2 Ways to Maximize Value in a Self-Funded Medical Plan

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Much has been written about strategies for self-funded employers. Typically, these articles focus on fundamental elements such as understanding and selecting the best contract type, using tiered provider networks, developing and monitoring a well-thought-out and perpetual wellness strategy, as well as the unique flexibility in plan design that is inherent in this approach.

That's smart, and it's exactly where you should start. However, it's possible-and prudent-to go much deeper.

Regardless of whether you have been self-insured for decades, just a couple of years, or just considering this approach, there are numerous ideas, techniques, and strategies available to help eliminate waste and maximize value to both the employer and the employee. We'll explore two of these approaches:

Get the most out of your prescription drug plan

It's been my observation that on average, prescription drugs account for 20-25% of the total cost of a medical plan, and that percentage is growing. Due to the confluence of specialty drugs that will be coming to market in the next few years, an aging population, and traditional price inflation, it is likely that prescription benefits may account for as much as 40% of total medical spend by 2020.

With approximately 7,000 new drugs coming to market, many of which are specialty products,1 it will become critical to minimize prescription plan spend. One strategy to consider is ensuring that specialty drugs are delivered through the most cost-effective channel. Today, many of these specialty medicines are dispensed on an outpatient basis at a hospital because they require special handling, administration or monitoring.

When these specialty drugs are dispensed at a hospital or specialty pharmacy, the claims are usually covered under the medical benefit. A more cost-effective approach is to carve out these products, where appropriate, and require that they flow through the pharmacy benefit, often times yielding considerable savings in both the cost and administration of the medication. Many of these products can just as easily be administered in a physician's office or even in the member's home while being monitored by a physician's assistant or nurse. The savings from simply managing the site of care of these products can often times be thousands, if not tens of thousands, of dollars.

To avoid needless overspending for identical medication, ensure that your pharmacy benefit manager (PBM) has a specialty prescription program in place requiring that these drugs be obtained through the pharmacy benefit and can be administered in an alternative site of care whenever possible.

Another technique to help control prescription costs has nothing to do with plan design. Virtually all brand name pharmaceutical manufacturers provide rebates to PBMs. Unless the employer is savvy enough to negotiate up front, many PBMs and third-party administrators retain these rebates rather than passing them on to the employer. Depending on a group's utilization and drug mix, it would not be unusual for these rebates to represent 20% of total prescription spend. Negotiating with the PBM to pass on these rebates (in whole or in part) to the employer can have a significant impact on lowering prescription spend. In fact, rebates on specialty drugs, as discussed above, can represent thousands of dollars per script.

In addition to negotiating for rebates with a PBM, you should also ask to allow for a periodic (annual or semi-annual) audit of the PBM's performance to ensure that all discounts, fees and rebates have been accounted for accurately. Without the ability to audit, there is no way to validate the performance of the PBM.

Explore the possibilities of telemedicine

Many insurance carriers who offer self-funded services have recently introduced telemedicine as an option. The shortfall of this arrangement is that they usually are only available to participants in the self-funded plan rather than including all eligible employees. In addition, under these "bundled" telemedicine arrangements, the member is usually charged approximately $40 each time the service is used.

The value proposition of telemedicine is that it improves productivity by giving employees immediate 24/7 access to board-certified physicians who can diagnose and write prescriptions for common conditions such as pink eye, allergies, sinus infections, and urinary tract infections. Without telemedicine, many employees would have to wait to see a physician or would seek care from more costly resources such as urgent care or the emergency room. These employees would also miss time from work in order to be diagnosed.

In addition to saving time and improving productivity, the employer further benefits by eliminating those physician, emergency room or urgent care claims from their medical plan. Because of the productivity savings, we often encourage employers to partner with an independent telemedicine provider to make this benefit available to all eligible employees, not just those enrolled in the medical plan. In fact, this arrangement can be designed so that the members pay nothing to access this service, increasing utilization of telemedicine providers while simultaneously eliminating claims from the self-funded plan.

These strategies unequivocally represent a win-win outcome for both the employer and the employee, and they represent just two ways employers can squeeze more value out of self-insuring.

Controlling healthcare costs has been an ongoing challenge for virtually every employer. Implementing strategies that achieve this objective while providing enhancements for your employees is an outstanding, highly sought-after and rare accomplishment.

In a future article we'll explore a more controversial arrangement that many believe may represent the future of healthcare. Stay tuned.

[1] Pharma.org, "Medicines in the Pipeline"

For more information, please call **1.877.426.7779**