

# ACTION BRIEF

*Employer Strategies that Drive Value*



## HOSPITAL PAYMENT STRATEGIES

SETTING PRICE AND QUALITY EXPECTATIONS



### ACTION STEPS FOR EMPLOYERS

1. Understand price relative to the local market and benchmarked against Medicare.
2. Learn what “paying for value” means.
3. Pool purchasing power.
4. Demand reasonable pricing and alternative payment models.
5. Educate and involve employees.

A \$2,659 bill for a one-second procedure to pluck a doll’s shoe from a child’s nostril.<sup>1</sup> A \$1,696 dab of skin glue to close a small cut.<sup>2</sup> A \$48,512 rabies prevention treatment following a nip on the finger by a kitten.<sup>3</sup> There’s no shortage of reports citing outrageous, unpredictable US hospital costs, from quick visits to the emergency department to extended stays involving complex care. Too often, employers are mystified by hospital prices and spend billions of dollars unnecessarily, while patients face the stress of bill collectors, wage garnishment, housing liens, and personal bankruptcy when they cannot possibly pay astronomical hospital prices.

The Employers’ Forum of Indiana commissioned a first-of-its-kind RAND Corporation study of US hospital prices in 25 states. The study revealed that in 2017, the prices paid to hospitals for privately insured patients averaged a whopping 241% of what Medicare would have paid, with wide variation in prices across (and even wider within) states. If employers and health plans participating in the study paid hospitals using Medicare’s payment formulas, total payments over the 2015-2017 period would have been reduced by \$7

*“When you talk to people about their experiences with the healthcare system, it’s clear to me that the modern-day money games of price gouging and predatory billing now threaten the great public trust in the medical profession.”*

*— Marty Makary, MD  
Surgeon, Author, Professor  
at Johns Hopkins University*

### RAND STUDY RESEARCH QUESTIONS

- What prices do private health plans pay for hospital services relative to what Medicare would pay for the same services at the same facilities?
- What type of price transparency information can help employers become better-informed purchasers of healthcare?

billion — a decline of more than 50%, according to the study.

Because employers are the largest single provider and purchaser of health insurance in the US, they are in a strong position to demand increased value from the healthcare system. However, they often lack the right information to show that they are actually paying for and, in particular, whether the prices for those services are reasonable.

The aim of the National Alliance Hospital Pricing Transparency Initiative is to enable employers, patients and health plans to buy healthcare the way they buy other goods and services: By providing an objective base for determining value.

*“The main reason for high hospital costs in the United States, economists say, is fiscal, not medical: Hospitals are the most powerful players in a healthcare system that has little or no price regulation in the private market.”*

*— Elizabeth Rosenthal, MD  
Editor-in-Chief, Kaiser Health News*

### **1. Understand your pricing relative to the local market and benchmarked against Medicare**

A large public-school system initially declined to participate in the hospital pricing transparency initiative of a local employer purchasing coalition, stating they were already receiving a “generous” 60% discount on care provided by the two primary hospitals serving their employees. Further study revealed that the “60% discount” represented 360% of Medicare prices!



Prices paid by employers for hospital care varies widely across states, hospitals and hospital systems. On average, these prices are high and rising over time relative to Medicare prices, suggesting employers have opportunities to redesign their health benefits to bring hospital prices in better alignment with the value of care provided.<sup>4</sup> Value for employers is typically defined as Quality divided by Cost, where cost is determined by Price X Utilization. Thus, as the quality increases, the value to employers increases. And, as the price or utilization decreases, the value to employers increases.

The quality and accessibility of transparency tools is not yet consistent, but the [Employer Hospital Price Transparency Project](#) includes data on many states. Additionally, state-based all payer claims databases offer deep insights into healthcare quality and cost measures, and the Centers for Medicare and Medicaid Services (CMS) maintains a Procedure Price Lookup site at [medicare.gov](https://www.cms.gov/medicare/coverage/coverage-guidance/procedure-price-lookup).

