

Employee Benefit ■ Plan Review

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Employer Procurement Practices Expected to Change Dramatically: Activities to Focus on Empowering Employees to Improve Individual Health

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The American health care system is complicated but not impossible to understand. Historically, many employers have felt victimized by escalating health care costs but helpless to sort it all out. Employers must learn to manage this expenditure in new ways and with serious intentions.

The marketplace is now learning that employers with the lowest health care costs focus on the critical activities that allow them to measure and manage the clinical risk of their covered population. It is becoming evident that astute employers are implementing clinically based care management programs that are appropriate for their workforce, and are addressing high-acuity health risks first. Identification of chronically ill members is an important step.

Intent on lowering costs, business leaders have discovered that it is essential to empower personal health management through outcome-based programs that might include condition management, biometric testing, on-site physicians, and/or employee assistance programs (EAPs). They won't simply tweak the health benefit but instead will focus on identifying and confronting the health risks of their covered population.

As a result, the approach to procurement is likely to transition to vendors that offer products and services that encourage employees to participate in health programs through cash-based incentives that could include premium reductions, cash, or contributions to a spending account. Going forward, these preferred vendors are expected to

utilize strong, centralized recordkeeping processes that manage eligibility closely and provide a seamless interface for employees.

Inherent to the success of any program will be its focus on communications, not only to employees but also to their families. Branded, specialized messaging and announcements that keep everyone informed lead to better decisions that promote improved health.

Increasingly, employers will also be identifying high-quality providers for specific conditions and adjusting coverage, programs, and incentives to guide employees to use these providers. They are likely to refrain from short-term fixes such as stand-alone wellness promotion and education programs or managing provider quality through procurement. Also, they will be avoiding high-cost practices such as offering multiple plan choices to employees.

IMPLICATIONS FOR EMPLOYERS

Every company has unique requirements based on its business model and workforce. Health programs that work for one company may be completely inappropriate for another. A key issue for many employers is the fundamental misalignment between common health care procurement practices and the actual drivers of higher health care costs.

Health benefits are often purchased based upon an annual cycle that focuses on financial and actuarial criteria such as plan cost, network discounts, and covered procedures. The primary driver of higher health care costs

is clinical risk, which is controllable through lifestyle choices, management of catastrophic and chronic conditions, and provider quality. In practice, a self-insured employer is running a health plan that underwrites coverage for a predefined population of employees and dependents over extended periods of time. In the long run, the financial liability can be lowered only by improving the health of the covered population.

Clearly, it is time to stop viewing health benefits through the stereotyped lens of cost-minded employers and entitlement-minded employees. In companies that place importance on health and productivity, there is a surprising confluence of interest. Employers and employees both benefit from a culture of health where the actual health benefits plan is not the focus. The real focus is on how to stay healthy.

DEBUNKING THE TRADITIONAL MINDSET

Companies with the lowest health care costs are those that focus on optimizing employee health rather than on manipulating health benefit costs.

Employers with high health costs are using financial models and network procurement strategies to manage expenditures, without proper attention to the underlying clinical risks driving the demand for

health care. The traditional methods of cost management—such as churning between health plans—are not enough to effectively combat the ever-increasing health care cost trend.

Employers with similar coverage and benefits can have substantial differences in overall health costs—on the order of \$2,000 or more per eligible employee. For a company with 20,000 employees, this cost differential could be an enormous competitive advantage of \$20 million to \$40 million in discretionary dollars.

The best-performing companies use targeted strategies and tactics to control cost, create healthier employees, and promote the most efficient use of health care services for their employees. The long-term message is clear: significant improvements in the health care cost trend are achieved when employees improve their clinical status and reduce their need for health care services.

As such, employers must align their health care procurement practices with the actual drivers of higher health care costs. Also, they must develop a long-term strategy for creating a culture of health and improving clinical health outcomes. As this realization sinks in, it is expected that procurement practices will change dramatically, creating both opportunities and risks for health insurance and health manage-

ment vendors—with success resting on the vendor's ability to empower employers to measure and improve employee health.

LOOKING AHEAD

The cost of providing group health benefits to employees continues to increase, and the vast majority of employers—regardless of their business size—are paying significantly more for account renewals than they did in the fall of 2006.

Despite this troubling picture, there appear to be answers to the employer health care challenge. Corporate leaders and benefit directors can now learn effective—and practical—solutions to lower their costs. In doing so, employers must recognize that measurable savings do not happen overnight. The best practices typically require several years to reach their full potential—but the payoffs are significant. In environments where the focus is on building a culture of health—not manipulating health benefits through procurement strategies—both the employer and the employee benefit. ☉

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