Managing Surgical Cost and Quality

How self-insured benefit leaders assess their health plan surgery expenditures

Self-insured employers continually strive to maintain quality surgery benefits for their workforce while also containing costs, but they are faced with navigating well-known weaknesses in our healthcare system: fee variability, incentive misalignment, and an epidemic of unnecessary surgery. Hospital costs vary dramatically, and since healthcare providers are paid for each service rendered in our traditional fee-for-service model, incentives exist to perform more procedures. Troublingly, patient outcomes suffer since excessive medical treatments cause preventable harm and personal consequences like surgical complications, increased hospital readmissions, chronic pain, and financial waste.

All these factors have made it increasingly difficult for employers to manage costs while assuring that their employees are receiving high quality, evidence-based surgery care— an imperative. In addition, mounting expenditures for surgical care, a longstanding significant issue, are now exacerbated by the COVID-19 pandemic, which has injected volatility into an already complex healthcare market. As the pandemic wanes, patient volumes are expected to surge given the pent-up demand for surgery and along with it, looming high costs for self-insured employers.

Employer Health Innovation Roundtable (EHIR), an action-oriented, independent group built by employers, for employers, supported a survey of self-insured benefits leaders to understand how they assess their overall surgical expenditures and their relation to Centers of Excellence (COE).
EHIR brings together the country's most progressive employers and is the leader in helping the world's largest corporations accelerate innovation in ways that positively impact the health, wellness, and productivity of their employees and members. The group's members include Fortune 100 companies such as Walmart, Apple, Chevron, Microsoft, Johnson & Johnson, Target, and Boeing.

The survey was conducted from January 4-17, 2022, with 217 self-insured benefit leaders of companies offering health insurance with 3,000 or more employees. The respondents were sourced from EHIR member lists and online panels. The top three industries represented were manufacturing, finance/insurance, and retail trades. Managing costs while maintaining quality care remains a top priority for these employers, as indicated by the research. The research also identifies the need for additional options beyond the most common service lines, general surgery and musculoskeletal conditions, now offered by COEs.

Respondents underscored how concerned they are about mounting expenditures for surgical care, a longstanding significant issue now exacerbated by the COVID-19 pandemic. When comparing priorities today to those respondents recalled from pre-pandemic times, almost 60% said surgical costs were a high or very high priority now vs. 52% pre-pandemic. In 2020, Americans used fewer medical services as many elective services were halted and individuals avoided hospitalizations to protect themselves from COVID-19. While capacity is still about **5% lower** than 2019 averages, pent-up demand is likely to worsen as hospital systems continue to experience post-pandemic capacity constraints. These delayed surgeries may translate into more complex surgeries, which in turn can lead to long-term implications and increased costs for employers.

Adding to these concerns is the epidemic of excessive medical treatment in the United States.

Unnecessary procedures can produce long-lasting, potentially devastating consequences, including surgical complications, increased hospital readmissions, and chronic pain. Moreover, overtreatment or low-value care wastes $75.7 billion to $101.2 billion a year in the U.S., according to a **2019 review** published in the Journal of the American Medical Association. Prior studies cited in this review estimated that approximately 30% of health care spending may be considered waste. Despite efforts to reduce overtreatment, improve care, and address overpayment, it is likely that substantial waste in US health care spending remains.

While many employers are using some form of COE, the survey results indicate that there is a greater need for a better model which focuses on avoiding unnecessary surgeries, providing bundled pricing, and raising quality standards— the greatest differentiator. The best COEs make sure the patient gets the right care at the right time, reduce out of network costs, and have no negative effects on employers' health plan relationships.

The survey results reveal four key findings that provide a snapshot of employers' concerns regarding mounting costs for surgical care and keen interest in containing them.

