Dual problem of costs

Health systems face continuing challenges as both purchasers and providers

By Leah Binder

Modern Healthcare's annual Healthcare Purchasing Power Survey is unique because it captures an important but overlooked force in the economics of healthcare: hospitals in their role as purchasers of healthcare services. After all, health systems are employers—sometimes the largest employers in their communities—and they have a significant interest on the payer side of the negotiating table.

For health systems as well as purchasers in other industries, growth in health premiums eats through employees' take-home pay, sometimes eliminating any positive impact from the annual raises hospitals painstakingly carve out of their budgets. Health costs for employers and employees grew more than 100% in the past decade, according to a Kaiser Family Foundation/Health Research & Educational Trust study, far ahead of inflation and twice the rate of the growth in employee compensation.

Of course, the growing burden of health costs presents some complicated and contradictory problems for health systems that other purchasers don't have to consider. At a hospital, the human resources staff grapples with the escalating premiums while down the hall, the finance department wrangles reimbursement increases from those same plans.

Benefit costs are indeed a significant problem for health systems. You can see the problem in the findings from this year's Healthcare Purchasing Power Survey, where healthcare services organizations estimate they will spend 8% more in 2012 than last year. Since Medicare and Medicaid offer little or no flexibility for absorbing these steep cost increases, hospitals must get the money somewhere. Typically, they negotiate ever-higher prices to be charged to the commercially insured population—increasing the costs for their own employees, as well as the employees of other businesses in the community. This is the very definition of a vicious cycle.

Creating a culture of transparency, even if it hurts in the short term, will help the health system protect market share while potentially bringing relief to the escalation in its own healthcare premiums.

There are three main strategies employers in other industries are undertaking to control the growth in health costs. Here's how I would assess the potential of the different strategies for the employees of health systems:

Wellness and disease management: The actual success of these programs might be significantly overstated by the companies marketing them to employers, according to *Why Nobody Believes the Numbers: Distinguishing Fact from Fiction in Population Health Management,* the new book by Al Lewis, the founder of the Disease Management Purchasing Consortium International. For health systems, the impact of investing in these programs will be incremental at best, since healthcare employees presumably already know more than the lay public about healthy behaviors and the specific

'Eyes on the prize'

Purchaser-led groups need to stay focused on healthcare quality, value

By Andrew Webber

This is the fifth year that the National Business Coalition on Health has been honored to co-sponsor Modern Healthcare's annual Healthcare Purchasing Power Survey along with the Leapfrog Group. The release of the survey results coincides annually with our conference where, this year, the NBCH is celebrating its 20th anniversary as a not-for-profit organization of purchaser-led business and health coalitions.

I've recently been reflecting on the past two decades of our organization's role as a national umbrella group for employer-based health coalitions, and the opportunity to write this commentary on purchasing comes at a perfect time.

Please indulge me in a brief history lesson about purchasing coalitions and our core beliefs. The first, now widely recognized but little appreciated when we all first started, was that employers have an interest and an influential role to play in improving health and healthcare. Each employer, whether in the public or private sectors, is highly motivated to pursue strategies to improve the health and productivity of their workforce and to maximize the value of each dollar spent on employee health benefits. Moreover, success in realizing those two goals advances the mission and competitive advantage of each employer. Improving health and healthcare is good business.

While the health and healthcare environment has continued to evolve, particularly with the advent of the landmark national healthcare reform legislation, the focus on the important role of employers and employer-based coalitions as catalysts for meaningful change will continue.

A second belief at the core of purchaser-led coalition development, and ultimately the NBCH's creation, was the notion that no one employer has the influence and leverage to significantly improve health and healthcare, and that much could be gained by employers coming together and taking action as a unified group.

A related belief was that without collective employer leadership challenging the status quo, the prospects were dim for genuine reform and progress. The healthcare market has been impacted by an extraordinary mix of purchaser-led activities, including group purchasing arrangements, direct contracting with provider networks, health plan performance assessment initia-

options available in the system for managing chronic conditions. Knowledge does not automatically translate into better health, of course, but increasing knowledge is usually at the core of wellness and disease-management programs, and will likely have less impact on healthcare employees.

More sensible coordination of care: Most health systems are already involved with innovations in this area, such as patient-centered medical homes, accountable care organizations and bundled-payment arrangements.

