



HOLDING HEALTH CARE  
COSTS IN CHECK

AN INDUSTRY PERSPECTIVE

## CHALLENGE: CONTROL HEALTH CARE COSTS

With senior executives consistently declaring that controlling health care costs is a top concern<sup>1</sup>, why haven't they been satisfied with their efforts to do it? More senior executives, who have not previously reined in these costs, will be forced to initiate or revisit this issue.

While tackling the issue of health care costs, employers will also be dealing with health care reform and the instability of a slowly recovering economy this year. There is no debate that health care costs have been rising every year. Given that this issue has been around for more than a decade and employers have not yet been able to make any meaningful impact, the obvious question is: What are employers doing about health care and what should they be doing to control costs?

## WHAT ARE THE EMPLOYERS DOING?

One of the most common ways that employers have dealt with health care cost increases has been simply to shift costs to employees, and it appears that this trend will continue into the near future. However, shifting costs is a short-term solution with long-term negative effects, and puts added stress on employees who have seen their share of health care costs increase faster than wage increases for many years. Not only does shifting costs to employees put attraction and retention of talent at risk, employees will potentially reduce utilization given rising deductibles. A reduction in employee utilization can lead to costs in the form of more emergency room visits and an increase in the average length of stays.

To avoid the continued shifting of costs to employees, many employers have attempted to address the underlying cost problem. As an example of this, wellness programs have become popular in recent years, with the goal of reducing costs by improving the health and productivity of workers. In addition, many companies now offer programs tailored to employees' specific health care needs and use incentives and/or penalties to motivate employees to improve their health.

Another tool that has been used by employers is disease management programs, which seek to reduce costs for people with chronic medical conditions by improving compliance. While the majority of employers now offer wellness and disease management programs, a recent survey by PricewaterhouseCoopers<sup>2</sup> found that few employers believe that these programs have had a significant impact in lowering costs.

**A WORLD OF WORRIES**  
*THE COST AND AVAILABILITY OF LABOR TROUBLES U.S. CFOs*

RANK	CONCERN	AVERAGE IMPORTANCE SCORE
1	Consumer Demand	0.82
2	Cost of Labor (wages, salaries, bonuses)	0.73
3	Credit Markets / Interest Rate	0.59
4	Cost of Fuel	0.58
5	<b>Cost of Health Care</b>	<b>0.56</b>
6	Housing Market Fallout	0.50
7	Skilled Labor Shortage	0.48
8	Regulation	0.39
9	Cost of Non-Fuel Commodities	0.30
10	Currency Values	0.27

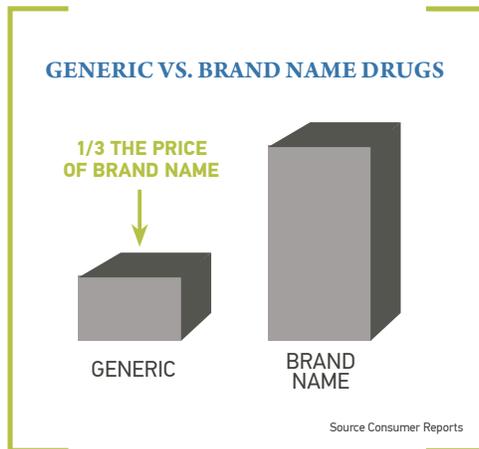
A different approach that many employers have embraced in recent years is "consumer driven health care" (CDHC). This system of health care is intended to promote consumerism. Proponents of this system have asserted that it is an important way to curb the growth in future health care costs and can make the U.S. health care system more efficient. While consumer-driven health plans (CDHPs) have been shown to reduce costs in many cases, the amount of savings actually achieved has been less than promised. A study conducted by Milliman in 2008 concluded that CDHPs produce only 1.5% in savings beyond non-CDHPs. Plus, when the added costs due to employee communication and plan disruption associated with implementing a CDHP are considered, it is unlikely that any costs are eliminated.

In recent years, employers have been looking at options for managing vendors more effectively. They have also been planning for health care reform, and looking to that reform to create more accountability in the system. However, even with the reform, it is not an option for employers to wait to control costs. In addition, even when the reform is completed, there will be at least one element that will not change: Ensuring vendor accountability will still fall on the shoulders of employers. It makes sense for employers to put accountability systems in place today and reap their benefits over the long term.

The trend of health care vendor management has also been seen by Hewitt Associates according to a recent news release: "Continuing a trend Hewitt has seen over the past three years ... programs and vendors that do not deliver measurable, near-term results are being replaced or eliminated."<sup>3</sup> The release also indicates that employers are "consolidating vendor relationships to secure volume discounts."

## WHY HAVE EMPLOYERS NOT BEEN ABLE TO CONTROL COSTS?

While there is no simple way to reduce and control costs long term, there are many impactful items which may seem small individually, but taken together can add up to significant savings. In order to identify the greatest areas of inefficiency and best opportunities for cost savings, executives can start by asking this question: Are my organization's vendors managing our health plan as well as they initially promised?



Vendors frequently pledge to take advantage of any cost saving opportunities during the selling process, yet these opportunities are not translated into accountable items in the agreements between employers and their vendors. For example, Optimum Group was engaged by a mid-sized, international financial advisory group who was at a dead end with its vendor – unable to hold them accountable for cost savings. Optimum worked with the client and its vendor, advised on how to define accountability terms, and based on an in-depth data analysis, was able to help the client reduce direct costs by more than 12%.