1. **Containing Costs Is a Priority in a Post-Pandemic Environment**
   Benefit leaders prioritize lowering surgical costs, with 59% saying this is a high or very high priority in comparison to 52% before COVID-19. Americans used fewer medical services in 2020 because of the pandemic and are now catching up with postponed elective surgeries. Due to this pent-up demand, hospitals expect surgical volumes to increase by **6 percent** in 2022 and 2023. With providers expecting **demand** to exceed capacity in orthopedic, cardiovascular, and general surgery areas for the near future, this backlog will only be resolved with increased surgical volumes and the accompanying costs.

2. **Surgical Expenditures Are Significant Part of the Cost Problem**
   While healthcare costs broadly are a clear concern, 52% of respondents (75% in financial services) see surgical costs in particular as a significant issue for their companies and 75% (93% in retail) said reducing costs is a priority. Invasive care, or surgeries, account for a large part of all self-funded employers' total medical spending: respondents found costs for surgery were on average 34% of their total spending.

3. **COEs Are Still in the Early Stages of Adoption**
   When investigating current adoption of COEs, a picture of a rapidly evolving market emerges. Nearly 7 in 10 (69%) employers have a COE, though less than half report they have one specifically to reduce surgical costs. Nearly two-thirds of respondents with COEs implemented them within the past 2 years, and most first learned about COEs from their health plan, COE vendor outreach, or peers. Among the 3 in 4 of the respondents considering new benefits for the next two years, half are prioritizing COEs. Employers' top two strategic priorities are improving quality of employee care (28%) and providing COVID-19-related benefits (26%). While employers are still discovering the full value of having a COE in place for surgical care, a value-based COE that rebukes the fee-for-service pricing model has potential to address both the **quality** of surgical care and **surgical backlog** created by COVID-19. Two years ago, the state of the COE market was quite different from what it is today. We anticipate it will be similarly different two years from now.

4. Looking Ahead: The COE Future

This emerging COE market has made significant progress. Of the nearly seven in 10 employers that have a COE in place, 91% are satisfied with its performance. The most important factors that employers look to when evaluating their COE's performance are utilization rates, reduction in surgical cost variability, reduction in surgical complications, and superior member experience.

The survey also found that only 9% of respondents rely on their carrier exclusively for their COE, suggesting that employers seek help from third-party vendors to tackle these issues. The data are also clear on what employers prioritize when considering these third parties. They want to see options that prioritize care and quality outcomes, offer a wide and convenient provider network, and help them mitigate any impact on the health plan relationship.

Taken together, the data paint a picture of a future for COEs. It is a future led by third-party vendors covering a wide range of surgical specialties. Great care and convenient access are important but not sufficient. The vendors must deliver high utilization, stable and transparent prices, and a better member experience.

Conclusion

COVID-19 has exacerbated the need to keep surgery costs down for self-insured employers while still providing members with high-value care. Half of the respondents believe surgical costs are a significant problem, and 75% believe lowering them can largely reduce their company's overall healthcare costs. Pent-up demand for surgeries as the pandemic wanes will only increase volumes and in turn, costs to self-insured employers.

Benefits of having a COE include improved quality care/outcomes (e.g., avoidance of unnecessary surgeries), fewer complications, and reduced out-of-network claims costs. Disrupting the ineffective fee-for-service model is a key component of COEs, which offer a value-based approach, rewarding providers for necessary surgeries as well as less invasive treatments depending on individual cases and risk profiles. COEs can reduce unnecessary procedures by nearly one-third, and when patients obtain necessary surgery, COEs can reduce the patient risk of readmission for complications for certain surgeries **by up to 86%** relative to the national average.

Finally, we noted that while many employers look to COEs to avoid unnecessary surgeries, address high out-of-network claims costs, and reduce surgical cost variability, they do not necessarily view COEs solely as a cost-saving or surgical spend reduction solution. This is an unexpected finding, given the **evidence** that COEs can lead to a significant reduction in medical spend. With additional time, we anticipate that more benefits leaders will see how the known benefits of COEs make them a crucial tool in the broader effort to lower healthcare costs while maintaining high quality.

MEMBER COMPANIES