



## Drive Savings with Provider Direct Contracting

### Don't Let Insurance Carriers Get Between You & Your Provider

Uncontrollable increases in the cost of employer sponsored health benefits compel employers to seek relief and consider new solutions.

#### Managed Care and Consumer Driven Healthcare are Ineffective Cost Containment Solutions

Since the early 1980s, solutions have been introduced to manage the cost of employee health benefits, yet the costs continue to rise.

**Managed Care** was introduced as a solution through HMOs to control healthcare spend. These were eventually supplanted with larger network PPOs. But these have been proven to be ineffective strategies to reduce healthcare costs in the long run.

**Consumer-Driven Healthcare Plans** (CDHP) had their origin in the U.S. in the late 1990s. Instruments such as Health Savings Accounts (HSA) or Health Reimbursement Accounts (HRA) were often coupled with high deductible health plans (HDHP).

Employers swiftly adopted CDHP, because the immediate short-term cost savings made employer sponsored health benefits more affordable (to the employers).

Healthcare costs continued to increase because these plans relied on large insurance carrier PPO networks that based provider reimbursements on discounts off of billed charges. These PPO “discounts” offered (and continue to offer) very attractive rates (approximately 45% of billed charges). But the providers’ “Charge Master” continued to increase unabated as providers raised charges in anticipation of negotiating discounts with health insurance companies to maintain their revenue streams.

Industry experts say that “charge masters have become more and more disconnected from reality.”

## Reference-Based Pricing — A Sustainable Solution

Employers with self-funded health benefits found that old solutions relying principally on large insurance carrier PPO networks to deliver healthcare had little effect on stabilizing healthcare costs.

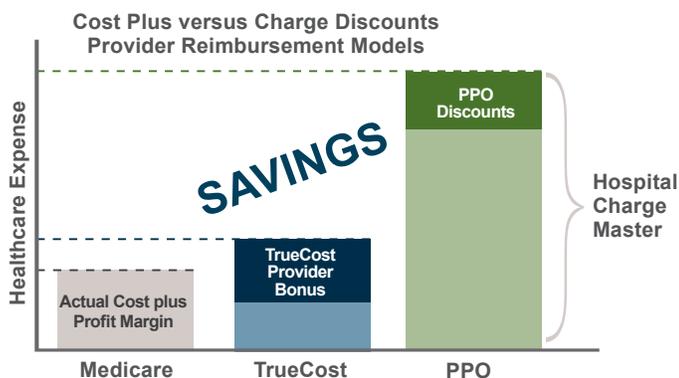
Reference-Based Pricing (RBP) plans, such as Custom Design Benefits' TrueCost eliminate the reliance on large carrier PPO networks and base provider reimbursements on a "cost plus" basis versus a discount on arbitrary billed charges.

The most common "reference price" used by RBP plans is Medicare. Medicare reimbursement covers the cost of the service provided plus a moderate profit margin. Medicare reimbursement is transparent, defensible, and is accepted by 98% of providers.

Most RBP plans reimburse providers on a formula of Medicare plus a bonus.

The chart illustrates how provider reimbursements in reference-based pricing plans are based on the true cost of medical treatments. The PPO reimbursements are calculated as a discount off of a "charge master" that has no relation to the actual cost of the medical treatments.

The chart also illustrates a significant savings opportunity for employers opting for a reference-based pricing plan over a traditional PPO plan.



## Direct Contracts between Providers and Employers — Cutting Out the PPO Middle Man

RBP plans like TrueCost offer access to direct contracts that leverage the resources of comprehensive health networks without the additional cost of insurance carrier PPO middle men. Partnering through direct contracts, employers and providers develop business relationships that align mutual goals.

Think of it this way, direct contracting serves as the foundation of the same kind of supplier-purchaser relationships that exist in most businesses. It sets mutually beneficial ground rules for transactions between purchasers and suppliers. In most cases, direct contracts are a set of agreements on the amount an employer will reimburse a provider for healthcare services based on a cost-plus formula using a reference-based price such as Medicare.

Businesses (purchasers) are able to use provider direct contracts to more accurately predict healthcare costs, a significantly large expense for most businesses.

Providers (suppliers) use direct contracting as a way to facilitate more accurate forecasting of resource needs and cash-flow. At the same time, direct contracting allows providers to achieve their "triple aim" of: 1) improve the patient experience, 2) improve the health of their population, and 3) reduce per capita cost of healthcare. Finally, direct contracting presents health systems with an effective strategy to build their market share.

And all this is done without an insurance carrier PPO middle man.