Trends and Value-Driven Health Care

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Executive Vice President, UnitedHealth Group

Task Force on the Future of Military Health Care
March 7, 2007
Thank you for the opportunity to present to the Task Force on the Future of Military Health Care.

We are honored to support the Military Health System’s important national mission to protect the health of service members, their families, retirees and other beneficiaries of military health benefits.
Agenda

• Introduction and UnitedHealth Group Overview

• Current Health Care Trends

• Activating and Empowering Improvement in Today’s Health Environment
  – Pharmaceutical Management
  – Premium Provider Networks
  – Consumer Activation
  – Personal Health Support

• Integrated and Holistic Approach

• Value-Driven Health Care
### A Health and Well-Being Company

<table>
<thead>
<tr>
<th>Market Served</th>
<th>Market Size</th>
<th>2007E Revenues</th>
<th>Individuals Served</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health care services for employers and individuals</td>
<td>$500 billion</td>
<td>$37.0 billion</td>
<td>16 million</td>
</tr>
<tr>
<td>Health related services for Fortune 500 businesses, other large employers and health plans</td>
<td>$150 billion</td>
<td>$6.0 billion</td>
<td>12 million</td>
</tr>
<tr>
<td>Medicaid and other state-sponsored health care programs</td>
<td>$300 billion</td>
<td>$4.4 billion</td>
<td>1 million</td>
</tr>
<tr>
<td>Health and well-being services for individuals 50 and older</td>
<td>$450 billion</td>
<td>$28.0 billion</td>
<td>11 million</td>
</tr>
<tr>
<td>Specialty health services, benefits and resources for employers and insurers</td>
<td>$350 billion</td>
<td>$4.6 billion</td>
<td>30 million</td>
</tr>
<tr>
<td>Health care data and informatics services</td>
<td>$50 billion +</td>
<td>$1.2 billion</td>
<td>na</td>
</tr>
</tbody>
</table>
Strategic and Operational Advantage
A Competency-Based Enterprise

NETWORKS & HEALTH ADVANCEMENT – Group purchasing, resource organization, complex care management and wellness programs

TECHNOLOGY BASED TRANSACTIONAL CAPABILITIES – Proprietary, customer-oriented complex transaction applications, infrastructure and connectivity

KNOWLEDGE & INFORMATION – Diverse and longitudinal data, analytic tools and reports, and applications
Helping Governments Through Targeted Solutions

<table>
<thead>
<tr>
<th>Federal Employees</th>
<th>State Employees</th>
<th>Medicare</th>
<th>Medicaid</th>
<th>FDA</th>
</tr>
</thead>
</table>

- 320,000 members of the Federal Employees Health Benefit Program in 14 states.
- Specialized health benefit programs for more than 2 million employees of state and local governments, educational systems and public agencies.
- Largest provider of Medicare Part D prescription drug plans with close to 6 million enrollees in the first year of operation.
- National Medicare Advantage coverage serves over 1 million persons in 35 states.
- Long term care services for over 130,000 frail, elderly, vulnerable and chronically ill citizens through Evercare.
- Services for more than 1.5 million Medicaid and Children’s Health Insurance beneficiaries in 16 states.
- Collaboration with the U.S. Food and Drug Administration to provide researchers with access to our national health research database and analytic tools.
<table>
<thead>
<tr>
<th>The Marketplace Seeks Durable Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Affordability</td>
</tr>
<tr>
<td>• Fair and Rational Access</td>
</tr>
<tr>
<td>• Quality and Safety</td>
</tr>
<tr>
<td>• Usability and Simplicity</td>
</tr>
</tbody>
</table>

Market forces drive these fundamental market imperatives
46% of CFOs say that health care costs will be the biggest cost increase to their business in the next 12 months.

What will be your biggest cost increase in the next 12 months?

