



WHITE PAPER

Managing Healthcare Costs

RBP: A Transformative Solution

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Healthcare pricing varies widely and has a direct effect on the bottom line of businesses nationwide. While employers are in the driver's seat when it comes to business operations, managing healthcare costs can be an elusive exception. Traditional health plan approaches present several challenges, but alternative cost-containment solutions are within reach.

In the United States, the traditional Preferred Provider Organization (PPO) model is the most popular form of health coverage on employer-sponsored health plans. Introduced in the 1980s, PPOs were quickly adopted and became the mainstream solution. Simultaneously, the cost of healthcare skyrocketed and drove increases in insurance premiums.

The PPO Bandwagon

By offering broad access to seemingly affordable healthcare, PPOs promised to be the answer for employers looking to provide healthcare coverage to over 150 million American workers. A PPO gives discounts to subscribers for healthcare services obtained from an approved network of medical doctors, hospitals and other providers. Members have the option to seek care within or outside the network, helping to explain the easy acceptance and continued appeal among employers.

The reality of the solution has turned out to be much different for most employers. At renewal each year, many employers face double-digit cost increases from their PPO. The rate hike, along with the inflexibility and lack of transparency of the model, leaves many employers feeling helpless.

55%

The increase in insurance premiums for family coverage since 2007.

Consider some hallmarks of traditional PPO plans:

Increasing Premiums for Employees: Since 2007, insurance premiums for family coverage have increased 55 percent, and in 2021, the average annual premium for employer-sponsored health insurance was \$22,221 for family coverage according to KFF 2021 Employer Health Benefits Survey.*

Inability to Customize: There is limited to no customization of health plan design available with PPOs. Unlike any other business decision a company makes, PPOs offer limited flexibility for tailoring a health plan around a workforce's specific needs.

*Kaiser Family Foundation 2021 Employer Health Benefits Survey

Limited Transparency: Every business understands how valuable data can support sound decision making. The only data PPOs provide is the percentage discounted off the charges for a medical service — there is no data provided regarding the cost of performing the service. Businesses blindly pay for medical services without explanation, an unacceptable practice for any other business operational expense.

Lack of Insight into Health Plan Utilization: PPOs do not provide insight into how an employer's workforce is utilizing healthcare benefits, but there are many advantages when employers have an understanding of utilization. This type of insight empowers employers to optimize care for their employees while minimizing costs, and it can be a data source to drive wellness programs that promote a healthier workforce.

The Cost of Healthcare

2000%

The markup on billed charges in some medical providers' chargemasters.

The PPO model where employers pay for medical claims based on discounted billed charges demands further scrutiny. While a discount may seem helpful in controlling costs, the amount of the billed charges is almost always inflated, and oftentimes grossly. A hospital's charges and an insurance company's negotiated discount are arbitrary figures that can fluctuate widely within the same hospital system, let alone the same geographic area. In some instances, the provider's chargemaster contains billed charges marked up by as much as 2000 percent, raising the question if a 40 percent discount off inflated charges provides the best value for employees.

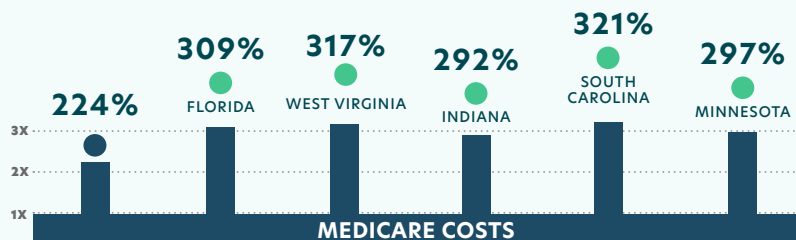
Price fluctuations for the same medical service

A 2022 RAND Corporation health study* illustrates that employers have been paying unfairly because of their inability to negotiate directly with hospitals. The study found that, on average, employers pay 224% of what Medicare would have paid for the same services at the same facility.

"The widely varying prices among hospitals suggests that employers have opportunities to redesign their health plans to better align hospital prices with the value of care provided," concluded that study's lead author.

Commercial plans pay 224% of Medicare, on average.
In some states, plans pay even more.

Price protection equals major savings for employers and their employees.



Source: Prices Paid to Hospitals by Private Health Plans, RAND Corporation, 2022.

*The 2022 RAND Corporation Health Study: Prices Paid to Hospitals by Private Health Plans

The employer's struggle

Employers choosing between a PPO or a High-Deductible Health Plan are choosing between one high premium or another. Historically, premiums rise annually, and these increased costs must be either absorbed by the business or passed on to the employees, or both. On most health plans, the employer shoulders the financial burden. For businesses of any size, rising premiums and medical claims present a valid struggle.

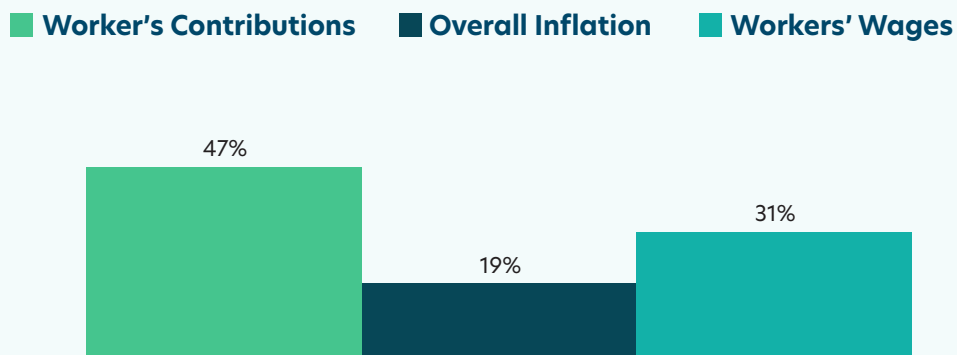
Rising healthcare costs also means fewer resources to put back into an employer's business. It translates into less hiring of new employees, less competitiveness in their market space and reduced flexibility and resources for investing in growth initiatives.

