications that frequently occur. With the projected increase in diabetes care, the $15,000 threshold will be met without the added cost of co-morbid conditions in the very near future.

The Cost of Diabetes, Michigan, 2008

<table>
<thead>
<tr>
<th></th>
<th>Cost per person</th>
<th>Estimated number of adults with type of diabetes in MI</th>
<th>Estimated cost to Michigan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diagnosed diabetes³</td>
<td>$9,963</td>
<td>685,200</td>
<td>$6.9 billion</td>
</tr>
<tr>
<td>Undiagnosed diabetes⁴</td>
<td>$2,864</td>
<td>356,100</td>
<td>$1.0 billion</td>
</tr>
</tbody>
</table>

Source: Michigan Department of Community Health

Collectively, our wellness and care management efforts serve to address chronic conditions and high-cost cases. Beyond the aforementioned chronic conditions, BCBSM’s Case Management program addresses any high-cost condition, even in the absence of an unmanaged chronic condition.

BCBSM promotes continuous quality improvement in health care delivery through the effective use of technology, as well as early identification and resolution of barriers to high-quality, cost-efficient/effective health care for our members. A brief summary of each is listed below.

Wellness and Care Management

BCBSM’s BlueHealthConnection® program provides the full suite of wellness and care management services from lifestyle risk to complex case management. This program works to empower and educate our members in making informed health care decisions and improves the interaction between the physician and patient.

For over a decade BCBSM has worked to address chronic conditions and case management and their associated costs. Targeted conditions for the Chronic Condition Management component were selected based on prevalence in the U.S. population as well as our member population. BCBSM Chronic Condition Management programs focus on asthma, diabetes, chronic obstructive pulmonary disease, congestive heart failure and coronary artery disease.

The potential member cost savings of interventions is also a factor in selecting target conditions. Proven results from the delivery of self-management interventions for these

² Diabetes Care 32: 2225-2229, 2009.
conditions are well documented in clinical literature. For example, the Centers for Disease Control and Prevention report:

“People with diagnosed diabetes incur average expenditures of $11,744 per year, of which $6,649 is attributed to diabetes. People with diagnosed diabetes, on average, have medical expenditures that are approximately 2.3 times higher than what expenditures would be in the absence of diabetes. Approximately $1 of $5 health care dollars in the United States is spent caring for someone with diagnosed diabetes, while approximately $1 of $10 health care dollars is attributed to diabetes.”5

With this in mind, the Chronic Condition Management Program component was designed to:

- Reduce hospital admissions
- Reduce emergency room visits
- Reduce gaps in evidence-based care
- Reduce benefit costs to our customers
- Improve the overall health status of the member population
- Increase self-efficacy (or confidence) to manage conditions
- Improve members’ self-reported health status
- Reduce limitations on everyday and social activities
- Increase work productivity

Case Management is also part of the basic BlueHealthConnection® program that concentrates on providing support to members with serious medical diagnoses and coordinating their care needs. The goal of the Case Management program is to develop cost-effective and efficient ways to coordinate health care services that improve the member’s quality of life. In most cases, case management intervenes where the potential for high-cost is predictable and the better coordination of care for such cases reduces the risk of incurring that cost.

BCBSM members with the following complex conditions may benefit from case management services:

- Strokes
- Ventilator weaning and management
- Cancer
- Multiple trauma
- Spinal cord injuries
- Serious lung conditions
- Neurological conditions
- Organ transplants
- End-of-life care

In addition to chronic condition and case management efforts, BCBSM works with members to facilitate transitions from hospital to home. Weak discharge planning

5 http://www.cdc.gov/diabetes/consumer/research.htm
processes have been linked to an increase in the likelihood of emergency room visits and/or hospital readmissions. In the U.S., 14 to 19 percent of all discharged patients are re-hospitalized and account for 4.5 million admissions annually. With the cost of an inpatient hospital stay averaging $9,170, efforts to avoid re-occurrence clearly save costs.

The sum of BlueHealthConnection’s components serve to educate and motivate an individual to take action to prevent or mitigate health risk by providing the tools, information and interventions that increase health risk awareness and empower an individual to change. The following core components are included in BlueHealthConnection:

<table>
<thead>
<tr>
<th>Core Component</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Online Health Portal</td>
<td>This best-in-class online health portal offers a seamless experience and simple access to resources including, but not limited to: a health assessment, online health coaching programs, clinical animations, health newsletters, drug interaction guides, health libraries, alerts and messages.</td>
</tr>
<tr>
<td>24/7 Nurse Call Line</td>
<td>This service offers members a direct, single point of access to a nurse health coach who will provide immediate assistance and information on wellness issues, symptom and condition management.</td>
</tr>
<tr>
<td>Quit the Nic (Tobacco Cessation)</td>
<td>Quit the Nic lets members reach out to registered nurse counselors to get assistance with tobacco cessation. Members will enroll in the program, receive educational information and tools, and receive a series of encouraging follow-up calls to track progress with each member’s tailored plan to quit.</td>
</tr>
<tr>
<td>Chronic Condition Management and Elective Surgery Counseling</td>
<td>This program provides focused intervention for specific conditions that represent high impact opportunities in chronic condition management. The targeted conditions include asthma, back pain, coronary artery disease, congestive heart failure, chronic obstructive pulmonary disease and diabetes.</td>
</tr>
<tr>
<td>Case Management</td>
<td>Case Management is the highest intensity level of care intervention in the BlueHealthConnection program. This component is targeted to those members who are the sickest, highest risk and/or most complex in the acute or chronically ill population, and who need specialized support.</td>
</tr>
</tbody>
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In addition to the above programs offered through BlueHealthConnection, BCBSM also offers two wellness products, Healthy Blue IncentivesSM and Healthy Blue OutcomesSM (available July 2010).

Healthy Blue Incentives: Healthy Blue Incentives marries a PPO health plan with a set of wellness components: health assessment, health coaching programs, disease management and optional biometric screening. Members can save on copays and deductibles by taking the required health assessment and, if “at risk”, participating in a wellness or disease management intervention.

Healthy Blue Outcomes (July 2010): Healthy Blue Outcomes is the Blues’ new innovative wellness-based PPO product that promotes healthy living and accountability for personal health. The financial incentive for participation is the healthy reward of a lower deductible. Healthy Blue Outcomes is different from other programs because it rewards members based on actual achievement of measurable outcomes, and not a promise of meeting health targets at some future date.

Value Partnerships

Value Partnerships, a series of programs and Collaborative Quality Initiatives with hospitals and physician organizations, is improving health care outcomes and lowering costs in Michigan. These programs and initiatives help to improve clinical quality, decrease complications and cost, eliminate errors and improve health outcomes.

Physician Group Incentive Program (PGIP)

One of the largest and most successful of its kind in the U.S., the Blue Cross Blue Shield of Michigan Physician Group Incentive Program brings together more than 8,100 physicians and specialists from approximately 38 physician organizations across the state. The efforts of these physicians to collect data, share information and collaborate on initiatives are improving the health care system in the state and impacting nearly 1.8 million Blue Cross Blue Shield of Michigan members.

Physicians participating in PGIP work on one or more initiatives aimed at improving the quality of the Michigan health care delivery system. The more than 20 initiatives range from service-focused initiatives, such as radiology procedures utilization, to clinical-focused initiatives, such as evidence-based care tracking.

Patient-Centered Medical Home (PCMH)

The Blues’ PCMH primary care physicians represent about 300 PCMH-designated practices. This makes the PCMH program, an integral part of the Physician Group
Incentive Program, the largest medical home initiative in the country. This designation indicates that significant strides have been made in implementing such PCMH features as:

- Patient registries
- Chronic disease management; and
- Patient education programs

Hospital Pay-for-Performance Program
BCBSM hospital incentive programs continue to stimulate health care quality improvements at Michigan hospitals. Developed in collaboration with hospital leaders and physicians, the Hospital Pay-for-Performance program includes initiatives specifically tailored to enhance quality and efficiency. Hospitals are evaluated based on efficiency, commitment to patient safety, performance on recognized quality indicators and participation in BCBSM’s Collaborative Quality Initiatives.

Collaborative Quality Initiatives
In 1997, Blue Cross Blue Shield of Michigan and Blue Care Network joined with five hospitals to study variation in angioplasty procedures and treatment beginning a pilot endeavor entitled the BCBSM Cardiovascular Consortium on Quality Initiative on Coronary Angioplasty, or BMC².

Now, more than 10 years later, seven more collaborative quality initiatives (CQI) have launched to address some of the most common and costly areas of surgical and medical care. Hospitals across the state are collecting, sharing and analyzing data to improve patient care outcomes.

Current CQIs focus on quality improvements in coronary angioplasty, cardiac surgery, general and vascular surgery, bariatric surgery, peripheral vascular intervention, breast cancer and anticoagulation. These areas were selected based on variation in outcomes reported in scientific literature.

- BCBSM Cardiovascular Consortium Quality Initiative on Coronary Angioplasty (BMC²)
- Peripheral Vascular Intervention Quality Improvement Initiative
- Michigan Surgical Quality Collaborative
- Michigan Bariatric Surgery Collaborative
- Michigan Society of Thoracic and Cardiovascular Surgeons Quality Collaborative
- Michigan Breast Oncology Quality Initiative
- Advanced Cardiac Imaging Consortium Coronary CT Angiography Registry
- Michigan Anticoagulation Quality Improvement Initiative

Blue Distinction Centers
The Blue Cross Blue Shield Association awards the Blue Distinction* designation to medical facilities that have demonstrated expertise in delivering quality health care. The designation is based on rigorous, evidence-based, objective selection criteria established in conjunction with recommendations from physicians and medical organizations.
The current program recognizes facilities for distinguished clinical care and process in the areas of:

- Bariatric surgery
- Cardiac care
- Complex and rare cancers
- Transplants
- Spine surgery
- Knee and hip replacement

For more information, visit valuepartnerships.com.

