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The Cost of Doing Business

Employers' Role in Reducing Health Costs

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Introduction

The cost of health care continues to squeeze patients and concern policymakers. Almost one in five Colorado families (18 percent) had problems paying their medical bills in 2019. Over half (54 percent) of those families took on credit card debt to help pay for the care they needed, and a third (33 percent) struggled to pay for necessities like food, heat, or housing.[1]

Colorado's employers have the opportunity to do something about it. Collectively, employers insure more than half of the state's residents, more than Medicare and Medicaid put together.[2] This means employers have some leverage when it comes to addressing costs, and many Coloradans would benefit from them doing so.

Employers also have incentive. In 2018, it cost more than $18,000 to provide employer-sponsored coverage to the average Colorado family, or about the retail price of a Subaru Impreza. Almost three quarters of that amount was paid by employers, dollars that could potentially be spent on higher wages, other benefits, or profits.[4]

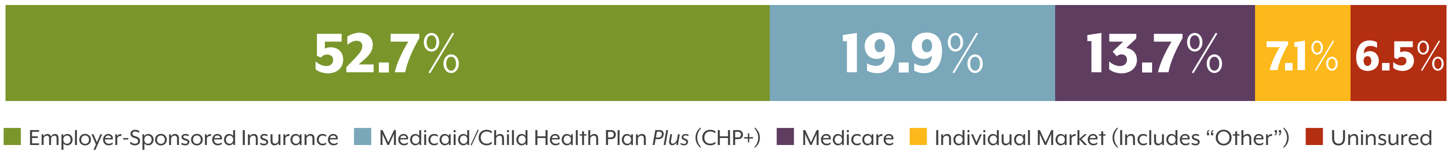
Their workers are motivated as well. Premium cost growth continues to outpace wage increases. Since the turn of the century, the annual cost to insure a family has jumped almost 170%, while the average household is only making about 50% more (see Figure 2). And employees are being asked to contribute more in deductibles and other cost sharing. The average deductible for a Colorado family with employer coverage in 2018 was just over $4,000, up 15 percent from just two years prior.[5]

Put another way, Colorado's companies and their employees are buying a modest new car's worth of

Key Takeaways

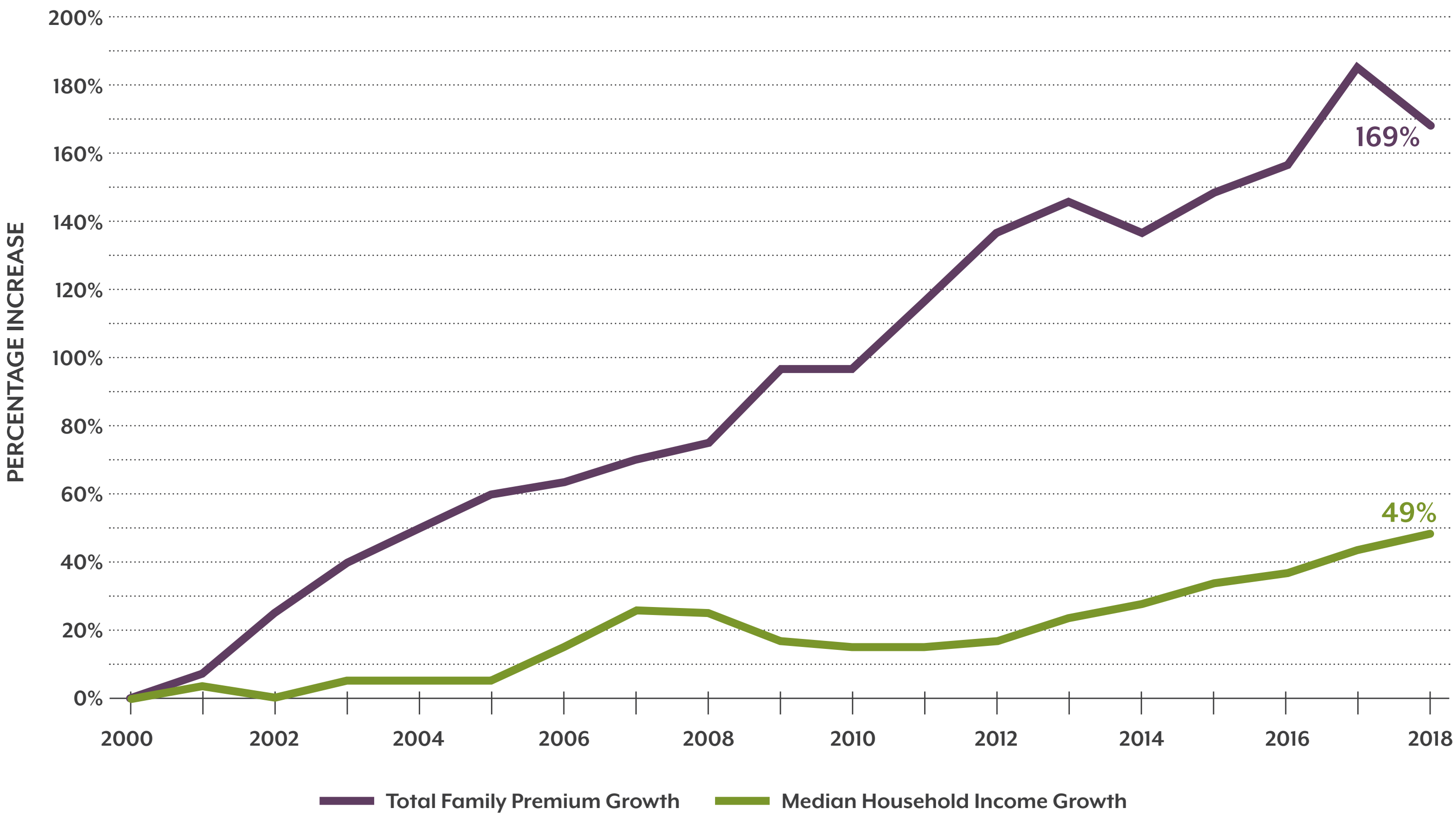
- Employers collectively are the largest purchaser of health care in Colorado, with more enrollees than Medicare and Medicaid combined.
- Faced with rising health costs, some Colorado employers are taking actions such as opening their own health care clinics, experimenting with insurance plan design, and joining forces with other businesses to contract directly with providers.
- Time will tell whether these market-based strategies will be successful in reducing employers' health care costs. If not, public and policymaker interest in more dramatic steps may increase.

