



Brandeis University
The Heller School for Social Policy and Management

Health Care Cost Management in Massachusetts: A Discussion of Options

Meeting #5: Employer Strategies

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Conference Report

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Historical Perspective on Employer Involvement in Controlling Health Costs

Presenter: **Stuart Altman**, PhD, Sol C. Chaikin Professor of National Health Policy, Brandeis University

Overview

Employers finance the majority of health care for Americans under age 65, but their engagement in cost management solutions has varied over time. It peaked in the late 1980s when employers aggressively moved workers into HMOs, but ebbed during the 1990s when a strong economy, record profits, and high demand for workers made health care costs less of a priority. As the country appears to be headed into a soft economy, and with health care costs at record levels, employers may again be compelled to take a more active role in health care cost management.

Context

To set the stage for the discussion of employer strategies, Professor Altman offered a historical perspective on the role of employers in health care cost management.

Key Takeaways

- **Employer involvement in health care cost management has fluctuated over time.**

Employers play a critical role in health care, and they finance coverage for a majority of Americans. But the employer role in managing health spending has changed over time:

- *1970s*. The insurance market was very different during this time when the principal role of government and private health insurers was paying claims. Employers' primary concern was keeping insurer administrative costs low, even though these costs were just 4% to 5% of total premium.
- *1980s*. Dr. Altman characterized this decade as "loose competition and ineffective regulation." With few constraints on spending, health care spending exploded. By the decade's end, employers were alarmed at the level of health spending, and became much more engaged in cost management. Many developed internal programs to control costs and formed employer coalitions to influence policy.

"This [the late 1980s] was the high point of employer involvement [in health care cost management]."

— Stuart Altman

- *1990s*. President-elect Clinton held a summit in 1992 during which employers advised him that government action was required to control costs. After the Clinton health reform initiative failed, employers aggressively embraced managed care. Many firms offered workers only a single plan. In Professor Altman's view, forcing employees into HMOs contributed to the subsequent managed care backlash. As employees reacted negatively to managed care controls, employers ultimately backed away from it.

Premium growth slowed significantly in the mid-1990s but accelerated again later in the decade. Because this occurred during a strong economy, controlling health spending was not a high priority for the business community.

- *2008*. In the past eight years, health spending has grown more rapidly than any other time in the past 40 years. The economy is becoming softer and may be headed towards recession. Given this situation, employers may be motivated to adopt more aggressive strategies to manage health spending.

"With a softening economy, I believe employers will play a much more active role once again."

— Stuart Altman

- **There has always been a distinction between large and small employers.**

Historically large employers have had more clout, and have been much more active in advocating for public policy changes, the implementation of health management programs, and aggressive negotiation with insurers. Large employers bear a significant financial responsibility for the health care of their employees and an indirect responsibility for the uninsured through cost shifting. Small employers rarely have sufficient resources to invest in sophisticated health management programs or political advocacy.



Driving Partnership in Health

Presenter: **Delia Vetter**, Senior Employee Benefit Manager, EMC Corporation

Overview

EMC is a large employer seeking to control health spending by creating a healthy workforce. This strategy contrasts with approaches taken by other employers designed to shift financial responsibility onto employees. EMC has launched a portfolio of health management programs, and supports two national health quality improvement efforts. One of EMC's core strategies is leveraging information technology and supporting both personal health records and development of personalized health management plans. EMC believes these investments have measurably increased employees' engagement in their own health, and have slowed their health spending growth below that of national trends.

Context

Ms. Vetter described EMC's approach to improving employee health, and shared details of the company's "Driving Partnership in Health" program.

Key Takeaways

- EMC concluded that containing health spending required a new vision focused on creating a healthy workforce

In 2002, EMC determined that if it did not act, the company's health costs would double in five years. However, tweaking the existing benefit design or shifting costs to employees was not an effective long-term strategy. Instead, EMC decided to focus on creating a healthy workforce, and created the following vision:

"To create and maintain a healthy workforce by helping employees and family members improve overall health through meaningful, targeted health management programs ... And to accelerate adoption of health care technology for safer patient care."

The company's philosophy is that a healthy workforce and adoption of technology will constrain cost growth.

"At EMC the philosophy is health management; this is how to contain health costs."
— Delia Vetter

- EMC created a "Framework for Action" with a portfolio of complementary programs.

