



Testimony

CHRISTOPHER M. WHALEY

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Employer-Driven Health Benefit Design Innovations

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Reducing Costs and Improving Access to Care: Employer-Driven Health Benefit Design Innovations

Testimony of Christopher M. Whaley¹
The RAND Corporation²

Before the Committee on Education and the Workforce
Subcommittee on Health, Employment, Labor, and Pensions
United States House of Representatives

January 11, 2024

Chairman Good, Ranking Member DeSaulnier, and members of the committee, thank you for the opportunity to testify today. My name is Christopher Whaley. I am a health economist at the nonprofit, nonpartisan RAND Corporation and an associate professor of Health Policy at the Brown University School of Public Health. My research focuses on health care price transparency, the impacts of evolving health care markets, and studying innovations that employers are making when they have access to price information. The focus of my remarks today is to tell you about such innovations and explain why making price information transparent is critical for innovations that will make health care costs go down and ensure employees retain health care coverage.

In today's world, employers and purchasers of health care play a significant role in shaping the U.S. health care system. Employers provide health insurance for over 150 million Americans—the largest source of health insurance in the United States.³ In most cases, employers select employee plan offerings and thus determine the types of health plans available

¹ The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of the RAND Corporation or any of the sponsors of its research.

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³ Kaiser Family Foundation, "State Health Facts: Employer-Sponsored Coverage Rates for the Nonelderly by Age," webpage, 2022, <https://www.kff.org/other/state-indicator/nonelderly-employer-coverage-rate-by-age/>.

to their employees and their families. Employers also play a critical role in financing the U.S. health care system. Collectively, employer-sponsored insurance accounts for approximately \$1.2 trillion in health care spending.⁴

The average premium for an employer-sponsored family health insurance plan is now nearly \$24,000.⁵ Total compensation paid to workers represents a mix of cash wages and benefits. As health care costs increase, employers reduce wages for workers and shift toward high-deductible health plans.⁶ Decades of rising health care costs have placed downward pressure on take-home pay. Particularly for lower-income households, rising health care costs for employer-sponsored insurance create financial burdens when receiving care, which can limit access to care. Because health benefits are financed from wages, employers have both a legal and moral obligation to be responsible fiduciaries when they purchase health benefits on behalf of their employees.

Unfortunately, many U.S. employers face challenges in purchasing affordable health care coverage that provides real value for their workers, as more often than not they are having to make decisions while blind to prices for services in the marketplace. Many employers are unable to access plan claims data, limiting their ability to monitor prices negotiated on their behalf and prudently design plan offerings. Furthermore, even when employers are able to access comparative cost information, they far too often face consolidated provider markets with limited access to lower-price, high-quality providers. Due in large part to decades of provider and plan consolidation that has driven down competition and raised prices, the prices paid by employers on behalf of their employees are high and variable, often with no relationship between price and quality of service.⁷ The combination of a lack of price transparency and health care consolidation has made fulfilling their fiduciary obligations challenging for even the most engaged employers and purchasers.

Leading Employers and Purchasers are Developing Innovative Health

Benefits

While most employers and purchasers rely on brokers and third-party administrators (TPAs) with little oversight on plan design or prices negotiated on their behalf,⁸ a handful of employers use innovative benefits to reduce spending and improve access to high-quality care. These programs use price, utilization, and quality data to identify efficient providers that deliver high-

⁴ Centers for Medicare & Medicaid Services, “National Health Expenditure Data,” webpage, September 6, 2023, <https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data>.

⁵ Kaiser Family Foundation, “2023 Employer Health Benefits Survey,” October 18, 2023.

⁶ Daniel Arnold and Christopher Whaley, “Who Pays for Health Care Costs?: The Effects of Health Care Prices on Wages,” RAND Corporation, WR-A621-2, 2020, https://www.rand.org/pubs/working_papers/WRA621-2.html.

⁷ Christopher M. Whaley, Brian Briscoe, Rose Kerber, Brenna O’Neill, and Aaron Kofner, *Prices Paid to Hospitals by Private Health Plans: Findings from Round 4 of an Employer-Led Transparency Initiative*, RAND Corporation, RR-A1144-1, 2022, https://www.rand.org/pubs/research_reports/RRA1144-1.html.

