Harvard Business Review

U.S. Health Care Is in Flux. Here's What Employers Should Do.

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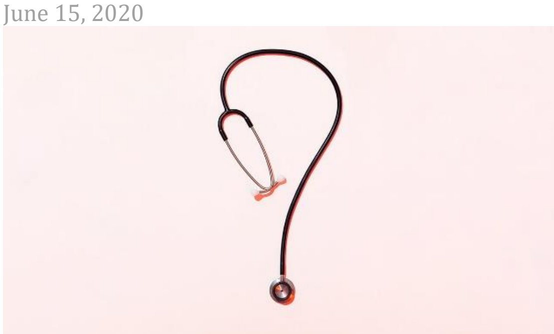
June 15, 2020



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Emergencies naturally draw our attention — and our resources — to the present. The U.S. response to Covid-19 is no exception. Yet the problems exposed by the pandemic point to the urgent need to prepare now for the next waves of this crisis, including new clusters of infection and new crises of debt and scarcity. They also highlight the opportunity to develop a more resilient health system for the future. Employers can and should play a central role in this effort.

For employers, this period of exceptional economic strain has exacerbated the longstanding challenges of managing the health care costs of their employees. The future course of the disease and economy may be uncertain. But businesses that are rigorous in the way they purchase health care benefits, leverage digital health technologies, and partner with hospitals and physicians will be able to better manage an expected roller coaster in health care costs and premiums.

Dealing with Covid-19 itself is expensive: Covered California estimated that the costs to test, treat, and care for Covid-19 patients this year will be between $34 billion and $251 billion; America's Health Insurance Plans predicts the cost will total $56 billion to $556 billion over a two-year period. Yet the total costs of U.S. health care this year will likely drop due to the postponement or cancellation of regular clinical services and elective procedures due to the virus. According to one estimate, Americans may spend anywhere from $75 billion to $575 billion less than expected on health care this year. Another actuarial firm projects that self-insured employers may see a 4% reduction in their employees' health costs this year.

Nonetheless, health insurance premiums for employers are expected to rise in 2021. An analysis by Covered California projected that nationally, premiums will increase between 4% and 40% — and possibly more. Recent filings with the District of Columbia's Department of Insurance, Securities and Banking related to the individual market and small groups for 2021 show that Aetna filed for an average increase of 7.4% for health maintenance organization (HMO) plans and 38% for preferred provider organization (PPO) plans, while UnitedHealth proposed an average increase of 17.4% for its two HMOs and 11.4% for its PPO plans.

What explains this projection of higher premiums in 2021? Will second and third waves of Covid-19 lead to more expensive intensive-care unit and hospital stays? Will patients flood clinics for the hip replacements, cataract operations, and other "non-urgent" services they delayed during the lockdown? Will hospitals try to charge commercial insurers more to compensate for their losses in 2020?

The answer to all these questions is a definite "maybe." Ironically, the fundamental reason rates are expected to rise is the cost of uncertainty itself. And the situation may only get murkier if the pandemic resurges.

Even if premiums stay as they are, employers may still be unable to afford them amid plummeting revenues. Before Covid-19, premiums for employer-sponsored plans had been consistently outpacing inflation. In 2019, the Kaiser Family Foundation reported that the average annual premium for employer-sponsored health insurance was a whopping $20,576 for a family of four (and $7,188 for an individual) — a 54% increase over the previous 10 years. That dwarfs the average inflation-adjusted increase of 4% in wages in the same 10-year period from 2009 to 2019.

Given these rising costs, employers should look beyond 2021. They should not seek a short-term fix by raising copayments, deductibles, and other out-of-pocket costs for next year. While this strategy may initially reduce spending on health care, studies show that it will disincentivize employees to seek preventative treatment. In fact, families with higher deductibles are less likely to take their children to see the doctor, even when the visit is *free*. Over time, this leads to worse health outcomes for employees and their families, which also means much higher costs.

