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the
BIG 3

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Joseph Driscoll, CEO of PHCS, tackles
the big three with a proprietary PPO

the **BIG 3** cost · quality · access

Joseph Driscoll, President and CEO of Private Healthcare Systems,
balances the big three via care management and a national PPO network

story | Michael T. McCue

photographs | Sameer Khan

SUCCESSFULLY MANAGING healthcare is a lot like a finely tuned juggling act. It requires balance and precise coordination of many moving pieces. While members demand quality and more healthcare choices, managed care professionals strive to contain costs and create value for their customers.

Add in the challenges of building a provider network and providing care management services, and it's readily apparent that creating equilibrium isn't easy. Achieving the right balance is complicated enough on a regional basis, but when expanded to a national level, it takes on a whole new intensity.

Joseph Driscoll knows all about striking this balance. As the president and CEO of Private Healthcare Systems (PHCS), a national healthcare cost management company, his role is to help customers optimize healthcare delivery.

For nearly 20 years, PHCS has been provid-

ing PPO network and care management services to customers such as insurance companies, third-party administrators, regional managed care organizations and self-funded employers.

"There's a great balancing act when you provide network services to a customer," he says. "You want to offer access to the highest-quality healthcare providers, but you also have to provide cost savings."

One way PHCS creates value is through its national PPO network of nearly 4,200 hospitals and 450,000 physicians. Driscoll believes in contracting directly with doctors and facilities as opposed to leasing access through other networks. By having a proprietary PPO, he believes that PHCS is in a better position to deliver savings, manage quality and ensure network stability.

"The first step in delivering significant savings is having strong network contracts. These stem from a first-hand knowledge of the mar-



ket and direct relationships with providers,” Driscoll says.

SIZE AND SELECTIVITY

The PHCS network is the largest proprietary PPO in the industry, but Driscoll says that size isn't the entire solution. In addition to providing access to a large number of doctors and hospitals, he stresses the importance of having the right facilities and physicians with the right financial arrangements. These are the ones that offer not only the best healthcare cost savings, but also provide efficient quality care. Network development is a careful and ongoing process at PHCS, which conducts regional reviews and annually solicits input on key hospitals from its customers.

“A network must be selective about the providers with whom it contracts,” according to Driscoll. “Access is critically important, but it's just as crucial to provide quality and cost savings. If you contract with every hospital in an area, you aren't necessarily providing real value to your customers or the participating providers. There must be a strong value proposition for both.”

In exchange for negotiated rates on medical services, providers rely on PPOs to direct member volume their way. This

direction provides doctors with the incentive to join a PPO network and agree to reduced fees. It takes a highly skilled contractor to understand and balance the needs of customers, members and area providers. PHCS built its network by leveraging a contracting staff of more than 100 professionals in regional offices across the country.

“We recognize that healthcare is a local business and without a local presence, you can't have great relationships with doctors and hospitals,” Driscoll explains.

Because they live, work and receive their own healthcare in the areas they support, local contractors have a thorough understanding of the unique needs of their region.

As a result, they develop personal relationships with community providers, making it possible for them to work collaboratively and arrive at the best arrangements for managing healthcare costs.

The value of local contractors is perhaps best demonstrated in the more rural areas, which present special challenges to PPO networks.

“In urban settings with multiple facilities, hospitals are competing for patient volume. This makes it much easier to negotiate for discounts and fixed-rate reimbursements. In rural areas where there's only one hospital, it can be

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very difficult to secure a competitive advantage because that hospital is the only game in town. That’s when having a direct connection to the community and its providers can really pay off.”

It was this emphasis on local relationships that led to the PHCS acquisition of two regional PPOs this year in Syracuse and New Orleans. In addition, Driscoll says the company is looking at opening several more strategic office sites in 2005, as well as considering additional acquisitions.

QUALITY, NOT QUANTITY

Access to a cost effective network is only one piece of healthcare delivery. Maintaining the quality and the integrity of a network is another element in the balancing act.

“Quality became a differentiator in the marketplace several years ago, so our quality initiatives have become a competitive advantage for us,” Driscoll says. “It’s opened new markets of customers such as TPAs and managed care organizations.”

