

IN THIS
Issue

The Importance of
Price Transparency

Evaluating Global
Health Care Networks

Can the Market
Reform Health Care?

BENEFITS Quarterly

Vol. 37 | Fourth Quarter 2021

Special Section on

Pricing and Payment Trends in Health Care

PARTNERS IN EDUCATIONAL EXCELLENCE

International Society
of Certified Employee Benefit Specialists

International Foundation
OF EMPLOYEE BENEFIT PLANS

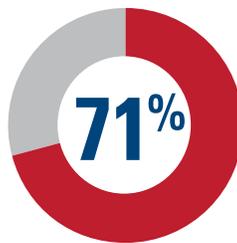


Hospital Price Transparency

Health care prices remain a difficult challenge for employers, and the lack of price transparency is one of the major reasons. In the article “The Importance of Hospital Price Transparency and What It Means for Employers” on page 8, Melina Kambitsi, Ph.D., describes the problem and offers strategies that employers can use to address it.



Average total cost of employer-provided family health insurance plan in 2020



Employer's average share of employer-provided health insurance costs

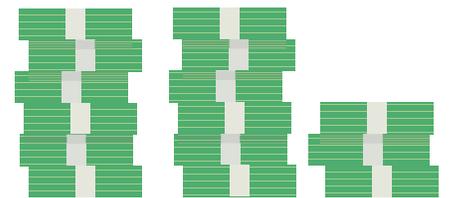


Amount private payers would have saved from 2016 to 2018 if they had paid hospitals using Medicare reimbursement rates

Employers pay nearly

2½ times

more than Medicare for services at the same facilities for both inpatient and outpatient services.



What Employers Can Do

Identify **opportunities** to save using claims data analysis.

Use **incentives** to drive sustainable savings.

Use frequent, **multichannel communication** to share information about incentive programs.

Implement innovative benefit plan design, such as offering high-value and tiered networks.

Employ reference-based contracting.

Consider **joining** a health care purchasing coalition.

Continue to **push** for price transparency.



The Importance of Hospital Price Transparency and What It Means for Employers

by **Melina Kambitsi, Ph.D.** | *The Alliance*

It's no secret that the cost of health care seems too high. It has consistently increased every year since 1960, and because employers bear most of the burden, it remains a hot topic. In fact, according to Kaiser Family Foundation's annual employer survey, the average total cost of employer-provided health coverage passed \$20,000 for a family plan in 2020¹ and, on average, employers shouldered almost three-quarters (71%) of those costs.

Employers spend hundreds of billions of dollars on health care services, but due to lack of information, their ability to control—or even monitor—health care prices remains a difficult challenge. Prices are not transparent and are often

hidden behind confusing contracts. Employers need high-quality, transparent pricing information to create innovative benefit plan designs and negotiate more favorable prices with insurers. If employers have access to that pricing information, they can become better informed health care-purchasing customers on behalf of their employees.

The first step toward achieving improvements in price transparency is to create a baseline measurement of aggregate data. Cheryl DeMars, the chief executive officer of The Alliance, a not-for-profit purchasing cooperative for self-funded employers, often says, “you can't manage what you can't measure,” to remind us of this importance.

AT A GLANCE

- Employers need high-quality, transparent pricing information to create innovative benefit plan designs and negotiate more favorable prices with insurers. Access to pricing information can allow employers to become better informed health care-purchasing consumers.
- The *National Hospital Price Transparency Study (RAND 3.0)* found that employers pay two-and-a-half times more than Medicare for health care services, and there is no link between hospital prices and quality or safety.
- Employers can help lower prices by identifying and helping employees and their families navigate toward lower cost, high-quality health care providers.

RAND Corporation's Pricing Transparency Study

The *National Hospital Price Transparency Study (RAND 3.0)*,² which was released in September 2020 by the RAND Corporation and the Employers' Forum of Indiana, takes a big step in helping employers understand the costs they're paying for hospital services.

Employers should note that similar studies have marked the relationship between employer health costs and Medicare costs; *HCCI Health Marketplace Index*³ found that rising prices (not utilization) is the primary driver of increased health care spending for employers, and a recent *Health Affairs* study⁴ showed that health care prices vary widely from market to market (and from hospital to hospital within those markets).

The RAND study is an ongoing employer-led initiative to measure and report publicly the prices paid for hospital care

at the hospital and service-line level. These studies are the first of their kind in that they are an employer-led initiative that uses claims data to compare hospital prices publicly. Employers can use this data to empower their purchasers to contract with hospitals that offer the best value—the highest quality at the best cost.

As RAND Corporation puts it, “Getting good value for the health care dollar is a tremendous challenge, and the complexity of how health care services are paid for makes it difficult to spot which problems to tackle. Our health care system consumes vast economic resources without producing commensurate health benefits. Employers, as purchasers of health benefits, have typically not played an active role in promoting the value of care or agreed on a strategy for doing it.”