- Employee Health Care Plans: 45%
- Technology Spending: 20%
- Employee Recruitment and Training: 11%

Source: Robert Half Management Resources survey of 1,482 chief financial officers at companies with revenue of $500,000 to $1 billion. Margin of error ±3 percentage points.

Mercer Health & Benefits
Current Health Care Trends

Health care costs are increasing faster than workers’ earnings and overall inflation

Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2006

Comparisons of 2006 Trends

- Health Care Costs 7.7%
- CPI 3.5%
- Wages 3.8%

Projected 2007 Trend ~11%

Source: Kaiser HRET Survey of Employer-Sponsored Health Benefits, 1999-2006
Current Health Care Trends

Where does all the money go?

• Average 2006 premium
  – Single $ 4,242
  – Family $ 11,480

• Premiums for family coverage have increased 87% since 2000
New treatments, medications, and diagnostic technologies

Examples:

• Annual medication cost for rheumatoid arthritis treatment based on AWP
  – Methotrexate $500 per year
  – Enbrel $15,680 per year

• Cervical Cancer Vaccine (Gardisil) $360
  – Cost per patient $360
  – Total cost $13 Billion
Declining Health Status

Obesity Related Diseases

- 80% of type II diabetes related to obesity
- 70% of Cardiovascular disease related to obesity
- 42% breast and colon cancer diagnosed among obese individuals
- 30% of gall bladder surgery related to obesity
- 26% of obese people have high blood pressure

1 in 4 (24.4%) of US adults are obese
Benefit designs promote consumerism

- Carving preventive services out of heavy cost sharing
- Including tiered co-payments to encourage use of high quality efficient medications; doctors; facilities
- Including incentives for treatment compliance
- Offering easy to use tools to help consumers manage their health

McKinsey Study (2005)
- 50% more likely to ask about the cost of a procedure
- 3X more likely to choose a less expensive treatment option
- 20% more likely to follow recommended care for chronic conditions
An Integrated and Holistic Approach

- Consumer Activation
- Total Health Care Management Approach
- Integrated Medical and Pharmacy Management Value
- Physician Support
**UnitedHealth Pharmaceutical Solutions:** An experienced provider with a history of innovation

**Pharmacy Management Leader**

- 15M commercial lives (10M at risk)
- $10B total pharmacy spend managed annually
- 130M claims processed annually
- Serve 200 of the *Fortune 500* companies

**30 Years of Innovation**

- The industry’s first PBM *(DPS started by UnitedHealthcare in 1976)*
- First to introduce an evidence-based, 3-tier prescription drug list *(1998)*
- Introduced drug list that allows placement of brand and generic drugs in any tier *(2004)*
- Comprehensive integrated pharmacist model launched *(2006)*
Value-Added Solutions

**Proven Results:** Industry-leading pharmacy trend delivered year-after-year

![Graph showing pharmacy trend trend from 2002 to 2005](image)

<table>
<thead>
<tr>
<th>Year</th>
<th>Industry Average</th>
<th>UnitedHealth Pharmaceutical Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>16.0%</td>
<td>15.3%</td>
</tr>
<tr>
<td>2003</td>
<td>12.0%</td>
<td>13.4%</td>
</tr>
<tr>
<td>2004</td>
<td>8.0%</td>
<td>8.2%</td>
</tr>
<tr>
<td>2005</td>
<td>4.0%</td>
<td>10.0%</td>
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**Uniprise ASO Trend**

<table>
<thead>
<tr>
<th></th>
<th>2004-2005</th>
<th>Q1/Q205-Q1/Q206</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-Tier Customers*</td>
<td>3.3%</td>
<td>5.2%</td>
</tr>
<tr>
<td>All Customers*</td>
<td>5.5%</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

* Excludes customers that made major plan design changes.