As another example, generic drug utilization is an area that employers can achieve significant cost savings. With the average price of a brand name drug roughly three times the price of its generic equivalent,<sup>4</sup> employers can reduce prescription drug expenditures by encouraging employees to switch from brand name drugs to generics. While vendors normally have responsibility to increase generic drug utilization, most employers have not negotiated the metrics to properly monitor how their vendor performs.

To ensure that vendors deliver on these savings opportunities, employers need to spend time up front in the process of coming to an agreement. Service level agreements (SLAs) and performance guarantees should be used to identify the metrics that will be used to measure success and specify what the penalty is if vendors do not meet the agreed upon targets.

This same approach follows for other areas like case management

and disease management. Vendors are able to offer specialized treatment to employees based on their specific health care needs. However, these capabilities are wasted if employees do not take advantage of them. Since cost savings cannot be achieved if employees do not participate in these programs, employers should set basic participation thresholds that vendors must meet.

Another way that employers can achieve significant cost savings is by eliminating any leakages that exist. A common source of leakages in many plans is from paying for procedures that are not covered under the plan. There is evidence that some health care providers have found ways to circumvent the intended limitations of plan design in an effort to help out their patients. By ensuring that vendors have sufficient checks and balances in place to identify these issues, employers can minimize these leakages and recoup excess expenditures.

If employers are able to work with vendors to take advantage of these cost saving opportunities, they can achieve greater control over both short-term and long-term costs. At Optimum Group, we routinely work with employers to help them optimize their vendor relationships, leaving them with lower health care costs and an improved bottom line.

### WHAT EMPLOYERS ARE DOING

- + Shifting costs to employees
- + Implementing disease management programs
- + Implementing wellness programs
- + Embracing consumer driven health care
- + Starting to utilize vendor management to hold vendors accountable



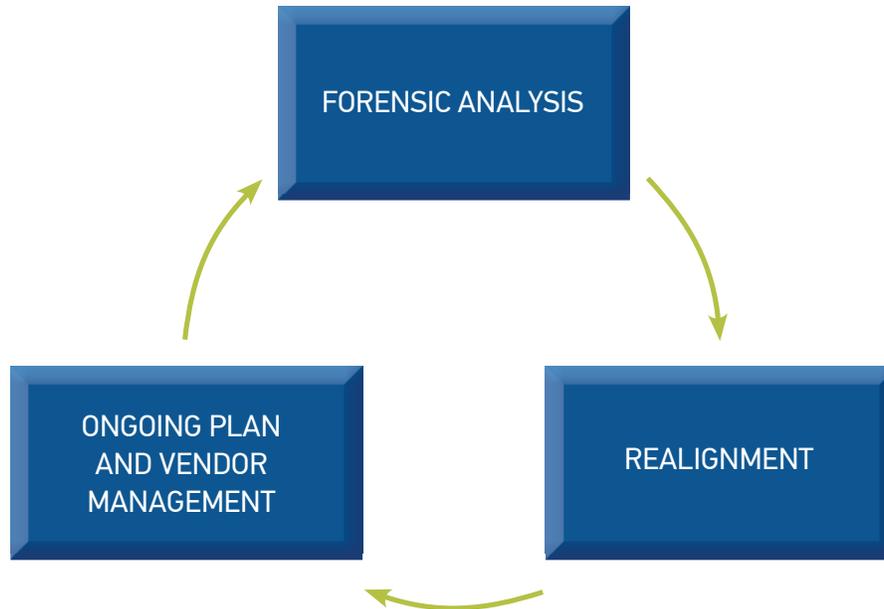
### WHAT EMPLOYERS SHOULD BE DOING

Holding vendors accountable via:

- + Increasing generic drug utilization
- + Implementing SLAs and performance guarantees
- + Increasing employee participation & accountability
- + Minimizing leakages

The Optimum Solution immediately identifies opportunities for significant savings and its clients typically realize these savings in about three quarters. Moreover, through proper plan and vendor management, additional savings of 5 to 7% can be maintained every year after the initial savings of 10 to 12% in the first year. By holding vendors accountable, rather than shifting costs to employees or reducing benefits, employers can demonstrate their respect of employee welfare and avoid a negative impact on employee performance and morale.

## THE OPTIMUM PROCESS



## About Optimum Solutions LLC

Optimum Solutions, LLC is a vendor management firm that saves clients 10 to 12% in benefit costs within the first year and 5 to 7% year-over-year, through our turnkey solution. We help clients optimize health plan costs without shifting those costs to employees or cutting benefits. By bringing accountability to health care, we provide the only available solution to the rising costs in the employer-sponsored health care space.

At the foundation of our unique process is our forensic analysis. We help clients identify issues and processes that lead to unnecessary expenses, and partner with them to fix the problems and align the plans, as well as ensure continued improvements in plan and vendor management ongoing. The outcomes of this process, include:

- + Reducing costs without impacting current programs
- + Managing vendors and plans more effectively
- + Aligning vendor relationships to business strategies

We have expertise in all aspects of benefits, including pharmacy, third-party liability and medical management.

### REFERENCES

- <sup>1</sup> Duke University/CFO Magazine, June 2010. Global CFO Survey: Weak Employment, but Spending and Earnings Will Increase
- <sup>2</sup> PricewaterhouseCoopers Health Research Institute. Behind the Numbers: Medical Cost Trends for 2010.
- <sup>3</sup> Hewitt Associates LLC. News Release – U.S. Health Care Cost Rate Increases Reach Highest Levels in Five Years (2010).
- <sup>4</sup> Consumer Reports. Shopper's Guide to Prescription Drugs – Number 2: Generic Drugs (2006).