### **2. Define what “paying for value” means to YOU!**

Paying for hospital value means rewarding providers for the quality of care they provide. Moving away from fee-for-service (FFS) payments to payment methods that require quality

#### **PAYING FOR VALUE IN ACTION**

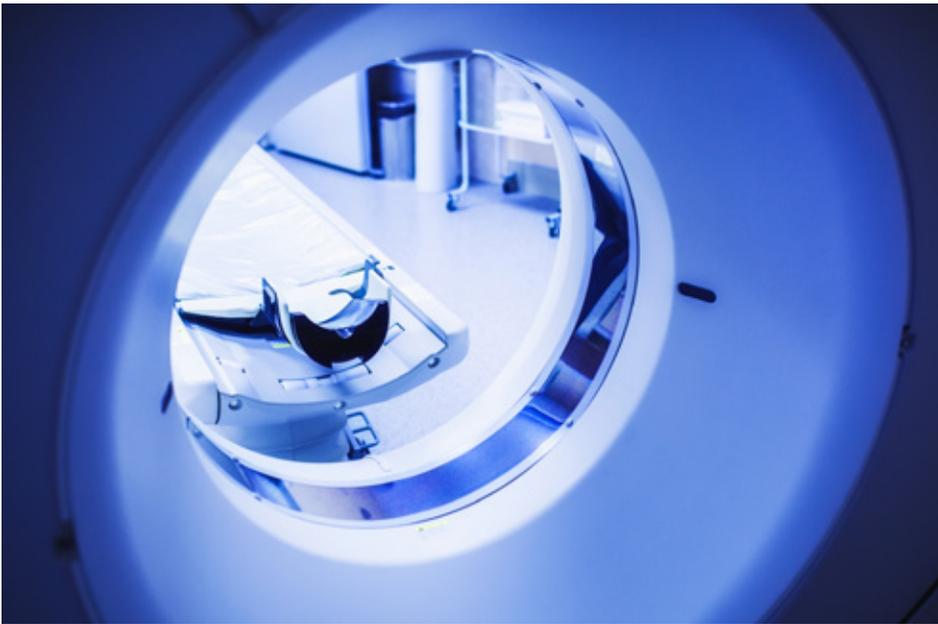
To help employers combat widely disparate charges across healthcare delivery systems for equivalent surgical procedures, the Pacific Business Group on Health’s [Employers Centers of Excellence Network \(ECEN\)](#) was formed. ECEN provides employees with access to demonstrated high-quality care for elective surgeries at meticulously selected Centers of Excellence (CoE) nationwide. Through the ECEN, patients receive optimal care at little or no cost to them and employers achieve cost predictability and downstream savings. There are no ECEN participation restrictions related to industry or organization size.

and accountability is essential.

For example, the CMS Hospital Value-Based Purchasing Program (VBP) applied these quality domains and weights for 2020:

- ▶ Clinical outcomes (25%)
- ▶ Person and community engagement (25%)
- ▶ Safety (25%)
- ▶ Efficiency and cost reduction (25%)

Paying for value promotes better clinical



outcomes for hospital patients, as well as improving their experience of care during hospital stays while reducing costs. The CMS Hospital VBP encourages hospitals to improve the quality and safety of care that Medicare beneficiaries and all patients receive during acute-care inpatient stays by:

- ▶ **Eliminating** or reducing adverse events (healthcare errors resulting in patient harm)
- ▶ **Adopting** evidence-based care standards and protocols that result in the best outcomes for most patients.
- ▶ **Re-engineering** hospital processes that improve patients' experience of care.
- ▶ **Increasing** transparency of care for consumers.
- ▶ **Recognizing** hospitals that are involved in providing high-quality care at a lower cost.

Medicare also offers an opportunity to freely compare hospital quality via [CMS Hospital Compare](#). In addition, proprietary hospital quality options are available, including [Quantros](#) and [MPIRICA](#), among others.