For health systems, those concepts might make sense for strategically realigning their core business in care delivery, but not as key strategies on the HR side. Healthcare employees are more likely than other Americans to competently navigate the health system and coordinate their own care, since they are more familiar with delivery system ins and outs. Yet, as actuaries will tell you, and as health executives will quietly bemoan, hospital employees tend to have higher rates of utilization despite—or perhaps because of—their knowledge of the range of services available. Thus, coordination of care will not solve the problem of benefits cost acceleration.

Have employees pay more health costs out of pocket: High-deductible health plans require employees to pay more of the costs out of their own pocket and/or out of tax-advantaged health savings accounts. This strategy reduces employer health costs out of the box—and sometimes significantly.

Even though this strategy will work, health systems may hesitate to put it in place because doing so results in employee demands for price transparency. As Catalyst for Payment Reform points out in its recent call to action on price transparency (Nov. 5, p. 24), which Leapfrog supports, pricing information is currently difficult for employees or employers to access, and even doctors and nurses frequently have no idea of the cost of the procedures they commonly order or deliver. But that is changing.

Price-consciousness by employed clinicians is likely to reduce utilization not only by those clinicians and their families, but also by their patients. Price-conscious clinicians may suddenly become more reluctant to use the new CT scanner or order that second MRI.

Health system leaders may resist the resulting contraction in volume, but because high-deductible health plans are the fastest-growing form of health insurance, the demand for price transparency will hit the health system regardless of whether the hospital's own employees care about prices. Creating a culture of transparency, even if it hurts in the short term, will help the health system protect market share while potentially bringing relief to the escalation in its own healthcare premiums.

Whatever strategies health systems undertake in their role as purchasers of health benefits, they can add one important element to the healthcare economy: the drive for quality. Health systems by definition have expertise in healthcare quality, and when they use that expertise to drive a market for quality they stand to win on all counts—the HR side and the finance side. Once consumers have knowledge of prices, the second question they ask is about quality.

Health systems as purchasers can lead in developing innovative ways to communicate quality and value, and strategies to motivate quality improvements both externally in the marketplace and internally through quality improvement. I would welcome thoughts on this from health system leaders, including how Leapfrog can partner with health systems in their role as purchasers. «

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tives, data-warehousing projects, public report cards on provider performance, value-based insurance design and payment reform projects, public policy advocacy and best-practice sharing and education.

A third belief was that, like politics, all health and healthcare is local. Informed by an understanding of the significant geographic variations in disease prevalence, healthcare utilization, quality of care, and the social and environmental determinants of health status, coalition leaders are committed to organizing strategies and solutions that fit the unique circumstances, characteristics and even cultures of their communities. No one size fits all.

Finally, our organization was established by a belief that much could be gained if employer leadership came together as a community sharing a common bond and mission in advancing the triple aim of better health, better healthcare and lower cost. Coalitions have demonstrated the value of building learning networks among their 7,000 employer members, the power of peer learning and the spread of best-practice strategies among coalitions across the nation.

Looking to the future for purchasers, these core beliefs will continue to serve as the key pillars for the work of coalitions. While the health and healthcare environment has continued to evolve, particularly with the advent of the landmark national healthcare reform legislation, the focus on the important role of employers and employer-based coalitions as catalysts for meaningful change will continue.

Indeed, if I could offer any words of encouragement to those on the frontlines working to improve health and the quality and value of healthcare in their local markets, it would be to "keep your eyes on the prize." By this I mean that the overarching goals of improving workforce and community health and getting the most value for healthcare expenditures must remain the guiding vision.

Also impervious to change are the core strategies purchasers have deployed to improve health and healthcare, namely population health management and value-based purchasing. A population health strategy shifts the paradigm from treatment of illness to impacting all the determinants of health, including environmental, socio-economic, and individual behavioral factors that sit outside the traditional healthcare delivery system.

A value-based purchasing strategy refocuses attention on measuring, reporting and rewarding excellence in healthcare delivery, from the value and effectiveness of each healthcare intervention to the performance of each healthcare provider. This constancy of purpose, namely identified aims and a strategic path to get there, will continue to serve purchasers well in the years ahead.

As NBCH celebrates its 20th anniversary, we'd like to pay tribute to the hard work of the purchasing community, acting as catalysts for change and for blazing the trail in population health management and value-based purchasing. We look forward to the next two decades of working with purchasers to continue efforts to change health and healthcare for the better in our nation. «

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