Here are three strategies that can help employers weather the inevitable ups and downs of 2021 and beyond and improve employee health:

1. Manage health care benefits like all other purchases.

Business leaders, especially the CEO, need to make it a priority to understand the health care benefits business. Employee health benefits consume more than $15 million annually per 1,000 employees, and employers should treat costs with the same rigor and expertise that they assess other major expenses. Whether it's through their broker, insurance company, or consultants, businesses should examine these costs closely and understand where they are deviating from benchmarks and why. A car manufacturer should not overpay for care anymore than it overpays for steel.

For example, when employees experience a common ailment like uncomplicated back pain, do their doctors tend to order MRI and back surgery, driving up costs unnecessarily in an overeager fee-for-service model of treatment? Or do they follow more cost-efficient, preventative guidelines that lead with rest and physical therapy?

By challenging providers with these types of questions, large employers such as Walmart and Boeing have redesigned their employee benefits plans to encourage employees to seek second opinions and have even gone so far as to allow them to expense travel to medical centers that offer better care at lower costs. Employers may also find that forming alliances or joining cooperatives can expand the scale of their data, help them identify and exploit opportunities for improving the quality and cost of treating specific conditions, and enhance their purchasing power for health care.

2. Leverage technology.

The Covid-19 pandemic will open unprecedented opportunities for employers to leverage technology that helps employees seek, manage, and receive health care over the internet. During the emergency, public and private insurers lifted provider restrictions on telehealth, and the increasing willingness of both clinicians and patients to use digital technologies is changing the landscape of health care, especially for those who have chronic conditions that require ongoing monitoring. Given that Medicare is likely to sustain these changes, employers should work with their private insurance partners to ensure continued coverage of telehealth for their employees.

Virtual chronic care solutions are also gaining traction. Take people with type 2 diabetes, who now comprise about 10% of all Americans and whose care costs more than $325 million per year. Technologies like a Bluetooth-enabled continuous glucose monitor (CGM) obviate the need for daily finger pricks and glucometer checks for monitoring blood sugars. (Verily, the company I work for, is developing a next-generation CGM with Dexcom.) This technology, when paired with a smartphone app that records meals (a quick photo of the food is sufficient), exercise, and medications, can help individuals understand the impact of their actions on their health. Onduo, a digital health company managed by Verily, combines this technology with telehealth and chat features to connect employees to health coaches and physicians. It offers a virtual diabetes clinic on demand.

Amid a burgeoning marketplace of digital health offerings and innovations, employers should shop and negotiate for health care solutions with the same rigor they shop for their business needs. They should challenge vendors to demonstrate the cost-effectiveness of their programs to produce better health and improve productivity, presenteeism, and quality of life for their employees. They should even consider demanding money-back guarantees like some health systems now provide.

3. Partner with hospitals and physicians.

As health systems struggle with their own financial crises, this is a good time for employers to partner more closely with hospitals and doctors. If the CEOs of businesses have much to learn about health care, perhaps health care has much to learn from these CEOs. Whether it's lessons in improving operations from a manufacturing plant or ways to deliver better customer service from a retail perspective, employers can offer their own industry-specific expertise to help hospitals and medical facilities practice safer, more efficient, patient-friendly, and cost-effective care. For example, Intel shared its expertise in supply chain and "lean" management to improve clinical care in metropolitan Portland, Oregon. Most hospitals and health systems have a community advisory or governance board. By serving on these committees, employers can begin to understand — and perhaps even improve — the care their employees and their families receive.

Employers' actions must be decisive precisely because the future is so uncertain. By partnering with the health systems that provide care for their employees, establishing clear expectations for high quality and low-cost care, and leveraging telehealth and virtual care solutions to achieve these goals, businesses can help their employees better weather the ups and downs of Covid-19. In doing so, employers can build a more robust and affordable model for the good of their businesses, the economy, and the health of millions of Americans.

Acknowledgement: Jeremy Axelrod made valuable writing and editing contributions to this article.

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