Figure 1. More Than Half of Coloradans are Insured Through Their Employer, 2019[3]



Note: Numbers may not sum to 100 percent due to rounding.

Figure 2. Cumulative Growth in Premium Cost and Household Income, Colorado, 2000-2018[6]



Note: The Medical Expenditure Panel Survey did not ask about total family premium cost in 2007. To account for the missing data, CHI averaged the values from 2006 and 2008. Total Family Premium and Median Household Income are both reported as nominal figures not adjusted for inflation.

health insurance every year. But buying health care is not like shopping for a car. Car buyers research various models, decide which features they want, and check the safety ratings and maintenance costs. They negotiate with the seller to get the best possible deal.

This type of shopping is common, especially for big-ticket items, but is often missing when it comes to health care. Still, some Colorado employers are exploring how they can get a better deal on insurance for their employees.

This new analysis by the Colorado Health Institute (CHI) outlines three types of cost-saving strategies used by Colorado employers, highlights examples of the strategy in action, and analyzes implications for employers considering ways to cut their health care bills.

Employers can use this report to better understand their options and determine which strategies may be right for them.

How Did We Get Here?

Employers' role as the dominant player in private insurance can be traced to World War II, when fears of rapid inflation pushed the federal government to constrain employers' ability to increase wages. This pushed employers to use other benefits like health insurance to compete for workers.

Employer-sponsored health insurance (ESI) continues to be popular, in part, because employers aren't taxed on the dollars they spend on their employees' health care. This tax break is not given to other types of health insurance coverage, like plans purchased on the individual market.[7] There was some speculation that the Affordable Care Act might reduce the role of ESI by creating a robust individual market, but in 2020 employer-sponsored health insurance is still the most common form of coverage.

However, legislators in Colorado and in Washington, D.C., are considering policies such as a public

Table 1. Summary of Employer Strategies in Colorado

STRATEGY TYPE

Shop Smarter

Experiment with plan design and use of technology

Save by steering employees to lower-cost providers. There are many different versions of this strategy, including narrow and high-performance networks, tiered networks, and Centers of Excellence. Employers can also incentivize employees to use lower-cost options, including telehealth.

