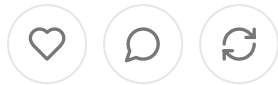


Using Healthcare Benchmarks to Drive Strategic Medical and Pharmacy Cost Management

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As healthcare costs continue to rise, Chief Medical Officers (CMOs) of health plans face increasing pressure to identify and implement effective cost management strategies while maintaining quality of care. Industry benchmarks serve as crucial tools in this endeavor, offering insights into opportunities for medical and pharmacy spend reduction. Here's how successful CMOs leverage these benchmarks to drive strategic decisions and meaningful outcomes.

Understanding Benchmark Analysis and PMPM Variance

Per member per month (PMPM) variance analysis against industry benchmarks (such as Optum's) provides CMOs with an initial compass for identifying areas of opportunity. When a health plan's PMPM costs significantly exceed benchmark averages in specific categories, it signals potential areas requiring intervention through new care management programs or utilization management strategies.

What is a "Well-Managed Benchmark"?

A well-managed benchmark represents cost and utilization metrics achieved by performing health plans that have successfully implemented effective medical management programs. These benchmarks typically sit at the 25th percentile of overall market performance, representing achievable targets for organizations committed to optimization.

Moving from Identification to Action

Deep Dive Analysis

When PMPM variance indicates higher-than-benchmark spending, CMOs must drill down into claims data to understand the root cause:

1. Claims Analysis:

- Examine individual high-dollar claims
- Identify claim groupings by service category
- Analyze provider practice patterns
- Review medication utilization trends

2. Root Cause Assessment:

- Outlier Claims: Single catastrophic cases or unusual events
- Systematic Trends: Consistent patterns indicating process or program gaps
- Provider Network Issues: Contractual terms or practice pattern variations
- Population Health Factors: Demographic or risk-adjusted variations

Implementation and Timeline Considerations

The Reality of Cost Curve Modification

One of the most critical aspects CMOs must consider is the time required to "bend the cost curve." Traditional wisdom suggests:

Short-term Programs (3-6 months):

- Prior authorization modifications
- Formulary changes
- Care management program adjustments

Medium-term Programs (6-12 months):

- New care management program implementation
- Provider network optimization
- Clinical pathway development

Long-term Programs (12-24+ months):

- Population health initiatives
- Value-based care program implementation
- Complex care management program maturation

Measuring Success

CMOs should establish clear measurement protocols that account for:

Program Implementation Timeline:

- Allow sufficient time for program rollout
- Account for provider education and adoption
- Consider claims lag impact on measurement

Measurement Periods:

- Baseline period establishment
- Interim measurement points
- Final evaluation timing

Success Metrics:

- PMPM trend comparison
- Risk-adjusted outcomes
- Quality metric impact

- Member satisfaction
- Provider engagement

Best Practices for Program Implementation

1. Establish Clear Baselines

Before implementing new programs, ensure:

- Clean baseline data
- Risk-adjusted comparisons
- Appropriate peer group selection
- Seasonal variation consideration

2. Set Realistic Expectations

Consider:

- Implementation timeline
- Resource requirements
- Expected ROI timing
- Stakeholder communication needs

3. Monitor Leading Indicators

Track:

- Program enrollment rates
- Provider participation
- Initial utilization changes
- Member engagement metrics

Conclusion

Effective use of healthcare benchmarks requires a balanced approach that combines data analysis, strategic planning, and practical implementation considerations. We must remember that while benchmarks provide valuable directional guidance, successful cost management programs require careful analysis, thoughtful implementation, and patience to achieve sustainable results.

The key to success lies in:

- Understanding the limitations and context of benchmark data
- Conducting thorough root cause analysis
- Setting realistic timelines for program implementation and evaluation
- Maintaining focus on both short-term wins and long-term strategic goals
- Ensuring quality of care remains paramount while pursuing cost management objectives

By following these principles, CMOs can effectively utilize benchmarks to drive meaningful change in their organizations' medical and pharmacy spend while maintaining or improving quality of care.

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