The employee's reality

Once employers select their health plan options, then it's the employees turn to choose their healthcare coverage during open enrollment. The rate of annual premium increases noted in the KFF study have steadily surpassed the rate of wage increases and overall inflation. Since 2011, average family premiums have increased 47%, more than wages (31%) or inflation (19%).

Beyond premiums, the deductible tiers and provider co-pays have also increased in the U.S. Since 2009, the percentage of covered workers with a general annual deductible of \$2,000 or more for single coverage has grown from 16 percent to 45 percent in 2019.

Increase in Workers' Contributions, 2011 - 2021



SOURCE: KFF 2021 Employer Health Benefits Survey

Fair Healthcare Pricing is within Reach

Trading a PPO for an approach known as metric-based or reference-based pricing is a business-saving strategy that's readily available to employers. Many businesses striving to improve their cost management have taken the first step in that direction by adopting a self-funded or self-insured model for their health plan. According to the KFF study, sixty-four percent of covered workers, including 21% of covered workers in small firms and 82% in large firms, are enrolled in plans that are self-funded.

Up to 30%

Cost savings for employers who adopt a metric-based pricing solution.

Taking self-funded health plans to the next level

Employers on self-funded health plans can make even greater strides in reducing their healthcare expenditure by using a reference-based pricing cost-containment solution. Reference-based pricing is recognized for its cost-saving benefits and transparent view into healthcare expenses. It empowers employers and enables them to transform their bottom line with costs savings upwards of 30 percent.

How it works

One of the most powerful benefits of reference-based pricing is how it restores control to employers and their employees. The group sponsor's plan document sets the maximum allowable amount upon which claims will be paid, ensuring that fair prices are paid for medical services. A reference-based pricing solution is a bottom-up approach to healthcare charges that starts with the actual cost amount and adds a fair profit margin to calculate the bill. This is contrary to a PPO model, which starts at the top with a potentially inflated price from a facility's chargemaster and offers a discount.

In a health plan that uses reference-based pricing, a common metric is used to determine payments. This can be the Medicare approved amount or the actual cost to deliver the service based on reported figures. A reasonable profit is added for fair and prompt reimbursement to the healthcare provider.

Other hallmarks of quality reference-based pricing solutions include:

Supportive Member Experience: A well-designed health plan with a deeply supportive customer experience is an advantage for today's businesses. Supporting members throughout the entire healthcare journey can lead to healthier members (plus more efficient medical care and reduced costs).

Legal Advocacy: For employer health plans and their employee members, it's important to select a provider who provides expert legal backing.

Direct Contracts: Building bridges between employers and hospitals helps to make healthcare a community-centric solution that supports open dialogue between patients and providers. Establishing agreed upon reimbursement levels enables plan members to seek out community providers with confidence that their bills will be within claim limits.

Customizable Health Plan Solution: Today, it's even easier for employers to take advantage of RBP's cost saving potential. By working with a company like Imagine360, you get a full service health plan solution — including plan administration, stop loss and pharmacy benefits — with RBP built-in.

Turning the Tide – Transforming your Business

The positive ripple effects of reference-based pricing can be transformative for any business. Businesses that have made the switch have saved money on their healthcare costs year over year, allowing their owners to invest funds back into the business.

The employees of these businesses also benefit. For those workers who have struggled with the financial burden of medical bills and healthcare costs that discouraged them from seeking treatment, the change is welcome.



EMPLOYER BENEFITS

- Attract new talent with rich benefit packages.
- Retain skilled employees.
- Invest savings into growth initiatives.
- Pass savings on to employees via reduced health plan premiums or other programs.



EMPLOYEE BENEFITS

- Reduced out-of-pocket healthcare expenses, including premiums, deductibles and copays.
- Access to quality, affordable healthcare services.

How Imagine360 clients have passed savings along to their employees

- a car dealership lowered deductibles and out-of-pockets for its employees
- a manufacturing company added an on-site medical clinic to improve access to care and increase utilization of wellness benefits
- after one year, a client was able to increase their contributions to employees' 401k plans by 0.5%
- a technology company enhanced their vision, dental and voluntary life benefits while reducing employee maximum out-of-pocket contributions
- a long-term care company used their savings to enhance their benefits package for employees with tuition forgiveness, subsidized childcare, free ride-sharing to work and more

One of the most important focus areas of healthcare today is if costs are fair, reasonable, and sustainable for businesses, employees, families and the economy. Employers have the right to know what they're paying for healthcare — those with a desire to take on this business expense astutely can enter the playing field of reference-based pricing.

Meet a new kind of health plan solution partner.

One founded on a powerful idea: Health plans can do better. At Imagine360, we're delivering customized solutions that completely reimagine the healthcare experience for employers and their members. Our full-service, all-in-one health plan solution takes a different approach. With administration and cost-saving strategies built in, self-funded employers minimize the clutter and chaos of healthcare, protect the well-being of employees and deliver deep savings of up to 30%. It's more than a health plan. It's a promise.

Contact us today to learn more.



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