**Medical Utilization Management**

**Pre-Authorization Programs**

BCBSM’s fully integrated approach to utilization management is broad-based and incorporates a range of program and process interventions that establish strong utilization control and oversight across the continuum of care. BCBSM’s provider-based utilization management programs certify and monitor the appropriateness and duration of inpatient care and specified outpatient services. Once the member has an identified care need and the care process is initiated between member and provider, “pre-authorization” programs effectively assure the appropriateness of setting and medical necessity of recommended treatment plans. These pre-authorization programs (applied to inpatient, skilled nursing and rehabilitation facility admission [pre-certification], as well as specific procedure authorization, such as radiology) also provide “real-time” information that can be integrated with care management to identify and target members currently facing health care decisions.

As the care process continues, BCBSM continues to monitor where appropriate, with concurrent review activities that re-certify continued stays or assist in the transition of care from an inpatient to an alternate, less costly setting. Discharge planning also enables an effective transition to case management interventions, where BCBSM nurse case managers work closely with the patient, care-giver, family members and care providers.

BCBSM partners with American Imaging Management to deliver a radiology management program that also deploys a pre-authorization approach. Pre-authorization processes are used to review selected radiology procedures, such as MRIs, to determine medical appropriateness and necessity. The current program consists of two components; pre-authorization on high technology services (MRI, MRA, CT, PET and nuclear medicine) and privileging by provider specialty/sub-specialty for office-based (high-tech, plain film and ultrasound) services. The RMP is a provider utilization management program which applies to PPO members living in Michigan, serviced by Michigan providers for office and outpatient diagnostic radiology services.
**Claims Edits**
Utilization management is also systemic, imbedded into BCBSM’s claims payment processes through the use of claims edits that check for medical necessity and other appropriateness issues. BCBSM deploys a robust medical policy approach that uses claims system commands to prevent payment of non-covered services. Claims edits not only prevent payment of customer-designed benefit restrictions administered by BCBSM, but also assure that medical policy rules (which define clinical appropriateness of care) are met. BCBSM’s medical policy approach also includes an ongoing review of new and emerging medical technologies to determine appropriateness for inclusion in payment policy.

**Retrospective Utilization Review**
BCBSM continues its vigilance through a series of retrospective approaches or audits. Post-care medical record audits, for both utilization and financial perspectives are deployed, assuring that appropriate billing practices were applied and recovering payments when errors are found.

In addition, a number of vendor-delivered retrospective utilization management programs are also in place, with strong oversight and integration through BCBSM’s network management structure, focused on specific areas of care:

- **Chiropractic Use Management**: Administered in partnership with OptumHealth, the chiropractic use management program is in place for BCBSM’s PPO plans. Chiropractic providers in this program are responsible for monitoring their BCBSM PPO profile data on OptumHealth.com, our vendor partner’s website. BCBSM’s PPO Network Management staff establishes utilization and cost standards, and work closely with OptumHealth to determine if and when providers do not meet standards. The chiropractors are responsible for bringing their utilization and cost within 25 percent plus one standard deviation of the Michigan peer average within the allotted time period or are subject to corrective action.

- **Physical Therapy Use Management**: Administered in partnership with Landmark, the physical therapy (PT) use management program is all about the delivery of medically necessary care. Providers are responsible for meeting the PPO program standard of not exceeding their peer mean for risk-adjusted visits per episode of care by greater than 25 percent.

- **Mental Health Use Management**: Administered in partnership with Magellan Health Services, Magellan provides utilization review for all inpatient and partial hospital behavioral health admissions, and for all hospital-based substance abuse admissions occurring in Michigan and participating plan areas. Utilization functions include: administration of admission notification, concurrent review of cases with stays beyond four days, precertification and recertification of out-of-state admissions, individual case management, integrated medical and behavioral case management, provider and member appeals and a retrospective audit function.
Pharmacy Management

BCBSM provides state-of-the-art drug utilization management programs, including:
- Concurrent, prospective, and retrospective drug utilization review
- Academic detailing
- Formulary/physician interventions
- Pharmacy profiling
- Case management integration
- Demand management/nurse advice lines
- Medication adherence programs

Also included are prior authorization, step therapy, quantity limits, dose optimization, therapeutic interchange and off-label review programs. BCBSM monitors the use of select medications as supported by the BCBSM Pharmacy and Therapeutics Committee (P&T Committee). The P&T Committee is made up of physicians, pharmacists and other experts and functions to ensure our members receive the most appropriate, safe and cost-effective drug therapy.

