Crisis in Corporate America: How to Reduce Healthcare Costs

White Paper

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Introduction

In 2014, employers in Illinois contributed on average $4,944 per employee per year and $12,011 per employee family per year for employer-based health insurance.[1] It's hardly surprising, then, that in a recent national survey by Bank of America, 72% of business owners said they were concerned about rising healthcare costs.[2]

The Affordable Care Act (ACA) has mandated health insurance for all Americans and made it possible for approximately 30 million more of them to obtain it.[3] While this is a welcome development, it remains unclear how well—or if—the ACA's provisions will rein in healthcare costs. Unfortunately, at least one provision will actually increase them.

The Cadillac Tax

Economists have long argued that giving tax breaks to employees via employer-sponsored health insurance plans encourages employers to offer more generous health insurance plans. This is because employers believe employees would rather receive additional health insurance benefits (which aren't taxed) than additional wages (which are). Employees with generous plans, economists argue, are then expected to utilize healthcare resources to a greater extent because they have fewer out-of-pocket costs. In this way, generous healthcare plans contribute to rising healthcare costs.[4]

One major provision in the ACA designed to combat this--the so-called Cadillac tax--does so by imposing a 40% excise tax beginning in 2020 on individual plans with a total cost greater than $10,200 and on family plans with a total cost greater than $27,500.[5] The amount of the tax will be 40% of the difference between the total cost of health benefits (employer plus employee contributions, health savings accounts, flexible spending accounts, and health reimbursement arrangements) and the threshold amount.[6] To further discourage

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[1] http://kff.org/report-section/ehbs-2014-section-one-cost-of-health-insurance/
[2] https://www.ml.com/Publish/Content/application/pdf/GWMOL
[3] http://www.uchospitals.edu/news/2013/20130227-doctor-shortage.html
[4] http://kff.org/health-reform/issue-brief
[5] http://en.wikipedia.org/wiki/Cadillac_insurance_plan
[6] http://kff.org/health-reform/issue-brief

high-cost health insurance plans, the cost of the tax won't be considered a deductible business expense.

Many businesses are already concerned about the financial impact of the Cadillac tax, given the analysis from the Kaiser Family Foundation that projects the tax will hit 26% of employer-based plans in 2018 and 42% of employer-based plans over the next ten years.[7] While it's not yet entirely clear who exactly will be liable to pay the Cadillac tax (the IRS is currently looking into this), it's already exerting pressure on employers to offer less-generous health insurance plans.

Many employers are already:

- Increasing deductibles
- Eliminating benefits
- Capping or eliminating Flexible Spending Accounts (FSAs), Health Savings Accounts (HSAs), or Health Reimbursement Arrangements (HRAs)
- Eliminating higher-cost health insurance options
- Narrowing available provider networks[8]

—in essence shifting a greater percentage of the cost of healthcare onto their employees.

The problem with this strategy, however, is two-fold. First, employers actually *want* their employees to have timely access to quality healthcare to reduce absenteeism and improve productivity. But if economists are right that generous plans encourage healthcare utilization, less-generous plans will almost certainly discourage it. Indeed according to a 2014 survey conducted by the Associated Press-NORC Center for Public Affairs Research, as more employers move to high deductible health insurance plans to reduce premium costs, 20% of patients are refusing to visit their primary care doctor when they're sick due to worry about out-of-pocket costs,[9] ironically risking *increased* healthcare utilization (delays in addressing medical issues can result in increased ER visits, specialist referrals, and complication rates), leading to *increased* healthcare costs. Second, shifting a greater percentage of the cost of healthcare onto employees fails to address the central cause of healthcare *over*utilization, which, along with the rising cost

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[7] Ibid
[8] Ibid
[9] http://www.apnorc.org/projects/Pages/HTML Reports

of healthcare services, remains the biggest driver of health insurance premium growth (the more that patients see physicians and have tests and procedures performed, the higher next year's premiums tend to rise).

Healthcare Overutilization

Why do people overutilize healthcare? There are four main reasons:

- Fee-for-service payment structures incentivize doctors to provide more services (to collect more fees)
- Fear of being sued—especially prevalent in emergency rooms where patients have no pre-existing relationships with physicians to diminish their inclination to sue—leads physicians to order more rather than fewer tests to protect themselves
- Patients frequently demand tests and procedures they don't actually need (MRIs for back pain, antibiotics for viral infections, and so on) and physicians are often reluctant to refuse for fear of angering or alienating them, or simply have too little time to explain why such tests or procedures are unnecessary
- Primary care physicians especially have too little time to spend with each patient and work in systems that put up too many barriers between them and their patients, leading to more testing, specialty referrals, ER visits, and hospital admissions than is often necessary

The impact of overutilization on the nation's healthcare bill is enormous. In 2010, for example, *$29.7 billion* was spent in hospitalizing patients for potentially preventable complications of conditions such as diabetes, congestive heart failure, and osteoarthritis.[10] Better managing—or even preventing—these complications could therefore dramatically reduce the cost of caring for patients with these diseases and therefore the cost to employers. The financial savings could be even larger for employers who self-insure (and thus pay their employees' medical expenses directly) than for employers who pay insurance premiums to third-party health insurance companies.

