



Providing Insights  
that Contribute to  
Better Health Policy

# **Managing Costs, Managing Benefits:**

## **The Impact of Employer Decisions On Local Health Care Markets**

**Jon B. Christianson, University of  
Minnesota**

**Sally Trude, HSC**

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# Major Findings

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- Limited success of organized, collective employer action
  - ▶ Little interest in coordinated efforts to drive health system change
- But collection of individual employer decisions has had a profound impact on local health care markets
  - ▶ “As if ” there were a coordinated strategy
    - A common set of pressures have shaped employer actions
    - Similar results across markets

# Factors Shaping Employers' Role as Health Benefit Purchasers

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- Employers view health benefits decisions in the context of their overall human resource strategies
  - ▶ Strongly influenced by labor market conditions
    - Tight labor market makes employers more responsive to employee preferences
- Firm structure affects health benefits decision-making and willingness to engage in collective action
  - ▶ Variation depending on firm size, number of locations, location of headquarters, public/private status

# The Importance of Price in Employer Decisions

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- Price is most important consideration
- But response to price increases depends on:
  - ▶ Health plan alternatives
  - ▶ Employee contribution policies
  - ▶ Concern about employee responses (in a tight labor market)

# Employers Adapt Managed Care to Tight Labor Market

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- Expand networks in response to employee complaints
- Maintain benefit enhancements to attract and retain employees
- Focus on customer service quality, not clinical quality
  - ▶ Large networks and increased provider choice shifts “quality decision” to employees
  - ▶ Choice becomes proxy for quality

# The Impact of Employer Decisions in Local Health Care Markets

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Employers are responsive to employees' concerns about managed care in a tight labor market



Demand larger, geographically broad provider networks and favor PPOs and POS products

Plans face intense competitive pressure as premium cycle bottoms out



Plans respond to employers by changing products, expanding networks; but large, overlapping plan networks reduce potential to manage care

Employers see fewer differences among health plans



Reduce number of plans offered

Providers perceive potential to enhance bargaining position with fewer plans and broad networks



Consolidate to create geographic sub-market monopolies and increase negotiating leverage

Providers exercise new market power



Reject risk contracts, "walk away" from contract negotiations, obtain reimbursement increases



# Employers Largely Reject Collective Action

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- Coalitions to drive health system change through collective action exist or existed in most study communities
  - ▶ Mixed effectiveness of employer role
  - ▶ Coalition focus narrowed over time
- Market conditions between 1996-2001 not conducive to employers embracing collective action
  - ▶ Premium stability (1996-1999)
  - ▶ Tight labor market
  - ▶ Provider consolidation

# Example: Cleveland Health Quality Choice (CHQC)

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- Started in 1988 by the Health Action Council (HAC)
  - ▶ 140 businesses; 350,000 employees
- 1996-1997: CHQC in ascendance
  - ▶ Sponsored by business but expanded to include hospitals and physicians
  - ▶ Profiled hospitals on six dimensions with public reports
  - ▶ Generated public debate over comparisons
  - ▶ Unclear if employers used data for purchasing
  - ▶ But HAC expected to contract directly for some specialty services, using quality data to select providers

# Cleveland Health Quality Choice – Take 2

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- 1998-1999: CHQC makes waves
  - ▶ HAC negotiated global fees for 22 procedures and conditions in five hospitals
  - ▶ Selected some as Center of Excellence
  - ▶ Much concern among providers about process
  - ▶ Only a handful of employers said they would purchase services through the program

# Cleveland Health Quality Choice – Take 3

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- 2000-2001: CHQC falls apart
  - ▶ Cleveland Clinic withdraws from CHQC
    - Citing expense, inadequate risk adjustment, purchasers not using data
  - ▶ HAC reduced scope to focus on joint purchasing programs for pharmacy and dental services
  - ▶ Support for initiative declined as employers contracted with national plans
- Raises questions about limits of market reform driven by employer collaborations at the local level

# Bottom Line

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- Employers' collective action has had little lasting impact on local health care markets
- But employers' individual actions have left their mark
  - ▶ Retreat from tightly managed care
  - ▶ Increased provider consolidation and leverage

# What's Next for Employers?

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- The current landscape
  - ▶ Provider consolidation is here to stay
  - ▶ Employee expectations are high
  - ▶ Premiums are increasing, negotiating leverage is decreasing

# What's Next for Employers? cont'd

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- Next steps
  - ▶ Take advantage of rising unemployment by cutting benefits and/or premium contributions

**OR (and?)**

- ▶ Seek a new social compact with employees over roles/responsibilities
  - Employer interest is building
  - Machinery is being developed
  - But employers' fear of change still dominates decision-making