**UnitedHealth Group Average Copay**

<table>
<thead>
<tr>
<th>Tier</th>
<th>Copay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>$10</td>
</tr>
<tr>
<td>Tier 2</td>
<td>$25</td>
</tr>
<tr>
<td>Tier 3</td>
<td>$50</td>
</tr>
</tbody>
</table>

**SOURCES:** Industry Average: 2002-2004 Centers for Medicare and Medicaid Services; 2005 projected based on range of reported trends from competitors, analysts and consultants. UnitedHealth Pharmaceutical Solutions: UnitedHealthcare internal numbers including final net adjustments for commercial fully-insured membership.
Value Added Solutions

- **Evidence**-based approach to determining drug value
- Assess **total health care** impact for drug tier placement decisions
- Bias towards **lowest net cost** of pharmaceuticals, not rebate maximization
- Prescription Drug List provides consumers and physicians with an **evidence based ranking of a drug’s health care value** – any drug in any tier

- **Alignment in medical and pharmacy strategies that:**
  - Provides consumers **affordable choices** of medicines they need
  - Respects the **physician-patient relationship**
Value Added Solutions

Prescription Drug List: Clinical Evidence Combined with Extensive Data and Experience

- **Rx Cost**
  - Pricing
  - Utilization
  - Rebates

- **Clinical Effectiveness**
  - Studies and analyses
  - Place in therapy
  - FDA labeling

- **Pharmacoeconomics**
  - Medical cost, outcomes models
  - Cost offsets: hospital, lab, ER, physician visits
  - Workplace impact

Lowest Net Cost

Pharmacy & Therapeutic Evaluation

Health Care Value

Integrated Database of Medical and Pharmaceutical Data
- Largest medical database
  - 430,000 participating physicians
  - 3,800 health care facilities
  - 11M+ individuals
- Geographically dispersed
- Drug Monitoring: FDA & Pharma

Prescription Drug List - Assignment of copay tier based on total health care value

Consumer cost share aligns with the evidence supported value of the choice they make with their physician

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Provider Networks

Organizing Resources

- 94% of commercial population has access to our national network
- Added 24,000 physicians and 100 hospitals in 2006
- Includes two of every three available physicians and three of every four acute care hospitals
- Targeting 19,000 physicians and 240 hospitals for 2007
- Real-time access to provider information via myuhc.com®

36 Mo. Growth: 18%

Physicians (000)

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/05</td>
<td>460</td>
<td>498</td>
<td>523</td>
<td>542</td>
</tr>
<tr>
<td>1/1/06</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1/1/07</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1/1/08</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

36 Mo. Growth: 18%

Hospitals

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/05</td>
<td>4,200</td>
<td>4,600</td>
<td>4,700</td>
<td>4,940</td>
</tr>
<tr>
<td>1/1/06</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1/1/07</td>
<td></td>
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</tr>
<tr>
<td>1/1/08</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Unit Costs

1.4% Lower Trend/year ’05-’08
Value Added Solutions

• The *UnitedHealth Premium® Programs*:
  – *21 clinical disciplines* including Primary Care
  – *Availability in 77%* of UnitedHealthcare markets
  – Are not a separate network: ‘baked’ into all our products

• We assess the *complete* continuum of care:
  – Individual clinicians
  – Group practices
  – Hospital based proceduralists
  – Hospitals

• 100% of clinical criteria is externally developed

• Designations are for Quality and Quality & Efficiency

**Advancing comprehensive, actionable and transparent differentiation of performance to assist patients in getting the right care to meet their *individual* needs**
UnitedHealth Premium Program Designation

- 24 months of data is collected and analyzed on all physicians in the specialties eligible for designation.
- The quality screens are applied based on specialty and, where applicable, focus.
- Only those physicians who meet/exceed the quality criteria are designated by a quality star and move on to the efficiency analysis.
- Episodes/procedures analyzed for cost efficiency benchmarking market specialty averages and case mix/severity adjusted.
- Those who meet or exceed market cost criteria are designated by two gold stars.
### Value Added Solutions