### 3. Pool Purchasing Power

As employers continue to assess their healthcare partners' effectiveness, some are moving toward direct contracting

*“Employers can encourage expanded price transparency by participating in existing state-based all payer claims databases and promoting development of such tools. Transparency by itself is likely to be insufficient to control costs so employers may need state or federal policy changes to rebalance negotiating leverage between hospitals and their health plans.”*

*— Chapin White, Adjunct Senior Policy Researcher, RAND Corporation*

with hospitals. Just as organizations negotiate for products and services, the same opportunity exists between self-funded employers and providers. While direct arrangements with providers can lower overall costs by

improving transparency, they are even more powerful change catalysts when employers combine their efforts through a shared RFP. This sends a loud-and-clear message to the marketplace about employer cost, quality and access expectations. About one-third of healthcare services are “shoppable.” There is simply no justifiable reason for common procedures like colonoscopies and MRIs to vary in price by over 1,000%, depending on whether they are performed in a hospital, clinic or ambulatory care center setting.

The National Alliance and its local and regional healthcare purchasing coalition members are comprised of employers of all types and sizes from the private and public sectors and union organizations. By uniting purchasers to leverage their collective influence, meaningful change in our healthcare system is well within reach. Together, coalitions and employers are moving the market toward value-based purchasing so, ultimately, everyone can obtain the highest quality care at the most reasonable cost.

### 4. Demand reasonable pricing and alternative payment models

Employers can demand a shift from contracts based on a discount-from-charges to contracts benchmarked against Medicare. At the very least, it is important for an independent resource to calculate current pricing as a multiple of Medicare. This allows for an objective assessment of pricing reasonableness. Assessing the performance of a hospital's service line(s) against the reasonableness of the price they are paying and negotiating pricing accordingly can be considered part of an organizations' fiduciary responsibility.

Phasing in value-based benefit designs that encourage employees to use high-quality, affordable services on a hospital-by-hospital basis ensures that employees are receiving the best possible care while encouraging hospitals to compete on value.

Employers can also work together to establish “bundling” certain healthcare procedures (e.g., total joint replacement, gastric bypass, non-emergency coronary artery bypass) by paying the doctor, anesthesiologist, hospital, post-acute care providers, and others involved a flat rate. Bundled payments for specific episodes of care gives providers a strong incentive to keep costs down and outcomes up by adhering to evidence-based guidelines and improving care coordination.

*“Evidence shows that hospital consolidation in recent years has left all consumers of hospital care with fewer choices, while hospitals benefit from less competition and more market control...Researchers have generally found that consolidation between competitors substantially increases prices without improving quality or efficiency.”*

*— From “Health Care USA: A Cancer on the American Dream” by Willis Towers Watson*

##### **5. Educate and provide the right incentives to help employees choose high-value care**



Employer-sponsored healthcare benefits are a privilege. Helping employees make informed decisions about the choices and responsibilities required to keep those benefits viable is a growing trend. In guiding employees to tools and resources that equip them to behave like true healthcare consumers, successful employee communication strategies take into consideration the reality that only about 12% of American adults have “proficient health literacy skills.”<sup>5</sup>

Stating things simply and in terms employees understand is respectful and helps them understand their options. For example, “If you could buy the TV of your dreams for \$500 or \$5,000, which would you choose? The same holds true for an MRI that costs \$1,000 at one place and \$3,500 at another. Here’s how to compare prices if your doctor suggests an MRI for you or a family member...”

Best practices for educating employees about the role they can and must play include:

- ▶ Establish a communication strategy that includes key messages around benefit plan basics, common healthcare conditions and procedures, tips for improving total wellbeing, employer health improvement programs and more. Provide every employee with the “5 QUESTIONS to Ask Your Doctor Before You Get Any Test, Treatment or Procedure” wallet card from *Choosing Wisely*®.