For this year’s study, RAND researchers used data from 2016 to 2018 to document variation in facility prices using commercial inpatient and outpatient hospital prices with data furnished by employers and other purchasers. These prices were then compared with Medicare reimbursement rates for the same procedures and facilities to report relative prices across the U.S.

Researchers analyzed hospital claims representing \$33.8 billion in claims data for 3,112 hospitals located in every state, with the exception of Maryland. They collected data from self-insured employers, six state all-payer claims databases and health plans across the country. The findings illustrate a wide variation in hospital facility and professional prices for the commercially in-

sured population. The report also identifies the top ten most expensive health systems in each state and reports individual hospital prices alongside quality and safety measures.

Many employers came together to volunteer their claims data for the study because, as DeMars has stated, “Employers—and the public—need to know the prices they are paying and the relative difference between hospitals and regions so they can make informed decisions.”⁵

Here are the key takeaways from the study:

- **Employers pay nearly two-and-a-half times more than Medicare (and that number is growing).** At a national level, in terms of what Medicare would have paid for the same services at the same facilities for both inpatient and outpatient services, private payers paid 224% of Medicare prices in 2016. In 2017, they paid 230% and 247% in 2018—a compounded interest rate increase of 5.1% annually. Nationally, in terms of dollars, private payers would have saved a collective \$19.7 billion if they had paid hospitals using Medicare prices during those three years alone.
- **There’s no link between hospital prices and quality or safety.** There are many high-value hospitals across the country; however, there’s no real evidence to suggest that safety and quality are commensurate with price. Researchers stated that “All the outcomes that health care pur-

chasers value, such as patient convenience and hospital reputation, do not show a clear link between hospital price and quality/safety.”

- **There’s no evidence hospitals need to make up for “uncompensated care” by charging commercial payers higher prices.** There was no correlation between the differences in hospital pricing and “low” government reimbursement for Medicare—what health systems refer to as *uncompensated care*—to account for the variation of prices.

What This Means for Employers

Rising health care costs place pressure on employers and their workforces—especially during the COVID-19 pandemic—and as the second largest purchaser of health care nationwide, this price gap represents a huge savings potential for employers. The problems they face are threefold: lack of transparent information, lack of incentives and institutional issues—like the consolidation of hospitals (which limits provider choice)—and the traditional referral system.

Employers must use due diligence and careful consideration when making health care purchasing decisions—especially for procedures with a large variation in price and for services that account for a large percentage of their budgets.

What Employers Can Do

Employers need transparent information to guide their benefit plan de-

sign. According to the RAND study, approximately 35% to 43% of all health care services are potentially shoppable. (For example, a patient seeking a knee replacement may consider cost and quality when choosing where to purchase the procedure.) By identifying and helping employees and their families navigate toward low-cost, high-quality health care, those employees and their employers can significantly lower their costs. Employers in the state of Wisconsin alone could save \$394 million per year if employers helped guide their patients to high-value, low-cost providers.⁶

Identify Opportunities to Save Using Claims Data Analysis

The first step employers can take to help consumers choose high-value providers is to take a deep dive into their data and examine what claims they spend most frequently on and where they spend them. For example, if an employer sees a large portion of claims are spent on schedulable, nonvariable care—like MRIs or massage therapy—they can calculate the percentage of employees who are (or aren't) choosing high-value providers for those “shoppable” categories and adjust their benefit plan accordingly.

Use Incentives to Drive Sustainable Savings

Once an employer identifies its largest cost-saving opportunities, it needs to get employees to buy in. Financial incentives that reward employees for choosing high-value care are crucial—so employers must share their dollar

savings with employees so they both reap the benefits of choosing a high-value provider. A well-designed incentive means everyone saves.

Communication Is Key

After rolling out an incentives program, employers need to inform their workforce of the program or risk the program going unused. Communicating incentives frequently is crucially important; employers need to share information across the company using multiple channels on a consistent basis so employees remember the offer when making health care decisions.

One vehicle for creating trust and guiding consumers to better health care decisions is advanced primary care, where patients receive more time with caregivers, experience improved access to high-value care and have more desirable services available to them.

Implement Innovative Benefit Plan Design

For more effective change, employers can design their benefit plans to offer more high-value networks. Further, employers can use tiered networks to offer their employees broad choice while incentivizing smarter, cost-saving options. These initiatives encourage providers to increase quality and maintain competitive prices.

Employ Reference-Based Contracting

Medicare is the single largest purchaser of health care in the United States and has established base rates for various services. It adjusts those

rates by provider to factor in geography, patient mix and quality metrics. By using a predictable, simple and transparent Medicare-based pricing structure, employers can cut spending waste and reward hospitals for quality. Plan sponsors can look to various benchmarks to determine the appropriate percentage of Medicare. Medicare not only gives us an appropriate benchmark by which plans can measure relative value, it also enables employers to use plan design to incentivize employees to use low-cost, high-quality providers.

