

## Competitive Cost Management Model

### 1. Gather Information:

- Market Analysis: Price Gap or Target (Small Group & Large Group). Establish global PMPM price gap by market segment.
- Determine current utilization & unit cost and PMPM by service category, provider groupings, disease groupings etc. Drill-down into the data to understanding the underlying cause of PMPM trend increases. Obtain where feasible competitive benchmark data.
- Determine the utilization/unit cost assumptions built into current pricing.

### 2. Impact Analysis (Measure Gap):

- Review of the existing programs to determine current & future impact on savings.
- Project the future cost & competitive price gap under existing programs.
- For information gathered above, determine a realistic saving target (e.g. PMPM savings or reduction to the current trend; identify by service category).

### 3. Specific Program Savings Models (Examples):

- Identify from information gathered above specific savings programs. Details of the exact method to achieve savings should be formalized.
- Design provider reimbursement models, savings targets & philosophy that meet the corporate savings targets identified above. Link "pay for performance" savings initiative to the product pricing. Provider reimbursement models & savings targets will differ by product (HMO/POS/PPO). Consider impact of DRG reimbursement.
- Consider renewed expansion of physician risk model where feasible, which have downside risk protection (e.g. risk corridors) and integrate the goals of institutional "pay for performance" incentives (e.g. ALOS Standard).
- Review the feasibility of a directed care product that allows for a cost effective network tied to a specific product/price.

### 4. Establish an ongoing process:

- Measuring the corporate performance relative to the competition and the identification and implementation of required programs should be an ongoing and continually improving process.
- Develop an accurate, timely and specific back end reporting tool that monitors the progress of the specific tasks identified.

Proprietary Information.