CONSIDERATION

Employers will need to balance their preference for high-value providers with employees' desire for freedom to choose their provider.

INSURANCE TYPE

Fully Insured Self-Funded

Fully insured employers can work with their insurer or their broker to find a plan that best fits their needs. Self-funded employers have more flexibility to customize their provider network and coverage.

STRATEGY TYPE

Build Your Own

Operate an employee health care clinic

A clinic, either onsite or nearby, can provide employees with convenient, affordable care for certain types of health concerns and potentially improve their overall health. This could improve productivity and retention.

CONSIDERATION

Larger companies will find it easier to achieve the scale needed to support an employee clinic. Smaller employers can partner with others to achieve necessary scale, or consider an alternative such as a part-time medical provider.

INSURANCE TYPE

Self-Funded

Employers who fund their own coverage can save money by providing some care in-house.

STRATEGY TYPE

Negotiate For a Better Price

Direct contracting and purchasing alliances

Some employers have had success going directly to providers to negotiate prices, in some cases banding together into purchasing alliances to increase their buying power.

CONSIDERATION

Direct contracting usually involves negotiations for a specific benefit or service such as primary care or imaging services that is added to an existing plan. But some purchasing alliances are using negotiation to build their entire plan from the ground up.

INSURANCE TYPE

Fully Insured Self-Funded

Direct contracting can produce savings for self-funded employers, but fully insured employers can buy into plans negotiated by purchasing alliances.

option, which would create a state-directed plan individuals and potentially employers could buy into, or a national health plan, which could replace the entire private insurance market with something like Medicare. If employers are unable to rein in costs, public pressure could increase to adopt a system that removes businesses from their role as the largest purchaser of health care.

The Strategies

1. Shop Smarter: Experiment With Plan Design and Use of Technology

Strategy Overview

Employers can save money by identifying lower-cost, high-quality providers and giving incentives to their employees to use those doctors, hospitals, and the like. The simplest but least popular approach is to cut higher-cost providers from plan coverage. This is commonly referred to as a narrow network strategy. For example, the Pathway product offered to Colorado employers by **Anthem Blue Cross Blue Shield** saves around 30 percent by contracting with select Front Range hospitals.[8]

Firms that want to steer their employees toward higher-value providers while preserving some choice may explore a tiered network or Center of Excellence model, where patients don't have to pay as much out of pocket if they use a preferred provider.[9] Some employers use positive incentives to reward employees who choose a provider from the preferred network. **Larimer County** has a tool called Healthcare Bluebook, which uses a color-coded system to show employees which providers are highest quality and lowest cost, using cost data from the All Payer Claims Database and quality data reported to the Centers for Medicare & Medicaid Services (CMS). Employees can earn a cash bonus (between $25-$1,500) if they choose a "green" (low-cost, high-quality) provider.[10]

Employers can also use technology to deliver lower-cost care to their workers. Some insurers in Colorado offer products with urgent and behavioral health care access via telemedicine, which connects a patient to a provider over a smart phone or other technology. Although telemedicine is not always a substitute for in-person care, it can be an effective, lower-cost option for some types of treatment. Three in five employers set an employee's cost for telemedicine visits lower than for traditional, in-person care.[11]

Employer-Sponsored Insurance 101

Large employers tend to be **self-funded**, meaning they pay the lion's share of their employees' health bills (everything except what employees pay themselves). Under this arrangement, the insurance company acts in a mostly administrative function (enrolling members, processing claims, etc.), and the employer is on the hook financially if claim costs exceed the projected amount. Stop-loss insurance provides protection against unexpected high-dollar claims. Self-funded employers tend to be the most interested and most capable of taking action to reduce their costs. They are exempt from most state-level regulations and are instead regulated at the federal level through the Employee Retirement Income Security Act (commonly known as ERISA). (Public entities such as municipalities and school districts are a special case and are exempt from ERISA even if self-funded.)

