

# Direct contracting with providers can cut costs

BY MICHAEL PUCK, SPHR

By now you've probably realized that health care reform will increase your immediate costs of providing health benefits to your employees. Unfortunately, it also fails to offer an effective mechanism for lowering costs in the future. To make matters worse, your business could be financially penalized for not offering health insurance or for offering coverage that is deemed by the government to be unaffordable for your employees.

More and more companies, disillusioned by the lack of true financial relief provided by health care reform, are taking matters into their own hands and implementing forward-thinking health care cost-management initiatives in-house. As we all know, there are an overwhelming number of options (many of which are confusing) that can lower health care costs, but only very few of those will actually address the underlying cause of health care cost increases, which is essential to achieve significant reductions that can actually be maintained over time.

I receive new success stories about companies that have implemented effective cost-management strategies on a weekly basis. Another effective method of reducing cost is cutting out the middleman — the insurance company or health plan — by contracting directly with health care providers. This model, although not as widespread as health promotion initiatives, has produced exceptional results for companies that were not afraid to move away from the mainstream model of managed care. Here is a real-life example of the effectiveness of direct contracting.

## Success story

A \$2.5-billion company, with 21,000 employees and facilities across 15 states, was facing unmanageable increases of 18% annually. After covering 45,000 lives in their direct networks, annual cost increases dropped from 18% to less than 1% and have remained below 1% for the past eight years.

This company's medical plan costs per-employee-per-year are running 50% to 60% below the national average. And while the cost of developing its own medical networks was considerable, management conservatively estimates that its return on investment from direct contracting has surpassed 30:1. These spectacular results were achieved through combining direct contracting with a strong

health promotion initiative. This organization stands as an example of what companies can achieve when they think outside the box.

For small and midsize companies (with 100 employees or even less) direct contracting can be a very attractive alternative. While I'm no expert in direct contracting, I did speak at length with one of the leading experts. During



our talk, I was given a glimpse into the inner workings of direct contracting. It's a fascinating endeavor and could easily lead to significant cost-savings for any company with enough resolve and initiative to build their own network. At the very least, this method should be researched as a viable alternative and/or addition to other cost-saving strategies.

If your company is considering direct contracting, be aware that some of your current service providers are likely to have a vested interest in talking you out of doing that, so be mindful who you ask about it.

If your company isn't quite ready to contract directly with the health care providers your employees are already using, you might want to consider contracting with just one medical provider — perhaps a local physicians' group or hospital — to offer your employees onsite health and wellness services.

Onsite health clinics are an effective way to influence the health and well-being of your employees while offering the opportunity to provide quality routine medical care outside the insurance-based health care system and, consequently, at a significantly lower cost. In addition, onsite health and wellness services are easily scalable and many criteria, including the placement and number of hours of availability and the services offered, can be tailored to fit an individual company's size and requirements. Even companies with less than 25 employees can set up an effective program if the focus of the services provided is on prevention and health coaching, in addition to routine medical care.

## Negotiate free services

During a recent interview with the director of corporate HR for a mid-sized, North Carolina-based company of 1,100 employees, I learned about an inspiring story that might offer you some fuel for discussion with your local health care providers. In fact, it might prove to be a blueprint with which you can negotiate free medical resources to kick off your own employee health improvement initiative.

The aforementioned company was handed a full-time nurse practitioner at no cost through the local hospital group in 2006. This proved to be an ingenious guerrilla marketing strategy by the hospital because today, the company is paying for four full-time nurse practitioners based on the success of the trial program.

How would you use a nurse practitioner to influence the health of your employees? Presented with this no-risk opportunity, the director of corporate HR developed a health improvement program consisting of a conditional health risk assessment for all employees integrating early detection/prevention and chronic disease management. The nurse practitioner oversaw all of the program components.

Employees continued to receive free single coverage in return for voluntary participation in the health risk assessment. This led to 100% participation rate right from the start.

Despite a peak in catastrophic claims in 2008 — an eventuality that even the best health promotion program could not have anticipated or prevented — the company has maintained a remarkably low average increase in health care cost of only 2% per year over a period of four years. I asked the director of corporate HR what she believed to be the most important success factor of the program. Without hesitation she answered that understanding the concept of prevention was the key for the success of the program. Helping employees understand the simple steps that will help keep them from getting sick in the first place is an extremely powerful cost-management tool and is relatively easy to communicate.

Her closing advice to fellow HR and benefits professionals was very pragmatic: "Start small — just start." —M.P.

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