

Title:

Cut Health Plan Costs By Cutting Out the Managed Care Middleman

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Summary:

Cutting out the managed care middleman and contracting directly with medical providers may seem like a drastic way to cut health plan costs. Yet for employers whipsawed by relentless cost increases, it may be the only solution that works. The profit-bloated managed care industry, with much to lose, has propagated many myths why this sensible approach won't work. This article debunks the myths about direct provider contracting and sheds light on this ingenious cost-containment strategy.

Keywords:

direct provider contracting, managed care, employee benefits, reduce medical costs

Article Body:

Cutting out the managed care middleman and contracting directly with medical providers may seem like a drastic solution for reducing health plan costs. Yet for employers who've been whipsawed by relentless cost increases, it may be the only solution that actually works. The profit-bloated managed care industry, with much to lose, has propagated many myths about why this sensible approach won't work. But *their* solutions *haven't* worked. Costs continue to surge and employers are desperately seeking relief. It's time to debunk the myths about direct provider contracting and shed some light on this ingenious, innovative cost-containment strategy.

**Myth 1:** Employers cannot negotiate as good a deal with medical providers as can managed care companies. The truth is employers can often negotiate just as good a deal, or better. Providers welcome direct agreements for the very reason that they are *not* like conventional managed care contracts. Physicians have complained for years about adversarial agreements and poor reimbursements forced upon them by HMOs and PPOs. This negative perception has created a strong willingness among medical providers to do business directly with employers. These "win-win" agreements ultimately save employers money without shortchanging the providers. Unlike managed care companies, direct agreements disclose *all* contractual details so both employer and provider know the deal they're getting and nothing can be hidden by a middleman's "cut."

**Myth 2:** You need large numbers of employees to negotiate direct provider

contracts.</b> The truth is physicians and hospitals will often contract with employers for limited numbers of employees. When a direct agreement is fair and reimbursement terms are reasonable, providers quickly realize it's a smart business decision to work with employers in their own community. A local employer, regardless of size, represents an established group of existing lives as prospective patients, ready to use the direct network providers. Direct networks have been successfully developed in areas where the employer had as few as 30 employees.

<b>Myth 3: Direct contracting won't work in areas where other PPO networks are available.</b> The truth is doctors are sick of disadvantageous agreements and miserable reimbursements forced upon them by managed care companies. They actually welcome the opportunity to contract directly with employers. For many doctors, the very fact it's an agreement with the employer, and not a managed care company, is reason enough to participate in a direct network. A direct agreement establishes a true business relationship between provider and employer, one that promises the provider quicker reimbursements, better benefit payment levels, and easier access to the ultimate payer (the employer). It's also a gesture of good community relations for any physician, medical group, or hospital to demonstrate.

<b>Myth 4: Direct networks create more administrative burdens and higher costs.</b> The truth is once direct networks are developed, the advantages of "owning" a network quickly outweigh "leasing" one from a managed care company. There are no recurring network access fees; less physician attrition; fewer employee complaints; simpler self-renewing contracts; better provider relationships; straightforward plan design features; and the ability to choose the best contractors for utilization review, case management, claims processing, and other administrative tasks. Managed care companies have failed to contain employer medical cost increases, despite all their so-called network management efforts. Ironically, and coincidentally, managed care industry profits are at an all-time high while employers continue to suffer.

<b>Myth 5: Direct contracting exposes employers to greater liability.</b> The truth is direct contracting poses no greater risk of litigation than any other benefit program component and may actually offer <i>greater protection</i> against it. Direct contracting is intended only for self-insured employers whose plans are governed by ERISA, which offers built-in protection against liability. ERISA preempts state tort laws and limits the employee's ability to hold an ERISA plan liable for malpractice under state laws, which govern malpractice, not ERISA. Because direct provider agreements state the employer is not providing/directing medical care and has no role whatsoever in any medical decision, the protection offered by ERISA's preemption is safely

maintained.

**<b>Myth 6: Managed care companies can't (or won't) process claims for direct networks.</b>**

The truth is that processing claims and administering benefits for employer-owned provider networks are well within the technical capabilities of managed care companies. Their feigned inability to process direct network claims is one of many ways that managed care companies hold their employer-clients hostage in networks that are owned, leased, or arranged by the managed care companies themselves. If an existing managed care company cannot or will not administer direct network claims, there are plenty of third party administrators (TPAs) than can handle it, usually at a lower cost per employee. For employers that want direct networks in select locations (but want to keep commercial networks elsewhere), using a TPA is a convenient and cost-effective way to get the job done.

**<b>Myth 7: Managed care companies do a better job containing costs and saving employers money.</b>** If that *<i>was</i>* true, employer medical plan costs would be falling instead of rising. The truth is employers who have implemented direct provider contracting are experiencing lower costs and higher savings. One national employer with 20,000 employees has used direct networks to keep their health plan cost trend *<i>flat</i>* for the past five years. Another major employer reduced its health plan costs by more than 20% without reducing benefits or shifting costs to employees.

**<b>Bottom Line: Cutting out the managed care middleman and contracting directly with medical providers can help savvy employers reduce benefit costs and regain control over their corporate health care plans.</b>**