The "Driving Partnership in Health" program reflects a partnership between the company and its employees, and focuses on creating a healthy workforce.



The components of EMC's framework include:

- *Targeted employee health management.* This entails delivering targeted health information directly to employees' desktops. Using aggregate data extracted from a datawarehouse and Health Risk Assessments, targeted information is delivered to a personalized health portal. Information ranges from actual utilization, specific areas of risk, interest, family history, and more. Targeted employee health management programs also involve identifying specific at-risk groups, and provide targeted interventions. EMC's first such program, Dietary Approaches to Stop Hypertension (DASH), is a high-touch program introduced to employees in partnership with Boston University School of Medicine. A preliminary program evaluation found reductions in blood pressure and body fat, along with cost savings of \$1,000 per participant. A pilot remote patient monitoring program in partnership with Connected Health is currently underway. Employee engagement and participation have exceeded expectations.
- *LiveHealthy programs.* These are typical disease management and coaching programs. EMC's goal is to use targeted health management programs to preempt the need for disease management, but if people need such programs, EMC makes them available.
- *Technology innovation.* EMC sees technologies as vital to controlling health care spending by reducing waste and inefficiency, while increasing connectivity. Three key technologies are:
 - *Personal Health Records (PHR).* Most employees' health information for the past three years is automatically loaded and stored in their PHR. About 50% of employees have adopted the PHR.



- *Data warehouse.* EMC uses a data warehouse to aggregate de-identified health information of employees, including data from risk assessments and PHRs. Once aggregated, reports can show utilization patterns (such as spending per disease, per diagnosis and drug, and per provider), and can identify specific at-risk populations.
- *Personal health portal (HealthLink).* The data warehouse is linked with HealthLink, a confidential and secure portal that is powered by WebMD. HealthLink delivers personalized health information to employees.

Through these technologies, personalized health management plans are developed that focus on employee education and behavioral change. Communication of targeted information is automated and highly interactive.

—*Support for Four Cornerstones.* EMC supports the Four Cornerstones of Value-Driven Health Care Improvement, announced by HHS Secretary Michael Leavitt in 2006: developing health IT standards; measuring and publishing quality data; developing price standards; and aligning incentives to create better value. EMC's programs are intended to align with these Four Cornerstones.

—*Bridges to Excellence and Leapfrog.* EMC participates in these initiatives that seek to improve health care quality and safety, and the company provides quality data developed by these programs to its employees.

—*Best Doctors program.* This service allows EMC employees to review diagnoses and treatment options with a select network of top medical specialists.

▪ **EMC's health management philosophy and programs have helped lower health care cost trends.**

EMC believes it has decreased its costs without shifting them to employees. In 2006, the company's per capita costs grew just 5.6%, well below the national average. In addition, over the past several years, the percentage of employees accounting for 50% of EMC's health costs has risen from 15% to a range of 17% percent to 18%, which the company believes reflects the impact of its healthy workforce initiatives.

"Cost shifting and tiering won't work. What will work is changing behaviors."

— Delia Vetter

In addition, use of fitness facilities has increased, immunization rates are up, and many employees have participated in EMC's weight loss programs.

▪ **EMC's health management program focuses on education and creating a healthy culture.**

EMC began laying the foundation for its health management programs in 2002 by educating employees about the US health care system, key challenges faced, and the company's roadmap. EMC introduced the PHR in 2004 in conjunction with extensive educational efforts, including face-to-face meetings with approximately 80% of employees. Now, instead of talking to employees about health plan enrollment options—as most companies do—EMC talks about its commitment to a healthy workforce, health technologies, and the value of these programs to employees.

Participant Discussion

▪ **Most companies use financial mechanisms to try to control costs.**

Dr. Altman believes that EMC's focus on reducing health costs through programs to create a healthy workforce is the exception, not the rule. He sees far more employers who are attempting to reduce costs through changes in benefit design, co-payments, and cost shifting.

▪ **PHR adoption.**

Several participants commented that EMC's rate of PHR adoption was amazingly high, and they commended EMC for its workforce education and communications efforts.

▪ **Use of PHRs by physicians.**

Dr. Joseph Dorsey commented that physicians are likely to be supportive of the use of PHRs, but consumers may be hesitant to adopt it. Ms. Vetter noted that EMC has set a 2009 goal for increased physician use of PHRs.

