

Direct contracting helps rural employers wield clout

By ROBERTO CENICEROS

Direct contracting with medical providers has rarely been an attractive option for employers in urban areas, but employers in rural regions have won sizable cost reductions and gained other advantages through the practice.

Employers with large employee populations whose influence in urban areas would be limited are sometimes able to wield significant clout in rural areas, where they employ a significant proportion of the local hospitals' and doctors' patients, employers and consultants say.

Direct contracting also enables employers to develop closer relationships with medical providers and enables them to resolve difficulties more efficiently, they say.

In direct contracting, employers form their own medical networks rather than contract with established health maintenance organizations or preferred provider organizations.

Perdue Farms Inc.'s use of direct contracts has become a key part of its cost control strategy and helps it provide better care for the company's workers, said Dr. Roger Merrill, chief medical officer at the Salisbury, Md.-based poultry processing company.

Perdue contracts directly with 60 hospitals and 5,000 doctors in networks that care for more than 21,000 employees and 45,000 covered lives across 14 states.

Most of Perdue's workers live in rural areas, although some are near population centers such as Richmond, Va., noted Dr. Merrill.

The company has participated in direct contracting for about 10 years and also operates medical clinics and laboratories at its work sites. As a result, employees can easily access high-quality health care and company-sponsored disease management programs, he said.

While similarly sized employers saw their medical inflation rate rise about 17% last year, Perdue's health costs decreased slightly, Dr. Merrill said.

Direct contracting also fosters

close contact between the employer and doctors, he said, so if employees and providers encounter difficulties that they need help resolving, they can contact Perdue directly rather than turn to an insurer, which, as an intermediary, may not be familiar with a particular employee.

Cost reductions and a closer relationship between employers and providers are the two main advantages of direct contracting, agreed Dr. Paul Wernick, a senior consultant for Watson Wyatt in Minneapolis.

Direct contracting is most likely to present major advantages for large employers in rural areas, Dr.

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Wernick said. Employers have more clout in those settings, because their employees make up a larger portion of an area's overall population. Thus, they can deliver a significant portion of the area's population to doctors they contract with in return for beneficial financial terms and care standards.

Brenham, Texas-based Blue Bell Creameries set up its own provider networks contracting directly with doctors about 10 years ago for workers at about 40 locations in 14 states, said Bill Rankin, chief financial officer. The savings have been "huge," he said.

But it's growing increasingly difficult to obtain advantageous financial terms from hospitals, Mr. Rankin noted.

Hospitals are under financial pressures themselves, Mr. Rankin acknowledged, and they are becoming more aggressive in billing employers.

For example, hospitals that previously provided care on a daily basis, under which they charged a set amount for each employee they

cared for no matter the health issue, now include stop-loss caps in their contracts, he said.

Under stop-loss arrangements, once care costs exceed a certain amount, typically \$60,000 to \$80,000, the daily rate no longer applies and an employer must pay a certain percent of the total care costs, Mr. Rankin explained.

Still, Blue Bell has no plans to abandon its direct contract program.

There are financial and quality health care advantages that companies can still derive from contracting directly with doctor networks, said A.J. Lester, president of A.J. Lester & Associates, a benefits consultant in Houston whose clients include Perdue and Blue Bell.

And while more hospitals decline daily contracts, some will agree to a "diagnostic-related group" billing system, in which the price for specific treatments is agreed to up front, when contracts are signed, he said.

Despite some restrictions, direct contracting holds an attraction for employers and is even being used for workers in urban areas, Mr. Lester noted.

Benefit consultants note that direct contracting traditionally has not been attractive to most urban employers, because their workers account for only a small percentage of any individual doctor's practice. A much broader network is also necessary for a massive urban setting than for a confined area. Additionally, health maintenance organizations and preferred provider networks are able to dominate the market in large cities, because they can steer much larger employee concentrations to providers than can even large single employers.

But some employers have been so successful with their direct contracts in rural areas that they have spread the practice to cities where they also operate. "Some of our clients actually have their own direct networks in places like Houston; Dallas; Little Rock; New Orleans; and Birmingham, Ala.," Mr. Lester said.