

## THE BENEFITS OF DIRECT CONTRACTING FOR SELF-FUNDED EMPLOYERS

For many employers moving, from a fully-funded healthcare program to one that is self-funded is a smart decision because self-funded plans provide more control over expenditures. A self-funded plan is when an employer assumes the financial risk associated with providing healthcare benefits to its employees. Instead of paying fixed premiums to an insurer — which, in turn, assumes the financial risk of paying claims — the employer pays for medical claims out-of-pocket as they are incurred. According to the KFF and the Health Research and Educational Trust's (HRET) Employer Health Benefits 2020 Annual Survey, Sixty-seven percent of covered workers are in a self-insured health plan.

There are many strategies a self-funded employer can implement to manage costs, including establishing a direct-contracting arrangement with healthcare providers for their services. Having a direct relationship with hospitals, physician offices, and facilities enables employers to negotiate rates for healthcare services and eliminates the “middle man” — the insurer. Employers receive discounted prices, putting additional cost savings into their hands. Just as you negotiate with suppliers directly for other products and services, you are now doing the same with healthcare providers to establish pricing for your organization as a preferred client. You get better pricing, and the provider has a built-in network of patients.

### The Lack of Healthcare Price Transparency

There is little to no transparency in the cost of healthcare procedures and treatments. Oftentimes, patients don't know the prices of healthcare services before they are provided. How could they? The starting price points are unknown, and hospitals or

physicians charge different payers different amounts for the same services.

Facilities and physicians have a charge master for reporting the cost for procedures to the Centers for Medicare & Medicaid Services (CMS). There is, however, very little insight into what comprises those charges. Depending on where you go, knee surgery can cost \$25,000, \$50,000, or as high as \$80,000. A report in the Wall Street Journal found that one hospital charges \$6,241 to \$60,584 for a C-section depending on the insurance plan covering the birth.

### Why Direct Contracting Makes Sense

Upfront pricing helps employers establish payment models with providers, such as direct contracting, that would lower spending and reduce the administrative role, and associated costs, of insurance intermediaries. (Reference pricing, in which an employer pays up to an established price — the “reference price” — for a healthcare service, is another strategy that helps create transparency and manage costs.)

A growing number of healthcare providers are ready to engage in direct-contracting arrangements as these types of contracts guarantee steerage of business and revenue diversification. If you're a large employer in a specific town or city responsible for hundreds or thousands of employees, you have clout with the providers in your area. They will want to negotiate pricing for their services with you to keep the business. In essence, direct-contracting arrangements embody the belief that “health care is local” and can serve to build valuable bonds between healthcare providers and local employers and their patients.



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In addition, a provider's claims with a direct contract are paid much more quickly. If everyone knows and agrees to the price points for specific procedures, a claim typically will be paid by the employer within 30 to 60 days rather than by the insurance company, which takes 120 days to pay the claim. For many hospitals, their biggest complaint is the time it takes to receive payments. The self-funded employer pays the claims as they come in, so the providers are willing to offer better-negotiated rates.

It's important to be aware that direct contracting is complex and requires navigating and coordinating relationships between the employer, the provider, and the third-party administrator (TPA) to facilitate claims payments and audits. In addition, network adequacy and capacity must be carefully assessed to ensure that employees have convenient, reasonably timely access to care. Employers and providers negotiating direct-contract arrangements will also need to ensure compliance with an array of legal issues.

AHT Insurance provides assistance with establishing direct-contracting arrangements between providers and employers. Our goal is to help improve the financial performance and quality of an employer's health plan. We will analyze the resources available to improve overall financial performance and employees' healthcare experience and outcomes, with the goal to provide high-quality, low-cost care.



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