The Daily Dish

Non-Negotiable: Self-Insured Employers Can’t Negotiate with Hospitals

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Non-Negotiable: Self-Insured Employers Can’t Negotiate with Hospitals

As health care prices continue to climb, employers everywhere are looking for ways to save money on health costs. A recent study published by the *American Journal of Managed Care* looked at the ability of large, self-insured employers in geographic markets to negotiate with hospitals. The findings were not encouraging.

The study found that, on a scale measuring market power of 0-10,000 (where 0 is an extremely competitive market and 10,000 is a monopolized market), the mean value of employer market power in 2016 for large, self-insured employers was 62, while the mean value of hospital market power was 5,410. There was a slight correlation between increased employer market power and decreased hospital prices: a 65-point increase in employer market power led to $430 in savings on hospital prices – on a mean hospital price of $23,911. Which is to say, the average employer would have to more than *double* its market power in order to reap a measly 1.8 percent in savings.

The study notes that between 2005-2019, the difference in hospital prices paid by employers versus those paid by Medicare rose from 10 percent above the Medicare rate to over 100 percent above the Medicare rate. (A side note: the 100 percent figure is much lower than the private payer vs. Medicare rate differences found by the Kaiser Family Foundation and the RAND Corporation, which exceed 200 percent.) The increase noted in the study may be due to rising costs and hospital consolidation, as well as Medicare underpayment. Whatever the exact cause, the reality is that the increase cuts into employee compensation and may be a contributor to depressed employee wages as companies have to spend increasingly more on benefits. For private businesses and their employees, this is unsustainable.

The lack of negotiating power is not a small issue. According to the U.S. Census Bureau, 55.1 percent of Americans in 2018 had employment-based coverage. Self-insured companies make up the large majority of employers. To cope with rising costs, employers have a few options: They can try to negotiate with the insurer for better rates, they can try to negotiate directly with hospitals in the area for better prices, or they can pass on some costs to their employees through high-deductible health plans (HDHPs) in order to keep premiums low. Self-insured employers are, by definition, on the hook for the risk in health plans, so there isn’t much to negotiate with the insurer administering the plan. And, as the study shows, employers don’t have enough market power to be able to negotiate with hospitals. This brings us to the third option: more HDHPs. The HDHP option is increasingly utilized by employers – 50.5 percent of workers were enrolled in an HDHP in 2019. The downside of HDHPs is obvious: If you have to use the health care system, you’re responsible for a lot of the cost (the average HDHP deductible was $2,303 in 2019), and good luck bargaining with hospitals on your own.

The study presents purchasing alliances with state or local government employee groups as a means to increase bargaining power, but the ability to do this depends on the state. Another solution could be the use of association health plans (AHPs), but the ability to use AHPs was constrained by a 2019 ruling striking down most of a Department of Labor (DOL) rule that greatly relaxed the requirements for AHPs (the ruling was appealed but that appeal has been delayed). While the DOL final rule was certainly flawed – it stretched the definition of “commonality of interest” so much Simone Biles would be jealous – allowing businesses to join together to help provide their employees cheaper insurance should be encouraged by the government. A major issue with the rule was that it didn’t comport with current standards set by the Employment Retirement Income Security Act of 1974 (ERISA). Maybe it’s time for Congress to adjust ERISA and allow employers to up their negotiating leverage over health systems. Otherwise, expect health costs to continue to increase at the expense of wages.