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# PriceRx



## Trimming the Pricing Gap with Optimization in Health Insurance

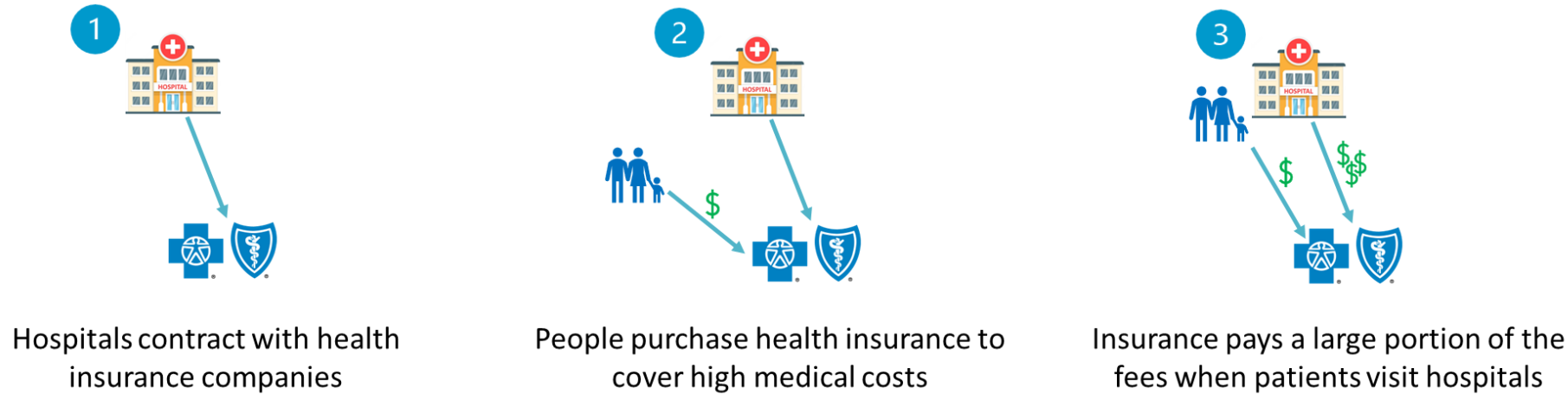


### PROBLEM

Wellmark, an independent licensee of Blue Cross Blue Shield subsidiary, is a prominent health insurance company in Iowa and South Dakota. Wellmark negotiates rates with providers for all services in their network.

With new public information regarding insurance company rates, we look to leverage this increased transparency through an optimization approach.

**Create pricing advantage for Wellmark over their competitors**



- Recommend price changes to the healthcare services offered to optimize lower member cost of care
- Build a rate comparison tool and recommend target areas for negotiation

### DATA

#### Procedure - Provider Rates

Public datasets as a result of the Transparency in Coverage Rule containing dollar rate for every provider in insurance company's network