Changing incentives will cause disruption in the health care system and ultimately improve the quality of care, expand access to care and reduce the cost of care for both employers and patients.

Self-Fund Smart

Employers looking for additional help in making use of their claims data and developing a benefit plan design strategy may consider joining a health care purchasing coalition. These coalitions can provide deep data mining and claims analysis and use their large employer membership to negotiate lower prices with providers directly.

Continue Pushing for Price Transparency

Lastly, employers should consider further pushing for transparency (because they can't manage what they can't measure) and can do so by participating in studies like those conducted by the RAND Corporation and its partners. 

Endnotes

1. www.wsj.com/articles/cost-of-employer-provided-health-coverage-passes-20-000-a-year-11569429000.
2. www.rand.org/health-care/projects/price-transparency/hospital-pricing/round3.html.
3. <https://healthcostinstitute.org/hcci-originals/hmi-interactive#HMI-Summary-Report-Current-Spending>.
4. www.healthaffairs.org/doi/full/10.1377/hlthaff.2019.01377.
5. https://madison.com/wsj/news/local/health-med-fit/private-public-insurance-hospital-bill-gap-in-wisconsin-among-highest-report-says/article_6d2ef7a8-0c1c-5573-9d13-d5b08855881f.html#tracking-source=home-top-story-1.
6. <https://the-alliance.org/blog/wisconsin-can-save-394-million-by-steering-patients-to-high-value-health-care>.

AUTHOR



Melina Kambitsi, Ph.D., is senior vice president of business development and strategic marketing for The Alliance, where she leads the team responsible for the growth and retention of the cooperative. She holds B.A., M.A. and Ph.D. degrees from The Ohio State University.



PDF-921

S0212717

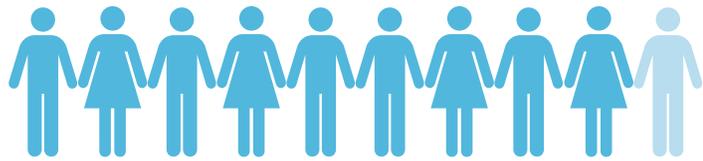
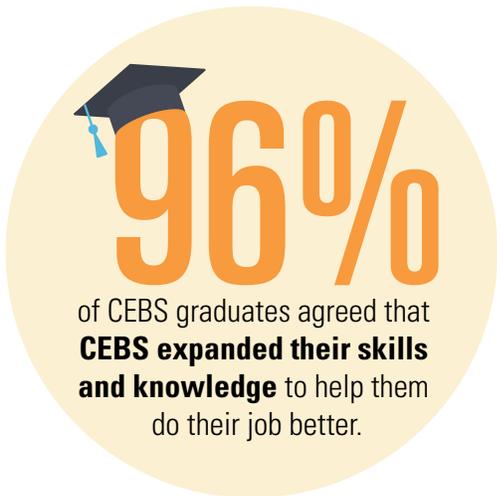
CEBS.

Certified Employee Benefit Specialist® Program

Volume discounts are available for teams. Visit www.cebs.org/employer.

Hire CEBS...Require CEBS.

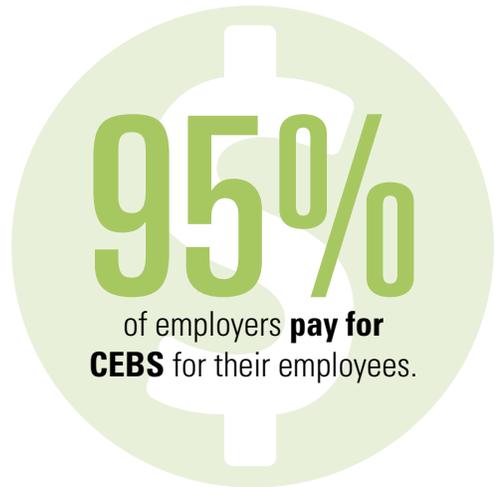
You're in good company with the many organizations that use CEBS® to train their teams. A growing number of employers require or prefer the CEBS designation.



9 out of 10 graduates said the CEBS designation earned them respect from colleagues.



8 out of 10 graduates said the CEBS designation qualified them for additional roles and responsibilities in their career.



said CEBS **gave them the knowledge** to make or recommend plan design improvements for their employer.

CE212960

A JOINT PROGRAM OF



Education | Research | Leadership

BENEFITS Quarterly

**SUBSCRIBE
NOW!**

Benefits Quarterly is a publication of the International Society of Certified Employee Benefit Specialists. Published four times a year, the magazine offers comprehensive coverage of the latest trends and innovations in benefits from the corporate perspective.

TO SUBSCRIBE TO BENEFITS QUARTERLY



VISIT

www.iscebs.org/resources/BQ



PHONE

(262) 786-8771



PDF-1020

PARTNERS IN EDUCATIONAL EXCELLENCE

International Society
of Certified Employee Benefit Specialists

International Foundation
OF EMPLOYEE BENEFIT PLANS 