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Quality Initiatives - Cost Containment Strategies for Purchasers

Purchasers of health care in the United States are in the midst of surging health insurance premium increases. In 2001, premiums increased an average of 11%. In 2002, they are expected to increase another 12-14%; and this upward trend is expected to continue. Medical advances, increasing utilization and cost of prescription drugs, and rising consumer demand are among the reasons cited for such increases. Purchasers can use traditional methods to try to contain costs, and might also take bold steps – using *quality measures* – in price negotiations.

Traditional Methods - Purchasing Coalitions

Many purchasers, particularly smaller employers, can achieve some cost savings by joining a purchasing coalition. These coalitions offer bargaining leverage because they cover large groups of people and can negotiate discounted rates with insurers. Since coalitions benefit from increased membership, they are often looking for interested organizations. There are many business and organized labor groups in the Commonwealth that sponsor these coalitions. Contact PHC4 if you would like more information.

Disease Management Programs

Larger purchasers sometimes conduct research to discover which health care services their employees are utilizing, and the associated charges. However, employees must be reassured that no medical information will be exchanged among vendors and company staff without their knowledge or consent. The employer then uses the data to develop wellness or disease management programs to help educate employees or members about chronic conditions or other targeted costly diseases. For example, an insurer can provide the employer a listing of the most-utilized services and associated charges. A pattern might emerge, and prevention might focus on a particular condition, such as diabetes or high blood pressure. Programs could be developed to provide educational materials and services related

to the specific health concern. According to Margaret O’Kane, President of the National Committee for Quality Assurance (NCQA), “Disease management offers a real opportunity to improve the care for people with chronic illness and at the same time reduce the cost of care.” However, protection of privacy must be emphasized so employees know that employers will not have a direct role in identifying or tracking participants.

Tiered Pharmacy Programs

Many insurers have established prescription drug formularies – lists of acceptable commonly prescribed drugs, selected by a panel of doctors and pharmacists with expertise in both academic and clinical practice. The list is based on the safety, cost and effectiveness of the drugs and is designed as a guide to help patients receive the most appropriate prescriptions at a reasonable cost. Many drug plans today offer three-tiered formularies: 1) generics, 2) “preferred” brand name drugs, and 3) “non-preferred” or newly-approved brand name drugs which cost the employer – and the employee – considerably more. Purchasers agree that effective communication to employees is essential for success. Pharmacy Benefit Managers can also help. See the January 2002 FYI for more information: <http://www.phc4.org/reports/FYI/Default.htm>

Personal Health Accounts and Defined Contribution Products

Another strategy is a move toward empowering employees to become more active in their health care decisions, in the hope they will become more sensitive to the price of health care services and prudent in their use of health care. Consumerism strategies range from providing employees with more health care information to giving them flexibility in how they spend their health care dollars.

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Some companies are using "Personal Health Accounts." Employers deposit a set amount of money for each employee into an account that can only be used for health care expenditures; the use of the expense account is left completely up to the employee. Employers might see Personal Health Accounts as a nice option, particularly for young workers. However, employees might not allot appropriate levels of dollars to these accounts, and might not recognize the potential for unplanned costs. Another perceived disadvantage is that employers must pay the full amount to the health account at one time rather than monthly. Discounts normally available to insurers with provider contracts may not be available to employees.

Cost Sharing with Employees

Some employers have asked employees to share some portion of their insurance premium increases through methods such as increased co-payments and higher deductibles. Compdata Surveys, a national compensation survey and consulting firm, reports that only 11.5% of all employers nationwide pay 100% of health insurance premiums. Often this approach is controversial at the bargaining table, and is not seen as a good solution to contain costs. Employees may forgo necessary care if they cannot afford their share of the charges, possibly leading to worsening health (and higher costs) in the future. Additionally, employers may have a difficult time attracting and retaining quality employees if they do not offer a competitive health care package.

A Fundamentally Different Approach - Quality Initiatives

Cost saving approaches, such as those listed above, have been the focus for many purchasers; fewer have focused on quality initiatives. But without a fundamental shift in purchasers' strategic approach, efforts to contain costs may end in frustration.

Quality initiatives require careful planning and preparation by purchasers, as well as education of employees or members. There might be additional up-front costs; and quality programs can be more complicated to implement, and might not produce immediate gains. However, various efforts nationwide are recognizing the need for a focus on quality to realize cost savings.

Leapfrog is one business group seeking changes. (www.leapfroggroup.com) Another is The Employer Health care Alliance in Wisconsin. (www.qualitycounts.com)

A more recent suggestion to help contain double digit increases in health insurance premiums is tiered hospital networks. The tiered hospital network is modeled after the pharmacy benefit design. California Blue Shield is among the first in the nation to initiate a tiered hospital program, categorizing hospitals as "choice" or "affiliated" based upon hospital charges. The initial plan was to have members utilize a hospital in the "choice" tier and pay the standard co-payment or co-insurance; or, to use a hospital in the "affiliated" tier and pay an additional co-payment/co-insurance. But purchasers in California asked to add "quality" measures into the pricing decision. Now CA Blue Shield is doing just that.

Recently, the Midwest Business Group on Health (www.mbggh.org) a large employer coalition that represents employers in 11 states, released a report indicating about 30% of health care costs are attributable to poor quality care, translating to \$1,700 to \$2,000 per covered employee per year! Their report, *Reducing the Costs of Poor-Quality Health Care Through Responsible Purchasing Leadership* outlines strategies to reward high quality health plans and providers.

Some MBGH strategies should sound familiar to Pennsylvania purchasers: Direct financial incentives to plans or providers who meet performance targets, public recognition of top performing health care providers (thereby likely rewarding them with higher volume), and employee incentives to select top quality providers.

The Pennsylvania Health Care Cost Containment Council exists to promote and demonstrate the value of focusing on **quality** and costs. PHC4 Council Members have recognized for many years that quality-outcome options exist for cost containment. These include: contracts and payments structured on quality outcomes instead of provider pricing and insurer discounts; outcomes measures to include risk-adjusted mortality rates, lengths of stay, and readmission rates; development of network "Centers of Excellence"; and use of physician-specific data such as PHC4 offers in its Coronary Artery Bypass Graft (CABG) Surgery report.

Pennsylvania purchasers have a major piece of the quality purchasing puzzle not available in other areas of the country: Access to dozens of reports and millions of data records and information accumulated over more than a decade, and published by PHC4. Contact us if you need further direction on the many uses of data, and opportunities to formulate quality-driven strategies for cost containment.

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