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[10] http://www.hcup-us.ahrq.gov/reports/statbriefs/sb146.pdf

The Solution

Direct primary care, or concierge medicine, models like ImagineMD's have been shown to reduce unnecessary healthcare utilization. In direct primary care, or concierge medicine, physicians charge a monthly or annual retainer fee to patients directly in exchange for offering 24/7 access and same-day or next-day appointments that start on time and last as long as they need to. In one study, researchers evaluated the cost-benefit of the largest direct primary care, or concierge medicine, practice in the U.S. (MDVIP).[11] For states in which sufficient patient information was available (New York, Florida, Virginia, Arizona, and Nevada), decreases in preventable hospital use resulted in $119.4 million in savings in 2010 alone. On a per capita basis, these savings ($2,551 per patient) were greater than the payment for membership in the medical practices (generally $1,500-$1,800 per patient per year).

Further, in 2010 (the most recent year of the study), MDVIP patients experienced 83% fewer elective admissions, 56% fewer non-elective admissions, 49% fewer avoidable admissions, and 63% fewer non-avoidable admissions when compared to patients in traditional fee-for-service practices. Additionally, members of MDVIP were readmitted 97%, 95%, and 91% less frequently for acute myocardial infarction, congestive heart failure, and pneumonia, respectively.[12]

Data from Qliance, the second largest direct primary care, or concierge medicine, practice in the U.S. shows that, compared to patients in standard fee-for-service primary care practices, their patients had:

- 53-65% decrease in ER visits
- 16-43% decrease in number of days admitted to the hospital
- 58-66% decrease in specialty referrals
- 63-66% decrease in radiology exams
- 77-82% fewer surgeries
- ***92%-139% increase in primary care visits***

—yielding a $1,245 to $1,727 savings per patient per year compared to traditional fee-for-service practices.[13]

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[11] http://www.ncbi.nlm.nih.gov/pubmed/23286675
[12] Ibid
[13] http://stateofreform.com/news/industry/healthcare-providers/2015/01/qliance-study

A direct primary care, or concierge medicine, model where retainer fees are covered by the employer, by the patient, or by some combination of the two also makes the cost of primary care far more predictable, thus reducing barriers to patients seeking primary care early, and thus reducing healthcare overutilization. *It's also important to note also that the retainer fee is not considered part of the total cost of health benefits that can trigger the Cadillac tax.* In other words, companies can expense the retainer fee for their employees without worrying that it will tip them over the Cadillac tax threshold amount. Further, because the retainer fee is a deductible business expense, the actual cost to a business will be reduced by a percentage equal to its total corporate tax rate.

A number of businesses have already recognized the potential for cost savings inherent in the direct primary care, or concierge medicine, model. A clause in the ACA states that "the Secretary of Health and Human Services shall permit a qualified health plan to provide coverage through a qualified direct primary care medical home plan that meets criteria established by the Secretary, so long as the qualified health plan meets all requirements that are otherwise applicable and the services covered by the medical home plan are coordinated with the entity offering the qualified health plan."

As a result, some insurers, such as Cigna, have created reduced-premium insurance plans that incorporate primary care services paid for directly by patients. According to Cigna's marketing department:

> Cigna has adapted their Level Funding Plan for employers to accommodate Qliance as a primary care network option for companies who want to enhance primary care access for their employees, improve the quality of care, and drive overall healthcare savings. Cigna, the first insurance carrier to actively include Qliance in their plan, has been on the forefront of finding innovative solutions for the employer market, and Qliance is proud to be an active partner in their efforts.[14]

Associated Mutual, a health plan based in Grand Rapids, Michigan with strength in serving unions such as the AFL-CIO and Ohio Health Care Trust, has also begun offering direct primary care, or concierge medicine, coverage with

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[14] http://www.forbes.com/sites/davechase/2013/07/14

wraparound insurance (insurance to cover catastrophic events). According to president Tim Spink,

> It's about more than elimination of CPT codes. That is, there are two key byproducts of a direct primary care practice. One, a very large percentage of common medical issues can be handled in a direct primary care practice especially when they have no financial incentive to refer patients out since they aren't subject to productivity objectives driven by the fee-for-service model. Two, as outlined in the Direct Primary Care and the Healthcare Delivery System section, they dramatically drive down utilization of the most expensive facets of healthcare (hospitalizations, ER visits, surgeries and specialist visits).[15]

As direct primary care, or concierge medicine, becomes more popular and more visible, we anticipate more such insurance products coming to market, making it even easier and more attractive for employers to contract with direct primary care, or concierge medicine, practices.

Conclusion

For employers concerned about rising health insurance premiums, the looming Cadillac tax, or both, direct primary care, or concierge medicine, represents a solution that offers three benefits at once: increased employee satisfaction, improved quality of care, and decreased cost. And though the decreased cost requires an increased upfront expenditure and no one patient can be guaranteed to personally realize decreased costs, for large groups of patients (that is, employees) the data strongly suggests that the old adage one must often "spend money to save money" is highly likely to hold true.

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[15] Ibid