

Employers and the Healthcare Marketplace

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THE CURRENT NORTH CAROLINA healthcare marketplace features the following conditions and serves as an excellent microcosm of the national healthcare marketplace:

1. The Healthcare Marketplace Behaves Very Differently from Most Other Buying/Selling Arenas. The sellers/suppliers of healthcare control the tempo of the marketplace; most other markets are driven by demand. The sellers/suppliers of healthcare establish prices, determine quantity, and monitor quality.

The demand side of the healthcare transaction is divided into two groups: (1) uninformed consumers (employees) who receive care; and (2) frustrated, excluded buyers (employers), who have little choice but to pay the bills. Not surprisingly, employers and employees have become frustrated and desirous of change.

2. Current Product Offerings. Current product offerings (PPOs, HMOs, and networks) are directly or indirectly owned or sponsored by managed care companies, healthcare providers, or insurance companies. These organizations have as their primary incentive to maximize the welfare of the seller/supplier—not necessarily the buyer (employer) and consumer (employee). This results in sellers/suppliers selling what and how they wish, as opposed to what and how buyers and consumers wish to buy. Employers have no information regarding the true price of the healthcare services they are asked to buy.

3. Cost Shifting. Public buyers of healthcare (Medicare and Medicaid) enjoy a unique advantage when contracting for care. They determine and set the price for every healthcare service they buy. The federal government, through its Medi-

care program, elected to use cost shifting as a major weapon in the battle to control federal healthcare expenditures. In North Carolina, as a result of skyrocketing healthcare costs, the Medicaid program reduced payment levels and the scope of services.

The “savings” realized by the state and federal governments are, of course, not true cost savings; they are merely cost transfers. Ironically, private buyers of care (employers), through their myriad of corporate, payroll, and other taxes support the very mechanism that is contributing to much of the increase in their healthcare costs.

The Problem We Face As Employers

1. Healthcare Cost Increases Have Not Been Accompanied by Added Value. In each of the last four years, we have experienced healthcare cost increases of 10% to 60%. Placed in perspective of low overall inflation, the magnitude of healthcare premium increases is breathtaking. The dramatic rise in healthcare costs plays havoc with prudent managers’ efforts to control expenses and remain competitive in an international market.

An absolute rise in cost is not in and of itself a problem, provided that an appropriate increase in value is generated. What is particularly troubling to many employers is our inability to determine as buyers what, if any, added value has been received to justify such cost increases.

2. Absence of Value Measures. The predominant focus on premiums and cost increases has resulted in our being unable to differentiate or reward sellers/suppliers based on their ability to add or maximize value—in other words, to truly manage care. Little or no emphasis or attention has been

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given to individual physician practice patterns or to determining what services local health systems excel in providing.

Objective, accurate, and comparable information on the value of healthcare services is generally unavailable to buyers (employers) and consumers (employees). The sellers/suppliers (healthcare providers) possess the knowledge and skill to investigate quality and value issues, but the incentives to act decisively on a broad basis are lacking.

Try to answer questions like: Where is the best buy for maternity care? Where is the best buy for orthopedics? Who is best at their respective specialties? The fact that we cannot answer these questions highlights the point.

3. Traditional Cost Management Controls Have Been of Limited Beneficial Effect. Cost management controls in the areas of employee cost-sharing/cost-shifting, benefit redesign, utilization management, wellness programs, pharmacy benefit programs, disease management programs, and provider incentives have had only limited beneficial effect. By and large, these controls were attempts to work within the seller/supplier-controlled system. Cost control mechanisms have spawned their own set of problems, some with strong consumer (employee) and physician backlash.

Employers' Alternatives

We, as employers, have done all the "right things," and healthcare inflation is many times the overall inflation. Value remains elusive and poorly defined; and the future promises more of the same. As employers, we have at least four alternatives:

1. We do nothing: We remain a passive payor of healthcare bills at levels determined by the sellers/suppliers.
2. We pay more: We accept the higher premiums and pass along higher co-pays and deductibles to our employees.
3. We cover less: We reduce or eliminate benefits.
4. We develop an employer-sponsored health coalition and work together to improve the current system of healthcare buying and value measurement.

North Carolina Business Group on Health

The existence of the North Carolina Business Group on Health is an acknowledgment that employers (buyers of healthcare) are strategically moving from accepted past practices, as merely passive payors, to new approaches where we act as informed, prudent healthcare buyers.

