

The University of Chicago  
Graduate School of Business  
Center for Health Administration Studies (CHAS)  
1101 East 58th Street, Walker 111  
Chicago, Illinois 60637  
(312) 702-7753

WORKSHOP IN HEALTH ADMINISTRATION STUDIES

WINTER, 1988

HOWARD L. BAILIT, D.M.D., Ph.D.  
Vice President, Health Policy Research and Analysis  
Aetna Life and Casualty  
Hartford, Connecticut

"Cost Management Strategies for Indemnity Insurance"

WORKSHOP PAPER

for

Thursday, January 28, 1988

Rosenwald 405

3:30 to 5:00 p.m.

CONTROLLING THE COST OF HEALTH CARE:  
OPTIONS FOR INDEMNITY INSURERS

Howard L. Bailit, DMD, PhD  
Vice President for Health Research and Policy  
Aetna Life and Casualty

Outline of Presentation

I. Introduction

A. Statement of Problem

1. Health care costs continue to increase faster than the GNP.
2. Indemnity insurers losing lives to HMOs.
3. Employers selecting indemnity insurers on ability to control costs.
4. Employers are demanding indemnity insurers guarantee effectiveness of cost control programs.

B. Purpose of Presentation

1. To describe the major strategies for controlling medical care costs under indemnity insurance.
2. To discuss the primary structural limitations of these systems.
3. To review the analytic problems in assessing cost management program effectiveness.
4. To consider data on the impact of Aetna's hospital precertification program.
5. To make a few cautious predictions about the future of cost management programs.

II. Major Cost Management Programs

- A. Precertification of Hospital Admissions and Length-of-Stay.
- B. Second Surgery Opinion.
- C. Individual Case Management.
- D. Managed Mental Health.

III. Structural Limitations of Cost Management Systems

- A. Lack of Condition Specific Protocols To Define Appropriate Care.
- B. Reliance on Provider Telephone Information.
- C. Paucity of Experienced, Trained Clinical Reviewers and Managers To Operate Cost Management Programs.

- D. Limited Knowledge of Impact of Programs on Quality of Care.

#### IV. Analytic Problems in Assessing Program Impact

- A. Amount and Quality of Data Obtained from Paid Claims.
- B. Difficulties in Determining Population Eligible to Receive Care.
- C. Minimal Data on Patient Sociodemographic Characteristics.
- D. Sample Size Limitations for Condition-Specific Analyses.
- E. Estimating Impact of One Program on Total Utilization and Costs.
- F. Determining Time Period for Analyses.
- G. Defining Appropriate Control Population.
- H. Controlling for Confounding Variables.

#### V. Impact of Aetna Hospital Precert System

- A. Design of Evaluation.
- B. Hospital Utilization and Expenditures.
- C. Admissions and Length-of Stay.
- D. Per Confinement Utilization.
- E. Outpatient Surgery Utilization.

#### VI. Future of Cost Management Programs

- A. IOM Study of Problem.
- B. Use of Explicit Protocols.
- C. Monitoring Quality Impact.
- D. Competition with HMOs.

#### VII. Discussion

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