One initiative that garners attention from potential customers is the PHCS commitment to credentialing. In addition to direct relationships with providers, PHCS makes a point to

credential and re-credential network participants itself.

Through its credentialing process, PHCS screens applicants for board certification, state licensure, and good standing with state medical boards. This is repeated every three years to ensure that physicians continue to meet the company’s criteria.

Driscoll is quick to point out that the actual number of rejections from the PHCS network is, relatively speaking, very small. On average, from a network of nearly 450,000 physicians, less than 1% are removed from the PPO annually. From providers who want to be listed as specialists in areas where they have no training, to a physician who was

rejected when it was revealed his license had been revoked for repeated misconduct, credentialing uncovers a wide range of potential integrity issues.

“Credentialing doesn’t necessarily tell you that a certain physician or practice has better quality than another, but it can provide a top-level view of how they operate,” Driscoll says. “It’s very expensive and labor-intensive to credential doctors and then re-credential them every three years, but the cost of not doing it is much higher for everyone involved, including the patients themselves.”

PHCS is the only national PPO that has earned four endorsements of quality from both NCQA and URAC, two independent, nationally recognized quality assurance organizations.

Even though getting accreditation can be a difficult and lengthy process, Driscoll thinks that securing a stamp of approval from an independent, respected third party is just good business.

“As hard and costly as accreditation can be, in the long run it helps mitigate a lot of other costs,” he explains. “Trusting your business partners is crucial in any industry, especially one as important, complex and potentially litigious as healthcare. Furthermore, all of the procedures and controls required to achieve accreditation can’t help but make your business better.”



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COST IS ALWAYS A FACTOR

Access and quality are critical components of managed care, but equally important are cost controls. Healthcare expenditures can be tackled on two levels.

First, the direct cost of healthcare services is mitigated through network contracting. Then more variable expenses can be contained through the continuum of care with care management

offerings.

To control costs, PHCS uses a fixed reimbursement methodology where prices are set for procedures and hospital stays. This helps both hospitals and payers manage healthcare costs by forecasting the frequency and associated costs of medical services. In this way, all parties participate in cost management and customers are better able to anticipate and manage expenses.

“We’ve been tremendously successful in securing fixed per-diem and per-case rates. In fact, 100% of dollars paid to PHCS physicians and 70% to PHCS hospitals are a result of fixed rate contracts,” Driscoll says. “Our ultimate goal is to have all of our contracts set at fixed rates.”

Another savings tactic is the recruitment of hospital-based physicians, including anesthesiologists and radiologists. This helps to ensure that when members receive care from a participat-

ing hospital, there will not be unexpected out-of-network charges.

Care management is another way in which healthcare companies reduce costs while helping to provide quality care. PHCS has a dozen physicians and 40 nurse reviewers on staff to evaluate individual cases and direct patients to the most appropriate level of care.

In some cases, this can mean advising a customer to consider a benefit they may not offer.

For instance, the most appropriate level of care for a specific patient might be in a skilled nursing facility, but his plan design only allows for coverage at an acute care facility at a much higher rate.

Based on care management direction, the customer may allow coverage at the skilled nursing facility because it is in the patient’s best interest and represents significant savings. It becomes a win-win situation for payers and patients alike.

“Proper care management requires specific criteria, which we get from Milliman Care Guidelines. These guidelines help us determine medical appropriateness, level of care and length of stay,” he says.

“Using the Milliman criteria, our nurse reviewers are able to determine when a patient is ready for the next level of care—moving from an acute care setting to physical therapy, for instance—often ahead of industry standards. The integrity and appropriateness of care is always maintained as the potential to reduce costs increases.”

In healthcare management, it would be very easy to focus on just a single aspect of the business. However, it takes careful assessment of all the components—size, broad access, quality and costs—to successfully optimize healthcare delivery.

As Driscoll says, “The key to success lies in the ability to understand and balance the disparate needs of providers, payers and members. By providing cost-management solutions based on the foundation of access, quality and savings, you can continually deliver real value to customers.” MHE