**PriceRx**

Trimming the Pricing Gap with Optimization in Health Insurance

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**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**

- **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

- **Wellmark and Competitors**
  - 37k Providers
  - 16k Procedures

**RATES 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
- 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

**RESULTS**

<table>
<thead>
<tr>
<th>Sample Pricing Optimization Summary Statistics</th>
<th>Baseline Model</th>
<th>Default Model</th>
<th>Local Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected Cost of Plan</td>
<td>$___</td>
<td>$___</td>
<td>$___</td>
</tr>
<tr>
<td>Average Rate Difference</td>
<td>10.0%</td>
<td>8.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Change Over Baseline</td>
<td>+3.0%</td>
<td>-7.0%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Change Over Local</td>
<td>+7.0%</td>
<td>+4.0%</td>
<td>$___</td>
</tr>
</tbody>
</table>

**SAMPLE COST METRICS**

Health System Cost Example

<table>
<thead>
<tr>
<th>Health System</th>
<th>Cost Ratio</th>
<th>Cost Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health System 1</td>
<td>1.199</td>
<td>$___</td>
</tr>
<tr>
<td>Health System 2</td>
<td>0.913</td>
<td>$___</td>
</tr>
</tbody>
</table>

**Cost = Sum of Insurance Company’s Rates at Wellmark’s Utilization**

- **High Cost Difference** (Wellmark Cost - Competitor Cost)
  - Identify key areas where Wellmark can improve rates
- **High Cost Ratio** (Wellmark Cost / Competitor Cost)
  - Small improvements may have a large impact
  - Reducing the pricing gap will be met with less resistance from providers

Health System Cost Example

- | Procedure Group | Cost Ratio | Cost Difference |
- |-----------------|------------|-----------------|
- | Health System 1 | 1.199      | $___            |
- | Health System 2 | 0.913      | $___            |

Note: $ values censored for confidentiality purposes