Five Steps You Can Take Today to Reduce Healthcare Costs

If you're like most senior executives, whether in HR, Finance or the C-Suite, the **rapidly escalating costs of healthcare** are a top concern, and they show no signs of slowing down; on the contrary. According to the Center for Medicare & Medicaid Services (CMS), these costs will continue to grow at 6% per year, at least through 2023.

Healthcare costs are incredibly important for corporations, constituting – as they do – the second largest "people" cost after payroll. For too long these escalating costs have been accepted and/or ignored – but faced with tighter budgets and continually rising healthcare costs, something needs to be done!

One of the issues here is that responsibility for healthcare benefits is often split between HR and Finance, and the general assumption has been that its cost is a "given." However, with increased awareness of the obvious variance in healthcare costs across the US, and new solutions allowing you to easily compare costs and identify waste (e.g., paying more than triple for the same procedure across different providers), it's now possible to hold third party administrators to account – much as you hold your financial parties to account. Transparency is the rule of the day and healthcare costs are no longer an exception.

Here are five steps to getting a better handle on this critical component of enterprise cost, which is also a key factor for potential recruits and existing staff.

1. Work Out Your "Medical Loss Ratio".

The "medical loss ratio" is arguably the most important financial measure for a large self-insured organization. It represents the proportion of monies paid to your carrier/third party administrator (TPA) that go toward the provision of medical treatment for your associates. The remainder of the monies collected go toward the *carrier/TPA's administration, marketing and profit.*

The federal government thought this was a big enough issue to legislatively cap the level of monies an insurance company can retain (typically 15-20%), with the remainder legally compelled to be refunded to the plan sponsors. Benchmark with peer companies to ensure your administration fees are competitive.

2. Identify Variations in Cost for the Same Procedures.

Certain high cost procedures vary widely, even within the same metro area. Find out how much your organization pays for surgeries such as: knee & hip replacements, angioplasties, heart transplants, spinal procedures, etc. For each of these large dollar procedures, identify the minimum, maximum, median and average cost. When you let your employee choose the provider for major surgery, you are essentially "rolling the dice" as to the cost and the quality of care for your associate. You don't know whether you are getting a "5 star" leader or a"1 star" laggard, or whether the cost will be $15,000 versus $50,000.

A startling statistic quoted by Walmart regarding their "centers of excellence" (basically a specialist/leader in care for that condition), was that as many as 30% of the recommended surgeries were inappropriate for patients.

3. Focus on Emergency Room Visits

Investigate how much money is spent on emergency room charges. Emergency room visits can make up around 5% of your overall spending. A recent study of 6.5 million surgeries found that 71% did not need the immediate attention of an emergency room.

As a consequence, your health plan is shouldering these burdensome costs of emergency room treatment. Given the increasing adoption rate for high deductible health plans, these costs may be absorbed entirely by the employee or jointly with the employer depending upon copays, deductibles and coinsurance. Educating your associates that emergency room visits are far more costly and often unnecessary might be well received by your employees.

4. Check Your Audit Clause.

Ask for a copy of your audit clause. This enables you to perform audits of the health plan, either in-house or using a firm skilled in medical bill auditing. Many of these clauses are restrictive and in some cases, very onerous on the plan sponsor. Extreme limitations – such as the insurance carrier/TPA having to “approve” your audit methodology, unrealistic limitations on the number of claims/medical records you can audit, and charges of over $1,000 a day for audits lasting longer than 5 days – are fairly standard.

Realistically, what can you do about it? Definitely scrutinize these clauses carefully at contract negotiation time. Despite the contract limitations, a large company has a tremendous ability to “push back” on these provisions, particularly if you identify issues/limitations with how they are processing your healthcare claims. Also, they hope to keep your business for their next renewal cycle. Just understand that they have no desire to air their “dirty little secrets” of overpayments and “above market” prices being incurred with YOUR checkbook.

5. Require Annual Audits of Healthcare Plans.

Many folks do not realize that the TPA’s have extensive audit capabilities, often performing 3-4 internal/external passes on healthcare claims on their FULLY-INSURED PLANS. Additionally, they have targets to recover about $75 per member annually through their rigorous post audit of provider bills. For a 10,000 employee plan (with another 10,000 spouses/dependents), that’s about $1.5 million. The TPA’s have no such motivation on self-insured plans, as they don’t get to keep the money, and it is embarrassing to tell a client “we recovered errors we made with YOUR checkbook!”.

Medical bills can be incredibly complex and require specific expertise. Your auditor should be checking to ensure bills are being paid ONLY for eligible employees, spouses and their dependents. Also, check for duplicate payments, medical coding errors, “above market” prices, upcoding and medically unlikely edits. Here are three reasons WHY you should perform annual audits of your plan:

- Recoup dollars spent erroneously;
- Ensure a level of health plan compliance through closer scrutiny; and,
- Hold your TPA accountable for the quality of their services.

These steps are a great start to educating yourself on the finer details of your health plan, and critical to reining in escalating medical costs.

In addition, we recommend reaching out to peers to compare notes with other companies, particularly those who may be early adopters of leading-edge analytic techniques. Companies that are well-regarded in terms of healthy outcomes for their associates and cost effective healthcare include Walmart, GE, Lowes, Boeing, and Catholic Health Initiatives.

---

finHealth is passionately committed toward driving down healthcare costs incurred by large self-insured organizations. By deploying a deep knowledge base of health plan best practices, delivering actionable metrics and benchmarks, creating exceptional transparency to your healthcare data and harnessing powerful algorithms to flag claims paid incorrectly by your third party administrator, finHealth seeks to partner with your organization to ensure your healthcare dollars are safeguarded and spent wisely. Our solution & services are delivered purely on a contingent fee basis, to ensure we always deliver exceptional value. Call us today (336-314-9955) or check out our 2 minute video that explains why "healthcare cost governance" should be a critical focus for your organization: www.finhealth.com/finhealth-navigator.