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Consultant Report on:

**KING COUNTY HEALTH REFORM INITIATIVE
MEASUREMENT & EVALUATION REPORT
TECHNICAL APPENDIX ON EVALUATION OF HRI SAVINGS IN 2005
BASED ON CLAIMS DATA
AUGUST 1, 2006 DRAFT**

Summary of Major Findings:

- The design of the evaluation is sound given the limitations of time and data.
- The methods used in the evaluation are sound.
- The caveats noted about the reliability of the estimated savings are appropriate (and unavoidable at this point).
- The conclusions reported in the evaluation are reasonable.
- Some alterations in the presentation of the material would increase the clarity of the report.

Program savings vs budget changes

The evaluation appropriately makes a distinction between the statistics used to measure program savings and the budget figures that might be more familiar to King County staff. The distinction is important: changes in budget figures would not accurately reflect program savings for exactly the reasons stated in the evaluation. The distinction also reflects the stated expenditure-related mission of the program innovations: to reduce total health care expenditures for King County enrollees. Thus, as the report notes, budget reductions that result from additional employee cost sharing or higher discounts negotiated by Aetna (unless directly related to the reform initiative) should not “count” as program-related savings.

Incurred billed charges vs paid charges

The specific measure of program savings - changes in incurred billed charges - is appropriate, if imperfect. With regard to incurred versus paid, it is clear that the County should be interested in the impact of its innovations on the medical *events* of 2005 rather than the logistics and timing of billing and payment. Focusing on claims that relate to care received in 2005 accomplishes this goal whereas counting claims for which checks were written in 2005 could reflect both care that was provided in 2004 but billed/processed with a lag and care provided early enough in 2005 to be billed and processed by the end of the calendar year - clearly not the figure of interest to this evaluation. A final reason to focus on incurred rather than paid claims is that the lag in billing and processing for medical claims is very different from that of pharmacy claims. Using paid versus incurred claims would bias the relative weight given to the impact of program innovations on the two expenditure components.

It is not particularly clear why the evaluation, after clearly stating the importance of using incurred claims, begins with a summary of prior claims on a paid basis. If it is because of data limitations, it would be helpful to state this clearly.

The use of billed charges (adjusted for duplicate claims and uncovered services) rather than paid charges is also appropriate. Billed claims are generated by the joint decisions of patients (employees) and care providers. As noted above, the stated purpose of the program innovations is to create savings by changing the behavior of these actors to alter their interactions and the billed charges that result from them. Changes in employees' share of billed charges (e.g., through changes in copayments or deductibles), changes in the discounts from billed charges that providers receive, and/or contributions from other insurance companies resulting from coordination of dual benefits reduce the County's financial obligation, but cannot reasonably be related to the five pilot programs. Thus, the measure of savings should not reflect these factors.

Limitations of the evaluation

The report lists some important limitations of the evaluation. These limitations result from the design and implementation of the pilot programs, the timing of the evaluation relative to program implementation, and the inherent limitations in available data. The nature of these limitations and their impact on the evaluation are appropriately described, and cannot be avoided at this point in time.

Return on investment calculations

The overall point of the discussion of return on investment is accurate: if the estimates of savings are correct, the return on investment for the pilot programs *at this point* is not positive. That said, the manner in which these calculations is presented is fairly confusing. In the end, the point is that so far, program costs have exceeded program savings. In the example given in the report (\$100,000 program costs and KingCare

savings of \$75,000), for every dollar spent, only \$.75 is saved. The discussion of the problems with extrapolating return on investment results to other settings is well taken, but might simply be stated by noting that the results are both context-specific and not linear.

Households as unit of analysis

The evaluation uses the household, as opposed to the individual, as the unit of analysis. Given the limitations of the available data, this seems to be an appropriate choice. It does, however, require some difficult decisions about how to measure age, gender, and other demographic characteristics. It is also a somewhat less stable measure, as household size and composition can change over time. Over the relatively short period of time covered by this analysis, this may not be a large issue. An advantage of the household approach, as noted in the report, is that expenditures associated with births and prenatal care are more predictable by household than by individual because some claims for the single birth event attach to the mother and some to the baby. The report states that the number and experience of the dependents of the household are “taken into account in order to improve the accuracy of the risk adjustment.” However, it is not clear exactly how this occurs.

Estimates of program savings

The estimates of program savings are generated using sound methods and the best available (although imperfect) data. The mechanisms for estimating total incurred claims for 2005 from claims data available as of mid-2006 are reasonable. A strength of the evaluation is the use of alternative methods to estimate program savings. The limitations of time and data mitigate against a single best approach. Thus, a second best solution is to estimate savings using a variety of approaches and compare the results. Since all the approaches suggest, to varying degrees, that no savings occurred in 2005 relative to expected expenditures, the conclusion of no impact is strengthened.

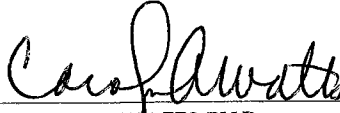
Pilot utilization

The data outlining the utilization of various components of the pilot programs is very useful, and helps explain the findings. The data suggest that the first year utilization of the various pilot programs was small to modest. As noted in the evaluation, the finding of no savings in 2005 may relate as much to the rate of “uptake” of the services as to their effectiveness. The implication is that this analysis should be repeated later as more data are available and as the pilot services are more widely used by King County employees.

Presentation of material

The evaluation report contains a large amount of dense content and a wide array of figures and tables. The clarity of the report would be enhanced by more clearly delineated subheadings and more descriptive labels on the figures and tables.

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Consultant report


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