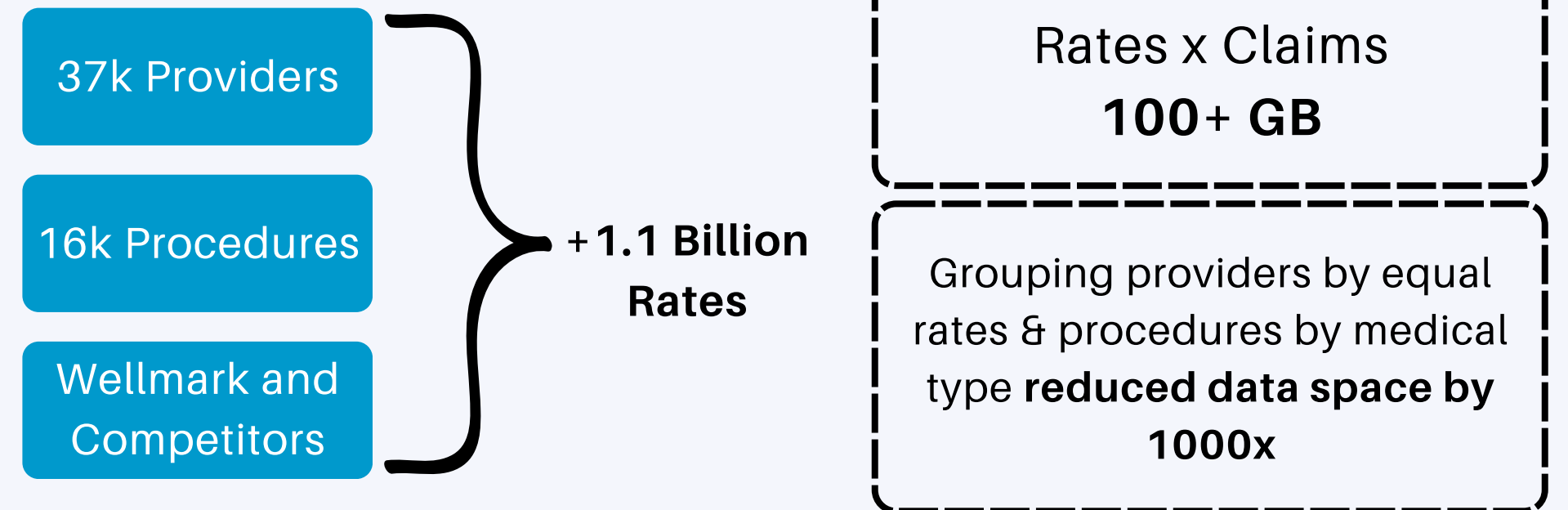
#### Utilization Counts

Encapsulates all the claims that Wellmark filed in 2022

Used for weighting the impact of each rate

#### Supplementary Data

- NPI Registry
- Health Systems
- Geographic Regions
- CMS Procedure Groups



### PRICING OPTIMIZATION

#### MODELS

##### Baseline Model

Adjusts all rates by the 1-year CPI rate

##### Default Model

Optimizes procedure-specific rate changes

##### Local Model

Iterates upon default model to offer provider-specific rate changes

#### OBJECTIVE

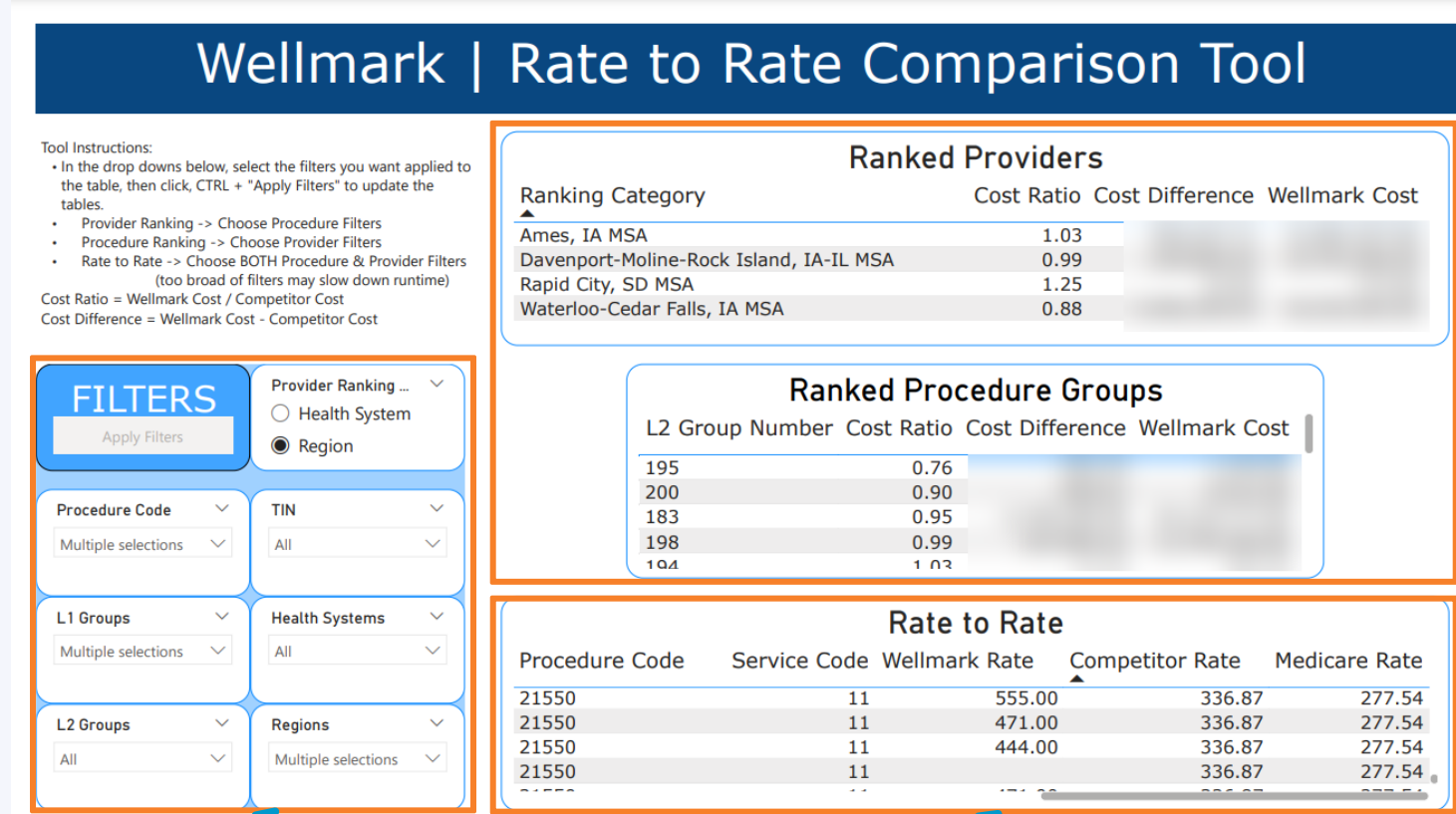
Minimize the price gap in rates where Wellmark outpays their competitors

