



To: Health benefits purchasers and negotiators  
From: Sally Covington  
Subj: Examples of successful purchaser strategies to improve health care value  
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This memo contains three brief examples of cost savings that purchasers have achieved by adopting provider accountability strategies. The common elements across all three examples include:

1. Purchaser identification and exclusion of high-cost, low-quality providers;
2. Bulk of the savings achieved through a focus on providers/delivery side of the health care system, not through plan redesign that shifted costs to workers; and
3. Purchasers either had control of, or access to, data that could yield reliable comparisons of provider quality and cost-efficiency.

### **Example One**

UNITE-HERE Labor Management Trust Fund is a Taft-Hartley trust providing health care to 120,000 hotel workers and their families in Las Vegas, Nevada. Faced with double-digit medical cost increases, the Trust focused on the variation in cost and quality of care provided by physicians serving its members. The Trust developed a physician profiling system that measured the longitudinal cost-efficiency and quality of physician care.

The Trust used this profiling system to restructure its physician network. It excluded 50 high-cost physicians out of 1,800 doctors then serving its members. The Trust took care to ensure that the restructured network preserved members' access to culturally competent physicians and to all kinds of care. The Trust also developed a gold star program to recognize and financially reward physicians that provided high quality care at lower costs.

### **Results:**

- The Fund saw a reduction in medical cost trends of over 10 percentage points and saved a total of \$24 million over a 12-month period
- Seventy percent of the savings were due to the restructured physician network and the ripple effect it had on physicians that remained in the network
- UNITE-HERE's low-wage hotel and restaurant workers received a significant wage increase for the first time in three years as a result of these savings.

## **Example Two**

Pitney Bowes, a national office technology and services company, undertook an analysis of physician efficiency in 1993 and used this analysis to implement an efficient physician network for its Fairfield, CT workforce in 1994. The analysis used individual claimant level ambulatory, outpatient, inpatient, and prescription drug data for a two-year period to compare the efficiency of physicians in two different health plans – Physician Health Services and Metlife. The study found that the primary care doctors selected by Physician Health Services for inclusion in its network had average longitudinal episode of care charges that were 34 percent lower than those physicians selected by Metlife. For medical specialists, charges per episode of care were 25 percent lower.

On the basis of this analysis, Pitney Bowes selected Physician Health Services to administer two health plan options for its workforce – a Point of Service Plan (\$10 co-pay, 80/20 coinsurance for out of network, and no gatekeeper mechanism) and an Exclusive Provider Plan (\$10 co-pay, no out of network benefit, and no gatekeeper mechanism). The Point of Service Plan included 1000 physicians in its network while the Exclusive Provider Plan removed 100 of the least efficient doctors, leaving a total of 900 network physicians. To encourage employees to enroll in the more efficient physician network, Pitney Bowes lowered the monthly premiums that employees were required to pay for this plan option. Forty-five percent chose to enroll in the exclusive provider plan.

Results:

- Pitney Bowes' per capita health care costs fell 9.3 percent compared to a concurrent 10 percent increase in the premium trend in Connecticut, generating a savings estimate of 19.3 percent in the first year of implementation
- In the second year of implementation, Pitney Bowes' per capita health care costs rose at a rate that was 5 percent less than the premium trend, for a two-year savings of 24.3 percent.
- Less than 30 percent of these savings were due to the greater employee cost sharing in the Point of Service Plan.

## **Example Three**

The United Food and Commercial Workers Union, Local 186-D represents approximately 4,000 retail workers in Modesto, California who receive health care coverage through the UFCW National Health and Welfare Trust Fund. Alarmed about the 40 percent increase in health costs over a two-year period, the Fund successfully pursued a strategy to preserve affordable coverage for its beneficiaries.

The UFCW's strategy included: a) analysis of hospital costs and quality; b) direct contract negotiations with area hospitals on costs and quality; c) member education about cost drivers and what the union was doing to address them; and d) expulsion of one of the two hospitals serving members and their families in the Modesto area.

Results:

- Comparative cost data showing that acuity-adjusted charges by Modesto's two hospitals for a range of procedures were substantially higher than at other regional hospitals
- Direct contract with one of these hospitals that was willing to work with the Fund on efficiency and quality improvements
- Reduction of the Fund's hospital costs by 50 percent and savings to the Fund of \$1,300 member per year.