



The Cost Containment Racket

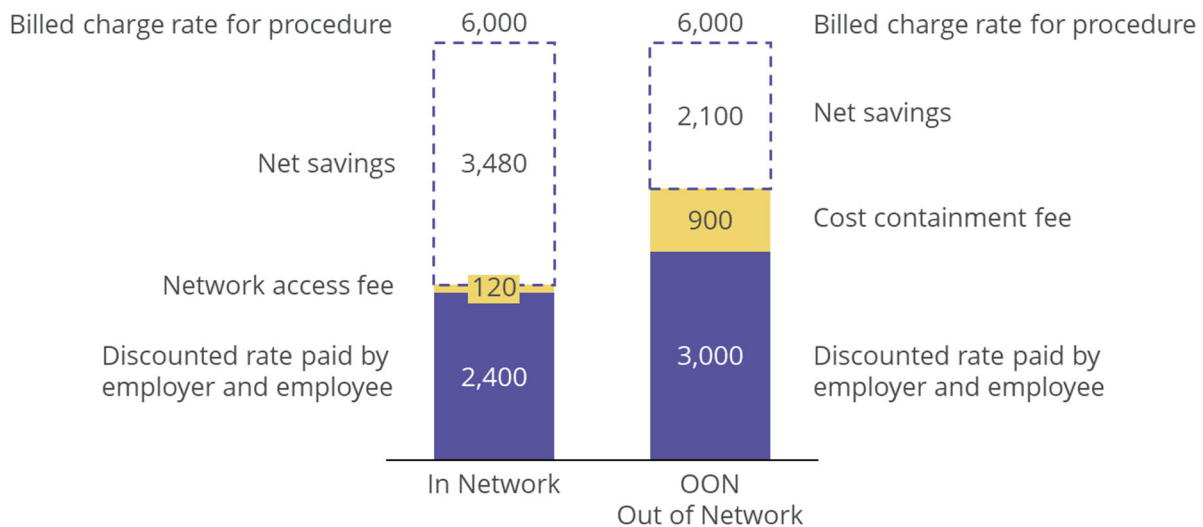
Problem

Self-insured employers are struggling to rein in the prices they are paying for employee health benefits. The primary strategy to contain costs is to contract with a leading provider network that offers attractive discounts of 60+% for services performed by participating providers. Employers, however, are being charged exorbitant amounts for supplemental cost containment programs. One might ask, isn't cost containment the point of having a network? The answer is yes, but more controls are required.

Employers must control a variety of performance gaps such as the use of out-of-network providers or overpriced in-network hospital-based services like imaging (often costing 4-5x more than independent providers). Carriers may charge employers as much as 3x the network access fees for a host of supplemental cost containment programs such as OON solutions, medical bill review, bill audits, device audits, DRG grouping. In reviewing, reconciling, and analyzing client invoices, we have seen employers pay nearly 20% of their total medical costs for administration, network, and additional cost containment fees.

The normal network fee for a self-insured employer with 500-5,000 covered lives is approximately 2% of the medical cost. However, when plan members use out-of-network services, carriers charge the equivalent of 30% of the medical cost in shared savings for cost containment programs! For example, a \$6,000 facility in-network claim with a 60% discount costs the employer and employee \$2,400. If the same claim is from an out-of-network provider, the employer and employee could pay the full \$6,000. The typical carrier cost containment program uses a secondary network (i.e., renting a third-party network) to obtain a good discount, say 50%. The good news is that the employer and employee pay \$3,000 instead of \$6,000. The bad news - the carrier charges the employer 30% or \$900 for the service! That is 7.5x as much as a normal in-network fee. This is illustrated in the graphic below.

Comparison of fees for \$6000 procedure



Complication

Cost containment program discussions occur AFTER provider network discussions. In the standard procurement process, employers are presented with network comparisons focused on discounts. Employers and their advisers then weigh cost savings from better discounts against potential disruptions from switching providers to determine if the change is merited. Typically, it is only after the network decision is made and the contract presented, that employers become aware of the add-on cost containment programs and charges. Employers usually don't police these charges very well, and when not managed and monitored, the whole cost containment racket can slip by completely undetected. It's no wonder that many carrier-owned administrators don't allow employers to use alternative out-of-network solutions.

Solution

There are four primary ways employers can minimize costs and maximize the effectiveness of add-on cost containment services.

1. Scream and yell to get a concession on cost containment fees
2. Negotiate cost containment programs during the network evaluation process – perhaps converting some shared savings programs to PEPM.
3. Choose a non-owned or -affiliated TPA (Third Party Administrator) that allows for the deployment of best-of-breed solutions
4. Reconfigure the entire provider network, so you are not reliant on a high discount network with many cost containment gaps.

These all require data, expertise, and engagement.

Wellnecity Example

In this example, cost containment fees end up nearly equating network access fees. This year the client will scream and yell to achieve some fee reductions. In the next renewal, they will look to migrate to an unaffiliated TPA and deploy more cost-effective containment solutions.

	2022 YTD	% Total 2022 YTD
Medical Admin Fee	\$124,136	2%
Network Access	\$277,381	4%
Engage Package/Incentive Admin	\$18,311	0.2%
Subtotal	\$419,827	5%
Cost Containment	\$259,731	3%
Shared Savings	\$184,833	2%
Miscellaneous	\$124,808	2%
Subtotal	\$569,372	7%
All Other Carrier Payees	\$6,880,409	87%
Total	\$7,869,608	100%