



## Industry Currents

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# New study ties lower health costs to employee health, not network procurement

By Bruce Shutan

Why do some employers pay more for health benefits than others?

The 2007 SHPS Health Practices Study revealed that employers with the lowest comparative health costs have strong clinical programs to improve employee health outcomes and manage clinical risk. By contrast, employers who rely on traditional health benefit procurement strategies have the highest comparative health costs.

SHPS researchers examined the experiences of 115 large and midsize companies with at least 1,000 benefit-eligible employees — a survey sample representing a total of 3.7 million members.

“The study reveals that the use or absence of a few core best practices in employee health management could explain cost differences of up to 50% between two otherwise comparable employers,” observes Chris Ryan, chief strategy officer for SHPS, a leading provider of health advocacy and health benefits solutions. “In essence, every self-insured employer is managing its own health plan. The employers who succeed at managing health costs do a better job of managing employee health.”

### Re-evaluating procurement strategies

Ryan was also surprised to find that certain common benefit practices, including effective enrollment and eligibility and health communications, had a strong correlation to lower health costs.

While poor eligibility controls alone can explain major cost differences among firms, he believes that effective administrative practices also facilitate better health analytics and employee awareness. “It’s hard to implement health programs that change employee behavior on a foundation of sloppy administrative practices,” Ryan noted.

But some common health practices were also associated with higher costs. “We discovered a troubling pattern whereby employers use financial models and network procurement strategies to manage health costs instead of addressing the underlying clinical risks driving the demand for health care,” says Rishabh Mehrotra, SHPS’ president and CEO. “The implications of these findings are significant. It explains why so many employers churn between health plans and cut coverage, but still can’t get relief from long-term health cost trends.”

“Employers must re-evaluate their health and procurement strategies, while the industry — health and benefit vendors, brokers and consultants — should consider repositioning traditional health and benefit solutions to focus on employee health,” he adds.

### What works and what doesn’t

Among the five key findings highlighted in the 28-page report:

1) Employers that focus on targeted, clinically based care management programs customized to the needs of their covered population reported an average of 18.2 % lower health care costs, or \$1,400 per benefit-eligible employee, in annual spending over an unmanaged trend. This includes a comprehensive mix of case management for catastrophic illness, disease management for chronic illness, biometric testing, employee assistance programs and the use of on-site physicians.

2) Cash incentives that reward desirable health behaviors strongly correlated to lower health care costs by an average of 15.1%, while consumer-directed health plans, pay-for-performance networks and premium cost-sharing had an insignificant impact. In addition, the study showed that employers using deductibles and co-pay levels as their primary strategy

to drive employee health behaviors actually faced 29% higher costs on average.

3) Excellence in benefits administration including centralized recordkeeping and accurate eligibility management, along with targeted communication, lowered health care costs by 12.7% per benefit-eligible employee when integrated with the delivery of health programs.

4) Wellness promotion and education increased health care costs by 16.9%, or \$1,300 per benefit-eligible employee, when Web-based health portals and telephonic coaching for lifestyle management were used as the primary strategy and substitute for a comprehensive care management program.

5) Five practices were found to substantially increase health care costs: over-relying on networks to manage cost and quality, leveraging multiple plan design options, using deductibles and co-pays to drive health behavior, using health care benefits to become an “employer of choice” and experiencing undesirable turnover. The presence of just one such practice correlated to an average 21% increase, while all five

practices doubled those expenses.

### **Health and productivity advantages**

In his forward to the study, Mehrotra suggests that objective health analytics be used in conjunction with administrative, clinical and financial programs to create a culture that promotes behavioral change and allows covered populations to improve their health.

“The results of our study show that employers already navigating this path have reaped an enormous competitive advantage through improved health and productivity at lower cost,” he writes. “In companies where employee health is valued, the employer and employee both benefit.”

The 2007 SHPS Health Practices Study can be downloaded in its entirety online at [www.shps.com/2007healthstudy](http://www.shps.com/2007healthstudy).

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