The following describe administrative and clinical, real-time, claim edits that assure appropriate dispensing of the drugs to patients who are eligible and suitable to receive them.

<table>
<thead>
<tr>
<th>Administrative or Clinical Edit</th>
<th>Description</th>
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<tbody>
<tr>
<td>Dose Optimization</td>
<td>Alerts physicians and patients to opportunities to optimize dosing regimens, which can decrease the cost of care by reducing the number of dosage units dispensed, while still fully satisfying the therapeutic needs of the member.</td>
</tr>
<tr>
<td>Step Therapy</td>
<td>Allows incoming prescriptions to be evaluated electronically in real time against the member’s medical and drug history, age and sex to qualify members for coverage without requiring a physician coverage review.</td>
</tr>
<tr>
<td>Dispensing Quantity</td>
<td>Limits the quantity dispensed per prescription</td>
</tr>
<tr>
<td>Prior Authorization</td>
<td>Requires a review with the physician to determine whether or not the member’s request qualifies for coverage. By requiring prior authorization, a plan sponsor is assured that coverage is limited to those members who qualify for the drug.</td>
</tr>
<tr>
<td>Severe Drug-Drug Interactions*</td>
<td>Identifies most serious problems with concomitant drug therapies.</td>
</tr>
<tr>
<td>Drug Interactions Seniors Drug Interactions</td>
<td>Identifies potential problems with concomitant drug therapies.</td>
</tr>
<tr>
<td>Drug - Disease (Actual/Inferred)</td>
<td>Identifies potential problems with an existing patient-reported or inferred disease.</td>
</tr>
<tr>
<td>Refill Too Soon (with or without Stockpiling Prevention)</td>
<td>Identifies a patient who has more than an adequate supply of medication remaining.</td>
</tr>
<tr>
<td>Duplicate Therapy</td>
<td>Identifies the dispensing of two or more drugs within the same therapeutic category for the same patient.</td>
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</tbody>
</table>
In addition to these edits, specialty drugs are priced at individual discounts and BCBSM maintains a robust specialty drug list with very competitive negotiated discounts. Various utilization management programs for certain classes of specialty drugs also exist, including prior authorization and step therapy.

All of these efforts and more assist BCBSM in controlling pharmacy-related costs for customers and members.

All the cost savings or quality improvements associated with the programs described above are measured annually. More details regarding cost savings and quality improvements follow in the Appendix.
APPENDIX

Summary of Savings and Outcome Examples

Wellness and Care Management
The greatest cost savings in wellness and care management are derived from case management. Outcomes are measured by reduced utilization, financial savings and member satisfaction with the program. These indicators gauge the impact of the program in improving the health outcome of the member and reducing high-cost utilization.

The Care Transitions to Home program, also available to our Medicare Advantage population, was designed to ensure a safe, effective discharge from the hospital to home and avoid preventable readmissions within 30-days of discharge. This program broadens the opportunity for cost savings by decreasing readmission rates while improving health outcomes for our members.

Chronic Condition Management allows BCBSM to affect the greatest number of individuals who could potentially cost billions of dollars through hospitalizations and indirect costs associated with productivity losses.

Medical Utilization Management
Recoveries from audits represent a cost savings associated with utilization, however, many of BCBSM’s efforts such as pre-certification, prior authorization and claims edits represent cost avoidance. Only services that meet clinical criteria and appropriateness and those that are included in the benefit design are approved for payment.

Pharmacy Management
From January 1 to September 30, 2008, the price of the top 200 brand-name prescription drugs rose 8.7 percent and the price of the top specialty drugs increased 9.3 percent. BCBSM launched a successful generic campaign in 2001 to educate consumers about the safety and effectiveness of generic drugs and encouraged them to request these lower cost alternatives. Millions of dollars have been saved through the substitution of generics for costly brand name prescriptions. Negotiating discounts for specialty drugs has also resulted in savings as demand for these treatments has continued to increase.

Value Partnerships
The BCBSM Cardiovascular Consortium on Quality Initiative on Coronary Angioplasty, or BMC² resulted in dramatic decreases in emergency bypass surgeries and other complications, and an annual statewide savings of $8.5 million. This spurred a dramatic expansion of our efforts and many more improvements in health outcomes.

Through collaboration and data sharing, Value Partnership initiatives are improving clinical quality, decreasing complications, decreasing costs, eliminating errors and improving health outcomes:

- $13 million saved in one year by decreasing ventilator-assisted pneumonia by 29 percent
- Reduced blood transfusions following angioplasty by 30 percent
- Reduced overall complications from surgery by 37 percent in one year

As a result, we are fundamentally redesigning the health care system in Michigan.