▪ **Consistency of messages/actions.**

One participant commented that as organizations work to create a culture of health, every action and message must be consistent with this culture. This includes, for example, the food served in the company cafeteria and at meetings. Failure to demonstrate consistency will undermine the company's efforts to create a culture of health.



Employer Cost Management Strategies

Presenter: **Mike Taylor**, Principal, Towers Perrin

Overview

Employers are engaged in multiple activities to control the growth in health care spending. There is no single solution, but high-performing organizations exhibit characteristics that produce better results than other organizations. The most effective approach is to employ a series of aligned activities that are customized to address the particular issues faced by an employer's specific employee population.

Context

Mr. Taylor shared research results from the 2007 Towers Perrin Health Care Costs Survey which includes cost management strategies used by 500 employers (many of which are Fortune 1000 Companies).

Key Takeaways

- **There is no one-size-fits-all solution to manage health spending, but there is a general framework that leading employers are using.**

According to Towers Perrin, leading employers have adopted a framework focused on a "healthy organization" with efficient benefit programs, acceptable benefit costs, and a productive, engaged workforce. These employers emphasize the following desired outcomes:

- Financial performance.* The desired outcome is lower costs.
 - Consumer engagement.* This is a new area for most employers, but they increasingly see business value in having engaged workers. Health benefits and programs can help improve engagement.
 - Population health.* Employers are evaluating data to understand specific health risks facing their employees and develop targeted interventions.
 - **Employers are taking multiple steps to control costs. The key is aligning these steps.**
- There is no magic bullet for controlling costs. The most successful employers are engaging in multiple activities, including changes in plan design, premium contribution strategies, care management programs, employee education, and consumer-driven health plans. Essential to success is creating a culture of health and alignment of programs.

- **High-performance employers demonstrate several distinguishing characteristics.**

Towers Perrin divided the companies in its survey into high and low performers. High performers are those with the

lowest health spending (on average \$2,000 per employee less than low performers) and the lowest rates of increase.

Strategies that distinguish high performers include:

- Think holistically.* High performers build a culture of health by connecting everything that touches employees.
- Use holistic measures.* High performers don't just look at health care costs; they look at metrics such as employee productivity and the cost of absenteeism.
- Emphasize engagement.* High performers are more likely to make engagement a priority and to provide tools (such as trackers) that engage employees.
- Focus on behavioral change.* The goals of high performers' programs are not short-term cost savings but long-term behavioral change, which will lead to better long-term outcomes and greater long-term savings.
- Conduct a baseline.* High performers establish an initial baseline so they can measure the impact of interventions.
- Customize programs.* High performers understand their employee populations, and customize programs to fit the specific needs of their populations. One way they customize programs is by providing employees with advocates and coaches to help navigate the health care system.

"High performers are doing lots of customization of programs based on their specific population."

— Mike Taylor

- Use incentives.* High performers use incentives to induce employees to participate in health-related activities, such as risk assessments, and to stick with various programs.
- Utilize co-insurance.* High performers are more likely to use co-insurance for certain areas of health care, but don't require it in areas such as preventive care.
- Engage in active vendor management.* High performers are highly focused on evaluating vendors' performance, often through audits, and enhancing vendor connectivity across all health-related programs, rather than switching or consolidating of vendors.

Of note, even the best companies are generally dissatisfied with their current progress in controlling health care costs.

- **There is great difficulty in sustaining external efforts to control costs.**

Most employers are internally focused, emphasizing programs to control their own health costs rather than organized efforts to change the health system.



The issue is an inability to sustain employer cooperation over time. The Four Cornerstones initiative provides an example. It was announced to a groundswell of support, with many employers signing up. However, since the initial announcement (about 18 months ago), few employers have stepped up to support the initiative.

"Employers can't seem to sustain cooperation externally."

— Mike Taylor

For more information about this series:

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Additional materials are available at:

www.heller.brandeis.edu/costmanagement

Other Important Points

- **Demand focus.** Employers are mainly focused on addressing the demand for health care services, with minimal effort focused on the supply side. Most employers feel they lack the scale to affect the delivery system. Partnerships are needed to help create such scale. However, these partnerships are difficult to form, and even harder to sustain.
- **Employer-based insurance.** There are a small but vocal number of employers who favor scrapping the employer-based insurance system, and letting employees purchase their own insurance with a cash subsidy. To date this remains a minority view.