HEALTH CARE

5 Questions the Smartest Employers Ask When Purchasing Health Care for Employees

Asking these questions can spark a real and meaningful change for your company and for our broken and malfunctioning health care system.

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It seems categorically unfair that all business leaders across all industries from accounting to zoo-keeping must develop deep expertise in purchasing health care. But unless us leaders burn down the entire system of employer-sponsored health care insurance, administering a high-value health care strategy must become a core part of your business model. So how can you, as CEO or a business owner, execute the same diligence and care to procuring health care insurance and services that you apply to other essential strategies in your business?

To help demonstrate its importance, imagine that you are the CEO of a company called Widgets, Inc. All day long, your firm makes beautiful widgets of impeccable quality, which you source from the finest widget part suppliers, and you manufacture with maximum efficiency because you have honed your operations to perfection. No one does widgets better than Widgets, Inc.

Here's the problem: your expertise at widget-making can only take you so far. In this unprecedentedly competitive labor market, you can't attract a top-notch workforce of widget engineers, marketers, and administrative staff (and so on), without also cultivating expertise in purchasing health care benefits. Ignoring your benefits strategy raises the risk of losing your top talent to your competitors or struggling to hire new staff. But our profoundly broken health care economy drives up your costs year over year, eroding your profit margin, preventing you from investing in new infrastructure and technology and, in an ironic twist, precluding the possibility of wage increases and bonuses.

Some employers-- particularly smaller firms-- are fully insured, which means that a health insurance company takes on the risk of insuring their employees and their family members. But many mid to larger-sized companies have transitioned to bearing risk themselves, which means that *they* pay the actual costs of the care that their health plan participants incur. Self-insured employers hire health insurance companies solely to perform operational functions like contracting with health care providers, deciding how and how much to pay those providers and processing plan participants' health insurance claims.

But either way-- fully or self-insured-- employers must grapple with the perpetually rising tide of health care costs, which over the past 5 years, have grown by over 20 percent. Historically, employers attempted to manage costs by pushing expenses back to their health plan participants through higher deductibles, higher co-pays, and higher co-insurance. Employers expected that requiring employees to pay more out of their pockets would resolve the alleged *principal-agent problem* of health insurance: because insurance shields employees and their families from the costs of the services they use, they use health care indiscriminately and/or follow the direction of doctors who profit from the volume of services they deliver. Employers reasoned that if employees had more financial skin in the game, they would become stewards of health care dollars.

This strategy backfired spectacularly. People refrain from seeking care, even the care they truly need, when they have high out-of-pocket costs. Currently, nearly half (46 percent) of insured adults struggle to afford their out-of-pocket costs, and 27 percent don't have enough money in the bank to cover their deductible. Moreover, the reality is that over two-thirds of health care cost inflation stems from increases in health care *prices,* not utilization. The problem isn't so much that Americans use too much health care; the problem is more that we pay too much for the care we receive.

So what are some smart ways that you can approach health care purchasing? Whether your company is fully or self-insured, you should select a health plan partner with the same attention and rigor that you apply to procure any other input to the supply chain. This means looking beyond the rates your broker brings to you and the purported "discounts" that health plans advertise. Savvy questions you can ask a health plan about their strategies and practices should include:

> What does the health plan do to enhance the quality of and access to primary care and behavioral health services?
> How is the health plan working to connect plan members with the highest quality, most affordable health care providers?
> What payment incentives does health plan give health care providers to improve the quality of care and reduce unnecessary spending?
> What resources does the health plan offer to plan members about the quality and prices of providers across specialties and health care settings?
> How does the health plan intend to reduce health care disparities and improve health outcomes among its covered population?

These inquiries mark just the beginning of a long journey. But when you-- whether you are in the business of building widgets or wrangling walruses-- signal to health plans that you apply the same diligence to purchasing health care that you dedicate to your primary industry, the payoff will be a real and meaningful change for your company and for our broken and malfunctioning health care system.