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Cost Saving Strategies to Maintain Your Competitive Position

When it comes to measuring success, reliable metrics and appropriate benchmarking are indispensable.

When a large New York City health organization turned to Cammack LaRhette in 2001, they were hoping to pare back healthcare expenses of their self-insured plan without diluting the benefits. Indeed, it accomplished those goals markedly over the following eight years, sustaining a strong competitive position. In recognition of the need to form a basis of comparison for benchmarking, Cammack LaRhette conducts an annual survey of the New York City metropolitan area healthcare marketplace. Measured against its peers in the survey, the organization's total medical and drug costs per employee per year amounted to \$8,145; as compared to a median cost of \$9,521 and a maximum expenditure of \$11,832 in the peer group.

Over those years, the client saved \$11,350,000 through the work we accomplished together. Moreover, that accomplishment was no one-time wonder. On the contrary, each year the client experienced a reduction of three to five percent in health plan costs alone, thanks to the array of initiatives it was instituting.

Insurance Savings

It requires a degree of clout to negotiate the most favorable arrangements with insurance vendors. Cammack LaRhette has been addressing that particular challenge since 2004, when we founded the Healthcare Rx Alliance Pharmacy Benefit program, a coalition of over 16 hospitals that use their group leverage toward arriving at better pricing and discounts from the PBM company. Every three years, Cammack LaRhette revisits the PBM contract and renegotiates tight pricing, discounts, rebates and audit programs, using the combined strength of its purchasing partners.

As for the New York hospital client featured in this case study, it preserved not only money, but also saved time and effort. By relying on the Rx Alliance, it was able to circumvent a foray into the market, and avoid consuming its own resources on conducting a detailed investigation with requests for proposals. "Using the PBM program, our clients can avoid the disruption involved in performing a lengthy RFP process, to assess each vendor individually and compare its terms," says Sheena Singh, Senior Account Manager, Cammack LaRhette.

The bargaining heft of a collation generates another advantage. Many of the insurance carriers who are in contracting relationships with the Alliance sign on to performance guarantees, whereby they agree to return a full 20% of fees to the policy holders if the carrier fails to meet certain expected standards. For example, guarantees might cover service activities like providing reporting and other deliverables, or administering plans correctly in line with benefits and charges listed in the policy documents. Of course, most insurance carriers are likely to make some administrative mistakes along the way. The difference is that the Alliance enables participants to hold carriers' feet to the fire, whenever they fail to deliver services to precise specifications. "Clients can leverage their ability through a consulting firm, to achieve terms they could not manage on their own," Singh points out.

By redesigning its insurance plans, the hospital was able to fulfill another key cost-saving initiative. The goal is to encourage employees to use in-house facilities where possible, which both produces additional revenue and lowers fixed costs. Cammack LaRhette reviewed utilization patterns (through claims data) to assess which external services employees were using, and why they were not utilizing their own hospital system. Based on this review, Cammack LaRhette restructured the plan design to create a cost differential for certain services between the internal facility and providers, versus the other facilities and providers participating in the insurance carrier's network. The internal hospital plan tier charges significantly lower out-of-pocket fees for services, which operates as an incentive to drive employees toward internal facilities and providers. There are more benefits than financial advantages to creating a plan design differential to steer employees to use the in-house facilities. By creating a plan design to direct more employees to their own hospital, they are able to "close the system," to allow for better patient management. The hospital's affiliated physicians are aligned with the goals of the health plan: to manage costs through efficient use of medical and prescription resources and encouragement of healthy behaviors. With more employees accessing care at their own hospital, this organization is better able to accomplish the goals of patient management described below.

Rx Economies

As yet another avenue for tackling costs, Cammack LaRhette helped the client to establish clinical Rx programs, in order to encourage the clients' employees to select generic over brand medications. Here, the object is to replace the use of expensive, specialty drugs with generic alternatives that offer equivalent therapeutic effectiveness. Relying on 'step therapy', the program analyzes whether the higher cost medications are genuinely more clinically beneficial or could be substituted with equal effect. The results have represented a double win, according to Singh. "It saves money both for the hospital employer and also for the employee."

In a further initiative to create economies for Rx purchasing, the hospital has educated employees on the advantages of switching to mail deliveries for their medications. Instead of making a trip to the pharmacy each month or so, to fill regular prescriptions at retail prices, they can achieve substantial savings by setting up a mail order system. Not only does it conserve dollars, but it can be much more convenient to receive a package at home, to save the time and trouble spent on running the errand.

Patient Management

A comprehensive plan of patient management over the years has helped the client to trim health-related expenses, while promoting a culture of health in the workplace. Elements of the program include measures such as maintaining healthy behaviors and modifying high risk activities. In addition, personal health nursing for employees or dependents with chronic or acute conditions has helped to improve outcomes and reduce costs – in the first six months of the program, the client has generated over \$600,000 in savings. Once again, the benefits are twofold, as both the employer and employees gain through lower costs and improved productivity.

Last but not least, remember the survey that Cammack LaRhette conducts and uses to benchmark this organization's and other clients' successful results? Along with all these other money saving strategies the hospital becomes entitled to that proprietary data. As a valued client, it obtains the information on a complimentary basis. We do not make the survey available to non-participating hospitals, and any comparable survey would not include the level of detail or specificity found in the NY Metro area survey conducted by CLC.

About the Author

Frank Lonardo has over 20 years of experience in consulting with complex health systems, national non-profits and corporations. During his career, he has orchestrated product development, go-to-market strategy, and the implementation of strategic initiatives. Prior to joining Cammack LaRhette, Frank was the director of human resources at a healthcare organization. He also worked at a consulting firm specializing in physician practice groups, which was where he first became an advocate for efficiency and effectiveness in healthcare delivery, including clinical transformation and performance improvement.

Frank specializes in the design and implementation of organizational and service-line transformations, while he supports clients with leadership education and tactical planning. He has spearheaded innovative approaches to healthcare cost and quality improvement, including direct provider contracting, employer purchasing coalitions and an integrated health and productivity process that links hospitals, physicians and patients. Frank received a master of business administration from St. John's University and a bachelor's degree from Pace University.

For More Information

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