#### CONSTRAINTS

	DEFAULT	LOCAL
<b>BUDGET</b>	The projected cost of the fee schedule, calculated by the sum of all rates multiplied by their 2022 utilization, cannot be greater than the user input budget The projected cost must be above % of the budget, with user input	
<b>MAGNITUDE</b>	Upper limit to any individual rate change in the model is %, with user input Lower limit to any individual rate change in the model is %, with user input	Local upper limit to individual rate change is a 1% above the default rate Local lower limit to individual rate change is a 1% below the default rate
<b>REGION FAIRNESS</b>		All regions are between -0.5% and 0.5% total change of projected payment No decrease in projected payment for the rural region
<b>UNIQUENESS</b>		Each provider can have _ rates that deviate from the default rates, with user input

### RATE TO RATE TOOL

Dynamic dashboard for network negotiators to assess Wellmark's performance against their competition



Use different cost metrics to recommend areas of most suitable for negotiation

Users can filter on different groupings of providers and procedures

Display the rate information for Wellmark & competitors at the most granular provider & procedure level

### IMPACT

#### Reducing Insurance Costs

Default input optimized rates reduce pricing gap by

**10.2%**

compared to the baseline

#### Facilitating New Negotiation Strategy

Optimized rates and tool metrics combine to shape new positions in pricing negotiations

#### Faster Analysis Opportunities

Tool leads to simultaneous rate comparison through multiple different lenses, improving operational efficiency

#### RESULTS

Sample Pricing Optimization Summary Statistics			
	Baseline Model	Default Model	Local Model
Projected Cost of Plan	\$_____	\$_____	\$_____
Average Rate Difference	10.0%	8.0%	6.0%
Change Over Baseline	---	-3.0%	-7.0%
Change Over Default	+3.0%	---	-4.0%
Change Over Local	+7.0%	+4.0%	---

Sample Default Rates for Procedure Groups	
Procedure Group	Default Rate
218	+2%
8	+2%
1	+1.55%
229	-1%
7	-0.2%
3	-1%

Sample Local Rates Tuned for Provider Groups			
Procedure Group	Provider Group	Service Code	Local Rate
218	A	11	+3%
1	B	21/22	+3%
7	C	11	-0.2%
8	C	21/22	+2.55%

Note: \$ values censored for confidentiality purposes

#### Cost Metrics for Procedure and Provider Rankings

Identify key areas where Wellmark can improve rates

<b>High Cost Difference</b> (Wellmark Cost - Competitor Cost)	Small improvements may have a large impact
<b>High Cost Ratio</b> (Wellmark Cost / Competitor Cost)	Reducing the pricing gap will be met with less resistance from providers

Cost = Sum of Insurance Company's Rates at Wellmark's Utilization

#### Health System Cost Example

Health System	Cost Ratio	Cost Difference
Health System 1	1.199	\$___
Health System 2	0.913	-\$___

A target area for Wellmark could be procedure group 157 for Health System 1

Health System 1 Procedure Groups		
Procedure Group	Cost Ratio	Cost Difference
114	0.871	-\$___
157	1.435	\$___
183	1.174	\$___
418	0.979	-\$___