#### Driving Both Quality and Efficiency

<table>
<thead>
<tr>
<th>Condition</th>
<th>% Physicians</th>
<th>% of Attributable Episodes</th>
<th>Episode Cost Compared to Market Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceduralists</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insufficient Data, Do Not Meet Quality Criteria, or Meet Quality Criteria Only</td>
<td>62%</td>
<td>40%</td>
<td>+15%</td>
</tr>
<tr>
<td>Designated Quality and Efficiency</td>
<td>38%</td>
<td>60%</td>
<td>-15%</td>
</tr>
<tr>
<td>Non-Proceduralists</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insufficient, Do Not Meet Quality, or Meet Quality Only</td>
<td>52%</td>
<td>29%</td>
<td>+24%</td>
</tr>
<tr>
<td>Designated Quality and Efficiency</td>
<td>48%</td>
<td>71%</td>
<td>-13%</td>
</tr>
</tbody>
</table>

*Based on UHPD Methodology for 20 Markets

**Designated Physicians are Higher Quality and More Efficient**
**Consumer Activation**

- **Consumers** are driving a dramatic evolution in health care

- Consumers require **affordability** with access to **quality** care

- Individuals are demanding the same **simplicity and reliability** in health care they experience in other environments

- Individuals are not prepared for their role in **health decisions**
Value Added Solutions

Consumer Driven Health Care

ACTIVATION

TRANSPARENCY

POSITIVE RESULTS

Integrated Health and Financial Strategy provides tools to manage beyond just plan designs*

- Monthly Health Statements provide consolidated reporting which improves understanding
- Health Coaches make the health care system easier to use and give consumers more control
- **Activation tools change behavior:**
  - 100% increase in Rx home delivery
  - 240% increase in mammography for 50+ age females
  - $52 lower medical costs per person per year
- Health Savings Accounts (HSA) and Health Reimbursement Accounts (HRA) provide reserve assets for payments
  - 68% of employers fund HSA accounts

Quality and Price information assist consumer decision process*

- Healthcare members have access to cost and quality data for physicians and hospitals
- Savings Advisor Tool recommends how to reduce Rx costs
- Treatment Estimater provides specific pricing for procedures or services based on zip code
- Additional tools will be introduced to provide further transparency to the health care system for plan members

June 2006 Study Results for CDHP vs PPO*

- Preventive care – Up to 5% more CDHP enrollees sought preventive care vs PPO
- Acute care – CDHP population had reduced use of acute care services without adverse health outcomes
- Chronically ill – CDHP members used acute care services less but their primary care physician the same as PPO suggesting they did not forego necessary care
- Overall costs – CDHP users decreased costs by 3-5% in 3 yrs vs PPO participant increase of 8-10%

Source: June 2006 UnitedHealth Group Study – Consumer Directed Health Plan Members vs PPO Plan Members Cost and Utilization from 03-05

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Value Added Solutions

**Wellness Coaching**

- Telephonic, Mail and Web-based Behavioral Modification Programs for Weight, Nutrition, Exercise, Tobacco, Cholesterol, Stress, Blood Pressure, and Spine Health*
- Healthy Pregnancy Program

**Health and Medical Decision Support**

- Targeted Condition Education
- Medical Decision Support
- Care Plan Review with Treating Physicians
- Specialized Complex Case Management
- Network and Premium Program Coaching
- Coordination with Behavioral Health and Other Health Programs
- Facility-based Support

**Longitudinal Disease Management**

- Asthma
- Coronary Disease*
- Diabetes*
- Heart Failure*
- Transplantation
- Congenital Heart Disease
- Complex Cancer*
- End Stage Kidney Disease*
- Complex Neonatal Care*
- 21 other conditions

*Optional advanced clinical solution. Illustration is a comprehensive Personal Health Support program. Program components are adjusted to meet individual customer need.
Value Added Solutions

Health Assessments  NurseLine  Self-referral  Notification  Predictive Modeling  High Cost Claimants