- ▶ Make user-friendly healthcare cost and quality transparency tools easily accessible. Encourage employees to put the same amount of thought into healthcare purchasing decisions as they do for household appliance or vehicle purchasing. Provide concrete incentives for choosing the highest quality care at the fair market value price.
- ▶ Provide alternative ways to access care such as telemedicine, telemental health, and virtual care options. Not only are these options convenient whether patients are considering elective surgery or experiencing an urgent healthcare need, virtual visits typically cost about one-third of an office visit and are convenient and effective in directing patients to the appropriate setting for care.

#### **TEACHING EMPLOYEES TO SHOP FOR HEALTHCARE**

To “cause shopping,” the California Public Employees’ Retirement System (CalPERS) pays up to a set “fair value” amount, noted as a reference price, for various procedures. Employees are responsible for costs beyond the established baseline.

#### **EMPLOYER PURCHASING POWER**

A major contributor to the ongoing and alarming rise in national healthcare spending is inflated hospital charges backed by a billing system that is unwieldy and impossibly complex for employers and consumers. Fortunately, because of the collective purchasing power of self-insured employers who enroll roughly half of the US population



## RECOMMENDATIONS FROM RAND 2.0 STUDY

- Employers can exert pressure on their health plans and hospitals to shift from discounted charge contracts to contracts based on a multiple of Medicare or some other prospective case rates.
- Employers can use networks and benefit designs to move patient volume away from high-priced, low-value hospitals and hospital systems.
- Employers can encourage expanded price transparency by participating in existing state-based all-payer claims databases and promoting development of new ones.
- Transparency by itself is likely insufficient to reduce hospital prices, and employers may need state or federal policy interventions to rebalance negotiating leverage between hospitals and employer health plans. Such interventions could include placing limits on payments for out-of-network hospital care or applying insurance benefit design innovations to target high prices paid to providers and allowing employers to buy into Medicare or another public option that pays providers prices based on Medicare rates.

into sponsored health plans, they have the power and potential to intervene and dramatically improve hospital pricing transparency and accountability on behalf of every American.

## WHY MEDICARE IS A GOOD BENCHMARK FOR EMPLOYERS

For employers to be able to effectively negotiate, they have to start from somewhere. Medicare, for many reasons, should be that starting point. Because of its methodology, flexibility and independence from health insurance carriers, setting medical reimbursements rates at a multiple of Medicare (1.3x, 1.5x, 2.0x, etc.) is useful for employers in driving toward a higher level of transparency.

## RESOURCES FOR EMPLOYERS:

- [Employer Hospital Price Transparency Project](#) (Employers Forum of Indiana in partnership with the RAND Corporation)
- [Colorado Hospital Value Report: Benchmarking Pricing & Quality Reliability for Inpatient Care Across Acute Care Hospitals](#)
- [Medicare.gov Hospital Compare](#)
- [Employers Centers of Excellence Network \(ECEN\)](#)
- [The Incentive Cure](#) (by Bob Conte and Francois de Brantes)
- [To Control Health Care Costs, U.S. Employers Should Form Purchasing Alliances](#) (Harvard Business Review, November 2, 2018)
- [Choosing Wisely®](#) (An initiative of the ABIM Foundation that seeks to advance a national dialogue on avoiding unnecessary medical tests, treatments and procedures)

## ENDNOTES

1. <https://abcnews.com/Health/2659-bill-pluck-dolls-shoe-childs-nostril/story?id=67345921>
2. <https://www.nytimes.com/2013/12/03/health/as-hospital-costs-soar-single-stitch-tops-500.html>
3. <https://www.npr.org/sections/health-shots/2019/02/26/697786766/cat-bites-the-hand-that-feeds-hospital-bills-48-512>
4. <https://www.rand.org/health-care/projects/price-transparency/hospital-pricing/round2.html>
5. <https://www.cdc.gov/healthliteracy/training/page669.html>

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1015 18th Street, NW, Suite 730 · Washington, DC 20036

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