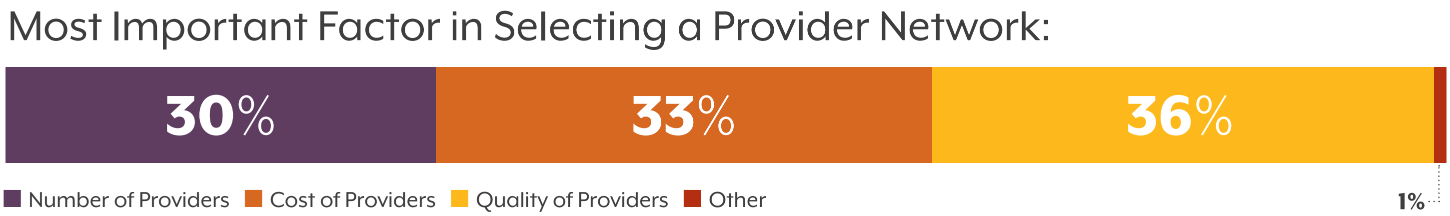
Smaller employers, who typically have less predictable health costs, tend to be **fully insured**. The insurer bears the risk, but also earns additional profit if costs come in under expectations. Colorado's fully insured employers are regulated by the Colorado Division of Insurance as well as any applicable federal regulations. Fully insured employers have fewer options, but there are still paths they can take to reduce costs.

Considerations for Employers

Narrow networks are not widely used among employers. Nationally, only 7 percent of employers offered a narrow network plan in 2019, and most firms have not even considered removing a high-cost, lower-value provider from their network.[12]

Most employers are interested in balancing affordability with flexibility for employees to choose from high-quality providers, according to survey data from Kaiser Family Foundation (see Figure 3).[13]

Figure 3. Employers Value Size, Cost, and Quality About Equally When Selecting a Provider Network[14]



Employers should take care not to make narrow network decisions that may hamper employee access to quality care or violate any state or federal requirements for the number or type of providers required to be in a plan.

A different national survey in 2019 suggests employers may be underestimating how important cost has become to their employees. It found that about six in 10 employees ranked cost-related factors as the most important feature in a health plan.[15]

Involving employees in decision-making, or at least soliciting their feedback on what plan features are most important to them, may help in weighing the pros and cons of network alternatives. Given the choice between shifting to a narrow network plan to lower their insurance costs or giving up raises for 2½ years, a Boston area union voted in favor of putting that money into their paycheck.[16]

2. Build Your Own: Operate an Employee Health Care Clinic

Strategy Overview

Some employers are saving by operating their own clinic. This allows the employer more control over the cost and quality of care (usually primary care) offered to their employees.

Several employers in Colorado are using this strategy, including the **City of Colorado Springs**, **Larimer County**, and the **Poudre Valley School District**. A 2017 survey by the National Association of Worksite Health Centers found one-third of employers with more than 5,000 employees offered a worksite clinic providing general medical care (not just work-related injuries or conditions), a substantial increase from just under one-quarter (24 percent) in 2012.[17]

Most clinics are staffed by a nurse practitioner or physician's assistant.[18] Services vary by clinic. The most common services include physical exams and urgent care, but almost a third offer immunizations and 16 percent offer mental health services.[19] The Larimer County clinic offers primary care, prevention and screening services, as well as health coaching and behavioral health counseling.[20] Colorado Springs also operates a pharmacy for employees of the city.[21] Many employers provide the service at low or no cost to their employees to encourage use.

Considerations for Employers

To make this strategy worthwhile, companies need a fairly large number of employees. However, smaller employers can achieve that scale by partnering with other local employers to jointly establish or contract with a clinic. Most employers choose to hire a vendor to handle the burden of managing, staffing, and regulatory compliance.[22] Larimer County partners with Marathon Health to operate its clinic.[23]

Employers using this strategy cite the convenience of a clinic: Employees don't have to travel for care and are more likely to use the clinic for certain health needs, increasing productivity and retention.[24] Because primary care services are typically not a major driver of health spending, the direct savings from this strategy are limited. However, there still can be substantial financial benefits. There is some evidence that clinics can better coordinate care for employees, head off unnecessary emergency room visits, and increase referrals to higher-value hospitals and specialists. Return on investment estimates vary widely; some sources indicate positive ROI is possible in the first year while others indicate it may take as long as five years.[25]

Does Wellness Work?

Workplace wellness programs typically include a financial incentive for workers who participate in activities such as exercising, completing a health screening, or taking a health education class or workshop. These programs are common, but evidence about their effectiveness is shaky.

Nationally, four in five companies with 200 or more workers offered a wellness program in 2019 as part of their health benefits package. Even among companies with fewer than 50 employees, about half (49 percent) offered some type of wellness program in 2019.[26]

Proponents say these programs can improve health, save money, and boost worker satisfaction. But randomized controlled trials have not found evidence to support those theories.[27] Although employees participating in wellness programs tend to be healthier, evidence suggests this has more to do with the type of person who joins such a program rather than the program itself.[28] To rein in health costs, employers should look elsewhere.

