Employee Benefit News
February 2004
Vol. 18 • No. 2
BenefitNews.com

Direct contracts cut medical costs

By Craig Gunsauley

With annual health care costs surging 9.3% to an average $5,440 per person in 2002, employers with self-funded plans are being whipsawed by the financial risks associated with plan sponsorship almost as much as employers with fully insured health coverage.

But rather than absorb the yearly increases in claims and administration costs or pass them on to participants, some self-funded plan sponsors are taking direct action to reduce costs. These employers are finding success in keeping annual cost increases modest or flat by directly contracting with physicians and hospitals to create their own provider networks serving self-funded and self-administered benefit plans.

Blue Bell Creameries, for example, which introduced its first direct contract networks in 1994 and expanded them to all 40 employee locations in 1997, has seen claims cost decline by 20% over nine years. CFO Bill Rankin estimates the ice cream company has reaped a 20:1 return on its investments in direct contracting and self-administration.

With some 2,300 employees and 5,172 plan members in 14 states, Blue Bell has been able to maintain its coverage without substantially increasing costs to employees.

"Once we got the provider network set up and running, we were able to negotiate our own contracts. Anyone can negotiate physicians' fees. Anyone who's willing to pay cash and pay promptly can negotiate one heck of a discount," Rankin explains.

Employee-only coverage is free to Blue Bell employees, while families pay a small premium for coverage. Participants pay $20 office visit copays and 20% coinsurance on in-network hospital services, with an out-of-pocket maximum of $1,500 per year.

Rankin estimates Blue Bell would pay 40% more for the same health care services on a fully insured basis. "I'm a fiduciary because I'm charging employees money to provide coverage to dependents. I have a fiduciary responsibility to make sure I'm paying the best market price for these services," he observes.

With a defined benefit pension, employee stock ownership plan and 401(k) plan to complement the PPO health care plan, employee benefits at Blue Bell Creameries are very sweet.

"We're suffering the least. We're not suffering as much as the guy down the street, but everyone is paying more for health care," Rankin says.

Perdue Farms, with 20,000 workers and 18 facilities in nine states, began its direct contracting about 10 years ago because costs in its indemnity plan were surging and there were few PPO networks and hospitals serving their rural locations. This lack of competition pushed up provider charges without corresponding increases in patient service.

Roger Merrill, M.D., corporate medical director at Perdue Farms in Salisbury, Md., says the company-owned networks are integral to Perdue's overall health care strategy, which is to cut costs by improving the health status of employees and their families through preventive care. Merrill has been remaking health benefits for the 40,000 members of the Perdue Farms health plan with a three-pronged strategy that includes direct contract networks, onsite medical clinic facilities and a comprehensive disease management and lifestyle modification program. All elements of the health plan use standardized science-based

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treatments for disease.

Subsequent to the establishment of the direct contracts by outside consultants. Perdue and its plan members have established relationships with the doctors and hospitals. The plan experiences almost no disruption in its networks year to year.

"In virtually every community, we're committed to remaining there for the long-term. The doctors and Perdue have the same goals: improving the health of the patients."

Medical plan costs at Perdue have flattened since increasing 7% in 2001 and 3.5% in 2002. For 2003, Merrill says total per-employee costs decreased 1%.

"We spent a fair amount of time and energy getting the provider networks right in the first place. Once it's established, our goal is to leave it alone."

Tailored networks

The advantages of directly contracted provider networks are most apparent in areas with limited competition, but this strategy is viable in almost any market, says consultant A.J. Lester, president of A.J. Lester and Associates in Houston.

As a member of Buck Consultants, Lester helped Blue Bell Creameries establish networks in rural locations as well as cities such as Dallas, Houston, Oklahoma City, Tulsa, Little Rock, Memphis, New Orleans and Birmingham, Ala. Lester left Buck to found his own consultancy, but continued working with Blue Bell and Perdue Farms.

Lester says employer size relative to the location also plays a role, as a medium-sized company may be the dominant employer in a rural area that is served by few established provider and hospital networks.

"We all know that TPAs all have their own sweetheart deals with various PPOs out there. Even brokers and consultants often have business relationships with provider networks that limit competition. Often it's just a matter of taking the path of least resistance," Lester says.

Immediate savings include provider access charges that can average $3 to $4 per member per month. Self-funded employers that experience network disruptions and problems with claims administration and customer service should understand that creating their own provider network is a viable option that can lead to immediate improvements in service and claims experience, according to Lester.

"Moving to direct contracting is a gutsy move. It runs completely counter to historical practices. But the reality is that companies like Blue Bell and Perdue are reaping big benefits through the ownership of their networks. It encourages more responsible use of the medical plan. It allows employers to be more creative with plan designs, copays, and premiums."

Investments in wellness

For Perdue Farms, the direct contracting is part of a proactive approach to health and disease management that provides services to employees and dependents.

Perdue's 12 onsite health care facilities are designed to treat non-occupational illnesses and provide treatment for chronic and acute diseases, with $10 copays deducted from paychecks to encourage utilization. With Hispanic workers accounting for up to 70% of the workforce at some facilities, many onsite clinics employ Spanish-speaking staff to meet plan member needs.

Patients don't access appropriate health care primarily because they can't afford copays, don't have time to see providers and don't have relationships built up with doctors. "Barriers to health care drive patients to inappropriate utilization-primarily through emergency rooms. Our onsite facilities remove those barriers to drive appropriate utilization," Merrill adds.

Catastrophic claims costs are primarily driven by chronic and manageable conditions such as heart disease, low birth weight babies, strokes and kidney failure. Investments in disease management and prevention are helping to reduce Perdue's claims costs. "It's cheap and easy to treat high blood pressure and diabetes. It's easy to prevent patients from suffering kidney failure," Merrill notes.

Perdue is expanding its wellness plan, dubbed the health improvement program (HIP), to six locations in June with health risk appraisals for six diseases, including obesity, high blood pressure, cholesterol, diabetes and smoking. Patients with chronic conditions will be encouraged to obtain ongoing treatment and enroll in lifestyle modification programs, with follow up appraisals to track progress each year.

"This is all part of the assignment that Jim and Frank Perdue gave me when I started, which is to improve the health of our company and our employees," states Merrill, who's confident that the mission will enjoy continued success through the company's direct action. **— C.G.**

Reprinted from *Employee Benefit News*, February 2004. 1 State Street Plaza, 27th Floor, New York, NY 10004