⁸ Christopher M. Whaley, Gloria Sachdev, Marilyn Bartlett, and Ge Bai, “It’s Time for Employers to Bring Health Care Decisions In-House,” *Health Affairs Forefront*, September 22, 2022.

quality care at lower prices (i.e., *high-value* providers) and then create incentives to direct member volume to these providers. My research shows that simply providing patients with price transparency information is not sufficient to change behavior. However, simplifying provider choices and providing incentives to use high-value providers can increase the use of efficient providers.⁹

A particularly innovative example comes from Purdue University, which has used data on local provider price and quality to contract directly with high-value providers and incentivize their use. These types of *direct contracting* benefits are often accompanied by negotiated price discounts because high-value providers gain patient volume. Due in part to these programs, Purdue has not had employee premium increases in five years and has saved approximately \$200 million.¹⁰ Similarly, General Motors' direct contract with the Henry Ford System has reduced health care spending by approximately 15 percent.¹¹ The reference-based pricing plans, which tie reimbursement rates to Medicare rates, that were implemented for Oregon and Montana state employees have also led to considerable savings.¹²

Plan and Price Data Are Critical to Health Benefit Innovation

While the employers and purchasers that I have described chose different policies to match the needs of their populations, a critical component in their ability to purchase high-value, more affordable care is their use of transparent data on differences in provider price and quality, most commonly from claims data, to inform the design of their benefit innovations. Several self-funded employers who want their plan's claims data for auditing purposes have had to file lawsuits to obtain access to them.¹³ Some insurers, third party administrators and pharmacy

⁹ Christopher Whaley, Timothy Brown, and James Robinson, "Consumer Responses to Price Transparency Alone Versus Price Transparency Combined with Reference Pricing," *American Journal of Health Economics*, Vol. 5, No. 2, Spring 2019; James C. Robinson, Timothy T. Brown, and Christopher Whaley, "Reference Pricing Changes the 'Choice Architecture' of Health Care for Consumers," *Health Affairs*, Vol. 36, No. 3, March 2017.

¹⁰ Tom Schott, "No Employee Premium Increase for 5th Straight Year as Purdue Trustees Approve 2024 Health Plans," press release, Purdue University, August 4, 2023.

¹¹ Becker's Healthcare, "How GM's Direct Contracting Experiment Has Fared," *Becker's Payer Issues*, August 20, 2021.

¹² Andrew M. Ryan, Zach Brown, Sarah Miller, and Edward C. Norton, "Changes in Hospital Prices After Two Years of Oregon's Hospital Payment Cap," paper presented at the 12th Annual Conference of the American Society of Health Economists, June 12, 2023; Steve Schramm, "Estimating the Impact of Reference-Based Hospital Pricing in the Montana State Employee Plan," National Academy for State Health Policy, April 6, 2021.

¹³ *Kraft Heinz Co. Employee Benefits Administration Board, et al., v. Aetna Life Insurance Company*, 2:23-cv-00317, District Court, E.D. Texas, June 30, 2023, <https://www.versanconsulting.com/post/kraft-heinz-co-employee-benefits-administration-board-et-al-v-aetna-life-insurance-company>; *Massachusetts Laborers' Health & Welfare Fund v. Blue Cross Blue Shield of Massachusetts*, 66 F.4th 307 (1st Cir. 2023), April 25, 2023, <https://casetext.com/case/mass-laborers-health-welfare-fund-v-blue-cross-blue-shield-of-mass-1>; *Owens & Minor, Inc. and Owens & Minor Flexible Benefits Plan v. Anthem Health Plans of Virginia, Inc.*, 3:23-cv-00115, February 13, 2023, https://www.millerchevalier.com/sites/default/files/resources/General_Alerts/2023-02-13_Owens-v-Anthem_Complaint.pdf; *Bricklayers, Craftworkers, Sheet Metal Workers Unions v. Elevance*, 3:22-cv01541-VLB, December 5, 2022, <https://www.documentcloud.org/documents/23378734-bricklayers-craftworkers-sheet-metal-workers-unions-v-elevance>.

benefit managers argue that they own self-funded employers' data, and thus restrict access to this data for audit, integration, and research purposes.

While timely access to self-funded plan claims data is critical, access to hospital- and insurer-posted price transparency data recently required by the Transparency in Coverage Final Rule allows employers to comparison “shop” across providers and plans without placing additional burdens on patients. These data allow employers to benchmark their own prices against market comparisons. However, to date, hospital price transparency requirements have not been enforced, and insurer-posted data have not been widely usable. Thus, the potential benefits of broader price transparency, which is necessary to expand employer-driven health benefit innovations, have not been realized. Enforcing hospital price transparency requirements and improving access to insurer-posted price transparency data are critical to improve the U.S. health care system. Researchers can use these data to further understand health care price and competition dynamics. Employers and entrepreneurs can use these data to develop new benefit design innovations to help control spending and policymakers and regulators can oversee market conduct and market competition.

Conclusion

Whether they like it or not, U.S. employers are in the health care business. However, they have limited tools to be effective purchasers. Rising health care costs come directly out of worker paychecks and other benefits. To be responsible fiduciaries of their employees' dollars, employers need to use data to ensure their health benefits deliver access to high-quality care at reasonable prices. Employers need access to data, both claims and usable Transparency in Coverage data. Access to these types of data is central for successful health benefit design innovations. While employers differ in the needs of their workforce and the markets in which they operate, access to data is critical for all employers to be responsible purchasers of health care benefits. Federal policy can both strengthen self-funded employer access to plan claims data and improve compliance and usability of Transparency in Coverage data.