PERSONAL HEALTH GOAL
Staying Healthy  Getting Healthy  Living with Illness

Health Education

Health Coaching

Health Advocacy

Longitudinal Person Record
Data used to create outcomes report
Single view for all Personal Health Support professionals
Produces Personal Health Record for the individual
Value Added Solutions

Disease Management. A holistic approach to identifying and addressing co-morbid conditions includes:

- Use of screening tools and identification techniques to detect co-morbidities and risk factors including hypertension, hyperlipidemia, obesity and smoking
- Assessment of readiness to change, and application of motivational interviewing techniques
- Assessment of 100% of high risk individuals for depression, anxiety, substance abuse, psychosocial stress
- Prioritization of areas with greatest potential impact on outcomes
- Warm-transfer referrals to behavioral health services

Medical costs are 2-3 times higher in individuals with chronic disease and co-morbid depression

<table>
<thead>
<tr>
<th>Condition</th>
<th>% With Depression</th>
<th>Increase in Medical Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heart Disease</td>
<td>35%</td>
<td>163%</td>
</tr>
<tr>
<td>Cancer</td>
<td>30%</td>
<td>100%</td>
</tr>
<tr>
<td>Asthma</td>
<td>40%</td>
<td>183%</td>
</tr>
<tr>
<td>Diabetes</td>
<td>25%</td>
<td>109%</td>
</tr>
<tr>
<td>Hypertension</td>
<td>22%</td>
<td>103%</td>
</tr>
<tr>
<td>Stroke</td>
<td>35%</td>
<td>100%</td>
</tr>
<tr>
<td>Arthritis</td>
<td>25%</td>
<td>183%</td>
</tr>
<tr>
<td>Low Back Pain</td>
<td>36%</td>
<td>186%</td>
</tr>
</tbody>
</table>

Sources: U.S. Dept. of Health and Human Services, SAM HAS; UBH Analysis and Ingenix; National Pharmaceutical Council, IMS Health; Milliman
An Integrated and Holistic Approach

Effective solutions require linking all impactable elements: Integrated ‘End-to-End” Management

- Providing consumers with affordable options
- Creating benefit designs to encourage the use of high value care
- Providing tools that allow easy access to information which empowers consumers in their decision making
- Aligning consumer cost share with the evidence supported value of their choices

- Promoting adherence to best practices for optimal health outcomes
- Providing physicians with information to reduce variation in practice and close gaps in care
- Coordinating care and managing disease
- Medical, pharmacy and lab data integration and analysis
- Differentiating provider networks by quality and efficiency
Value-Driven Health Care

The President’s Executive Order: The Federal Government is calling on health care leaders to promote and improve quality and value in our nation’s health care system. Many opportunities exist to continue to innovate and drive value in health delivery.

<table>
<thead>
<tr>
<th>Four Cornerstones of Value-Driven Health Care</th>
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<tbody>
<tr>
<td><strong>Connecting the System</strong></td>
</tr>
<tr>
<td>• Integrated personal health services</td>
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<tr>
<td>• Comprehensive health/Rx/lab data</td>
</tr>
<tr>
<td>• Personal Health Records</td>
</tr>
<tr>
<td>• Health Coaching &amp; Advocacy</td>
</tr>
<tr>
<td><strong>Measuring and Publishing Quality</strong></td>
</tr>
<tr>
<td>• Access to quality data for hospitals and physicians (ie. Premium networks)</td>
</tr>
<tr>
<td>• Clinical profiles for physicians</td>
</tr>
<tr>
<td><strong>Measuring and Publishing Price</strong></td>
</tr>
<tr>
<td>• Hospital Comparison Tool</td>
</tr>
<tr>
<td>• Buyers Guide</td>
</tr>
<tr>
<td>• Treatment Estimator</td>
</tr>
<tr>
<td><strong>Creating Positive Incentives</strong></td>
</tr>
<tr>
<td>• Alignment of consumer incentives</td>
</tr>
<tr>
<td>• Physician recognition programs</td>
</tr>
</tbody>
</table>
Discussion