New site lets employers put health care out to bid

HOLLY RAMER - Associated Press - Associated Press

Self-insured businesses looking to cut out the middleman when it comes to health care have a new way to solicit bids directly from doctors or hospitals.

Created by a doctor, a lawyer and a former benefits manager, Open Health Market is an online matchmaker of sorts: Employers submit requests for proposals for a category of medical services and procedures — knee surgeries, for example, or cardiac care. Health care providers then submit competing bids, which are then evaluated by the employer.

If an employer accepts a bid, the savings could then be passed along to employees in the form of incentives to go with the new provider, such as a waived deductible, said Don Crandlemire, the Concord lawyer who created the site along with Dr. Leonard Fromer of Los Angeles and Peter Hayes, former benefits manager at Scarborough, Maine-based Hannaford Bros. supermarkets.

Crandlemire and his partners won't get involved in structuring any deals; they just handle the introductions. The employer decides whether to pursue negotiations with any of the bidders.

"It brings buyers and sellers closer," he said. "The further apart a buyer and seller are in a market, the more inefficient that market is."

Nearly 60 percent of U.S. workers who have health insurance are covered by employer-funded plans, according to the Kaiser Family Foundation. In general, workers in large companies are more likely to be in a self-funded plan: 93 percent of covered workers in firms with 5,000 or more workers are in self-funded plans. Under such an arrangement, an employer assumes responsibility for the costs of employees' medical claims, typically contracting with an insurer or third-party administrator to administer the claims.

Those large companies represent an enormous, untapped power to change a health care system that rewards volume over value, Crandlemire said.

"If that group started saying, 'We want the provider who delivers the most value to us, and we're going to have you providers start competing for the opportunity to start serving our population,' they could effect profound change in the market," he said. "We think the only thing that's really going transform the system is the power of the market, and these companies that spend $1 trillion saying, 'We want something different and we're going to demand something different.'"

Lindsay Shearer, a spokeswoman for health insurer Cigna Corp., said she's

concerned that Open Health Market would lead to a focus on discounting services without addressing other factors that drive up costs.

"It also does nothing to drive or incent the quality of services provided and may in fact create disincentives for quality improvement," she said.

Open Health Market officials counter that quality, patient satisfaction and convenience also would be part of the negotiations between employers and providers, who would have to meet the same accreditation standards set by the federal Medicare system in order to join the site.

But Paul Fronstin of the nonpartisan Employee Benefit Research Institute wonders whether employers are prepared to take on the task of evaluating providers based on quality and other factors. Even comparing cost is tricky, he said, because one provider's costs may reflect a sicker population, for example, he said. And he questioned whether a company could get a better deal.

"Employers are trying to manage their costs and if they think direct contracting is one way to do so, they're going to try. They may feel like they can cut out some of the middlemen and get a better deal. And maybe the providers think they'll get a better deal by cutting someone out as well," he said. "But it creates a lot of work for the employer to put together a plan in which they're basically putting together the network, as opposed to going to a network."

Hayes, who now runs a consulting firm, acknowledges the complexity of such deals, but said he hopes employers will start seeing themselves as part of the solution rather than looking to health plans. As the health benefits manager for the Hannaford Bros., he was able to negotiate the total price for hip replacements from $50,000 down to $18,000. Local hospitals that were unwilling to negotiate changed their tune when he found a hospital in Singapore that would have done the surgery for $10,000.

Similarly, companies that use Open Health Market to get bids from far-flung providers might not end up cutting deals with any of them, but could use that information to approach local providers, he said.

"Instead of having to go through the health plan and being held hostage to that, this might be a tool they can use to open up direct conversations with their local providers around the things they're looking to purchase," he said.

He said he will consider the new venture a success if after a year, it has connected one employer and one health system, and both sides are happy. The site was begun in late January, and while officials have heard from some interested businesses and providers, none have signed up yet.

Laurel Pickering, executive director of the Northeast Business Group on Health, said she expects that to change. Her group is a nonprofit network of employers, providers, insurers and other organizations working to improve health care and reduce costs in New York, New Jersey, Connecticut and Massachusetts.

"I think it's a really good idea. There are a group of employers who are becoming more sophisticated about their health care purchasing," she said. "Right now, there's no really organized way for an employer on their own to try to figure out who in the country might be able to offer them what they're looking for."

Lori Nerbonne, founder of the patient safety advocacy group New Hampshire Patient Voices, said Open Health Market sounds like a great concept if companies ask for detailed data on quality and outcomes as well as cost, and they share that information with employees. But she also worries that companies won't share that information and will make decisions based solely on cost, to the detriment of consumers.

"The big question is, what kind of health care data are they going to give their employees? For many of these kinds of things, the missing piece is the quality data. That's really what patients — if they're going to be making informed decisions — need."

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