3. Negotiate For a Better Price: Direct Contracting and Purchasing Alliances

Strategy Overview

Some employers have had success negotiating and contracting directly with providers. Traditionally this involves a self-funded employer going outside the provider network in its existing plan to negotiate a side deal with a certain type of provider, such as for primary care services or specialty services such as joint replacement or transplants.

But the benefits of negotiation aren't just for large, self-funded employers anymore. In Summit County, local leaders took advantage of a 2019 state law to create the **Peak Health Alliance**, a purchasing collaborative designed to trim some of the highest consumer health insurance costs in the country.

The Peak model offers smaller employers a chance to band together to get market power they haven't had in the past. It works like this: employers, large and small, and people buying insurance on the individual market joined forces and established Peak to negotiate the prices consumers pay for hospital care. Then Peak contacted insurance companies willing to set costs for plans based on the more consumer-friendly hospital rates. The result: individual plan costs dropped 39 to 47 percent from 2019, more than the average 29 percent decrease in other mountain communities. (Average individual market premiums dropped across the state in 2020 because of a new government program called reinsurance, which helps insurers pay for some of their most expensive health care bills.)[29]

For more detail on Peak and the experience in Summit county, see CHI's brief **on the subject.**

Considerations for Employers

The Peak experience illustrates the importance of data. Peak compared the area's historical health costs against what Medicare would have paid for the same services. An analysis of that data showed local businesses and residents could save millions of dollars if inpatient and outpatient rates were reduced to 150 percent and 250 percent of Medicare, respectively.

The model is spreading across the state. At least nine counties have plans to partner with Peak to implement a local version. The Colorado Business Group on Health is working to take the concept statewide, potentially as soon as 2021, an idea that has the support of Gov. Jared Polis and insurance Commissioner Michael Conway.[30] Time will tell the extent to which the success in Summit can be replicated in other areas with different dynamics. One factor that made Peak successful was the degree of local community engagement and energy. To replicate the model in their own community, employers will need a strong coalition and robust local support.

A Checklist For Better Buying

Outside of these strategies, there are additional steps employers can take to trim costs.

Step #1: Get Smart

Efforts by groups such as the Colorado Business Group on Health and the Denver Metro Chamber of Commerce, which published health care toolkits for employers and employees, are educating employers to be smarter buyers of health care.

"This isn't rocket science, but it takes time, training, and interest on the employer end to do it," said Jennifer Fairman, benefits manager at Larimer County.

Step #2: Get the Data

For employers to make smart decisions to reduce costs, they first need to know what those costs are. One way is to compare what a provider is paid by a private insurance plan with what Medicare reimburses for the same service. This, plus other available data, can be a starting point for negotiations with an insurer over the price of coverage.

The Center for Improving Value in Health Care works with Colorado employers to benchmark their spending against average market rates, arming employers with key information for negotiation. Transparency efforts in Colorado and at the federal level could make more data readily available.[31]

Step #3: Engage Employees

Employers who have a strong relationship and open communication with their employees may have more success in finding the balance between choice and cost.

Employers should also engage their entire leadership team. Support from top to bottom of the organization is critical.

Step #4: Leverage Market Power

Most employers have limited market power to negotiate price concessions in an increasingly consolidated provider market. But models like Peak have shown how banding together can change that dynamic.

The Colorado Division of Insurance, prompted by HB19-1233, intends to provide an assist by taking a more aggressive approach to rate review, the process by which the state evaluates and approves proposed rates submitted by health plans under jurisdiction of the state.[32] This could mean capping insurer-negotiated rates with hospitals for plans that cover about 1 million Coloradans.[33]

Are Colorado's Employers Road Ready?

Given their important role in providing health insurance coverage for most Coloradans, employers may be best positioned to push market-based solutions to the problem of high costs.

But it won't be easy. Colorado's employers are not one, unified insurance customer with dominant market power. To gain negotiating leverage, they will need to act together. Most employers are not experts in health care, so reducing costs may require significant investment in a new set of skills unrelated to their core business.

Still, growing interest from employers across the state and early successes from models like Peak show the market-driven approach has some gas left in the tank.

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