Together, members of the North Carolina Business Group on Health have the ability to improve the current system of healthcare buying and value measurement from the current "near-blind" uniformed payment for healthcare services to an informed, transparent selection and buying of

healthcare services based on *value, quality, and outcomes*, which rewards rather than penalizes excellence. This is a realistic and achievable goal. The skill, domain knowledge, and technology exist today, and are within the resources of the North Carolina Business Group on Health to improve the current system of healthcare buying and value measurement.

Key Elements of the North Carolina Business Group on Health

◆ **Employer Interests:** The organization serves the interests of employers. Employers' control of operating conditions and philosophy is necessary to ensure conformance with employer objectives.

◆ **Overlay Approach:** We recognize that each employer has existing relationships with a variety of healthcare professionals, insurance providers, third-party administrators, managed care plans, utilization management companies, disease management companies, agents, brokers, and consultants, and offers a variety of benefit plans and packages.

- o Our organization is designed to overlay existing benefit plans and packages and service providers.

◆ **Geography:** Some employers with workforce in North Carolina have a single location; others are located in multiple sites within our state and nation. The diversity of work sites also crosses the lines between urban and rural, and large and small healthcare market segments.

- o Our organization is designed to work locally, regionally, statewide, and nationally, and in all market segments.

◆ **Physician Relations:** Employers have made a significant effort to develop and maintain good relations and rapport with the physician community. It would be ludicrous to alienate the very physicians who provide direct care to our employees and their families. Continued cooperation rather than conflict is our organization's preferred approach.

◆ **Community Concerns:** We are concerned with the impact of our activities on the broader community. Clearly, our intent is to act responsibly.

Essentials of an Improved Healthcare Buying and Value Measurement Program

◆ **Known Price:** We, our employees, and their physicians must know the actual price of the healthcare we buy, consume, and prescribe.

◆ **Value-Added Buying:** The focus of our program is to identify, measure, distinguish, maximize, and reward added value, not necessarily the care with the lowest price. Inexpensive care may not always be the best care.

◆ **Existing Relationships:** Our healthcare buying and value measurement program works in conjunction with existing benefits and service providers to allow for complementary, seamless, and integrated service delivery.

◆ **Portability:** It is anticipated that the program can be transported to other cities where members have workforce.

◆ **"Best Buy" Recommendations:** We will focus on identifying and rewarding the "Best Buys" by medical and surgical category.

◆ **Documented Savings:** Our program documents for each employer the savings on the healthcare that it buys, its employees consume, and their physicians prescribe.

Likely Outcome of a Value-Added Healthcare Buying and Measurement Program

◆ Employers will know the true prices of healthcare services, why healthcare services are priced that way, and what added value those services offer to employers, employees, and their families.

◆ Employers will have sufficient information with which to reward the cost-effective healthcare providers, such as paying physicians a premium for clinical excellence.

◆ Managed care companies will be challenged to "rise to the occasion" by supporting, rather than undermining employers that are participating in value-added healthcare buying. They can do this through benefit design and alternative product offerings.

◆ Hospitals, health systems, and academic teaching facilities

will be recognized for what they do well or uniquely, and will be rewarded for having made the investment in their pursuit of excellence. They will be encouraged to mainstream their clinical care advances.

Our Community's Response

◆ "It is important that all of the hospitals and health systems in the Triangle area have an opportunity to participate — and some are. This is certainly a step in the right direction in terms of employers trying to understand what drives healthcare costs and work toward moderating them. The hospital community in North Carolina understands that employers are concerned and want to preserve health benefits for employees. If becoming more informed about costs is part of that process, it can only benefit the hospitals as well."

Hospital Trade Association Executive

◆ "The detailed information needed by employers and employees to make informed choices on the use of health services is simply not available. It is time we, as employers, come together and work with the health system leadership to develop objective healthcare price and quality data, to identify what health systems do well, help them where they need/want our help and reward them with our business. I would think this would benefit employers, physicians, and hospitals, too."

Chamber of Commerce Executive

◆ "The leaders behind the North Carolina Business Group on Health are people trying to make a constructive change in the way healthcare is delivered, paid for, and communicated to employers and consumers. Employers have truly been the sleeping giant, and as a result, have been subject to manipulation and even exploitation by those whose primary motive is taking an ever-larger piece of the premium dollar. It's time to pull back the curtain, understand the dynamics, and work together for a solution. The stakes are high and include the health of employees, the financial stability of employers, and the competitiveness of US corporations in the global marketplace."

General Counsel of Healthcare Policy Organization