What's the deal with the US?

For international insurers and assistance companies doing business in the US, the question of how best to approach cost containment is hardly academic. Kevin Featherly explores the ins and outs

It is true that medical cost increases in the US have levelled off in recent years. PricewaterhouseCoopers (PwC), the New York City accounting firm, reports that US medical inflation rates have fallen from an annual 11.9-per-cent increase in 2007 to 6.5 per cent in 2016. The firm further projects that medical costs will rise by the same percentage in 2017. However, even these smaller ticks upward outpace the general US economic inflation rate and, according to PwC, signs point toward larger medical cost spikes after 2017: "This suggests a possible recalibration on cost-saving strategies – as the ones deployed over the last few years have run their course and may not be able to bend the cost curve with new inflators on the horizon[1]."

This article addresses the American healthcare pricing dilemma from the perspective of insurers and assistance companies, whose job is to cover tourists and expatriates in the US at affordable costs. How is cost containment best achieved in the highly privatised US healthcare market? What trends are changing the cost landscape and forcing cost containment solutions to evolve? And last but hardly least, what will the landscape look like after this year's wild and unpredictable presidential election?

The enduring PPO

For Gigi Galen Grobstein, president of New York-based preferred provider option (PPO) company Star Healthcare Network, the term 'cost containment' is the answer to a simple question – how can insurers, and the assistance companies that work with them, save money while gaining non-citizens access to the steeply priced US healthcare system?

PPOs are managed care organisations in which insurers (or third-party administrators like Star Healthcare) form partnerships with clinics, hospitals, specialty care institutions and other healthcare providers, to negotiate on price. When the PPO is successful, it convinces the provider to offer medical treatment at discounted rates in exchange for the PPO's promise to steer business to those providers.

"It's about relationships, it's about provider access – making sure that people can get to the right providers as quickly as possible," Galen Grobstein says. "When you have a cost containment company that has some solid relationships with the hospital, the providers are going to have to accept your contracts."

Galen Grobstein gets annoyed when she hears ideas like the one expressed by PwC that traditional cost-containment solutions such as PPOs have 'run their course'. Every year, she says, she hears the same thing – traditional PPOs are on their way out: "Everybody says, 'US cost containment is going to go away and we are forming other types of companies that >>

can help you'. It's so funny." Needless to say, she vigorously disagrees, insisting that PPO-based cost containment will never go away. "It's working!" she asserts.

She admits, however, that PPOs do not always land discounts as large as they once did, largely because medical costs have risen – sometimes, she adds, PPOs are not able to secure discounts at all for services like ambulance transports. Even automated audits of hospital charge masters, a normal part of the PPO process, will not always lower costs: "The hospital still has to decide whether they want to accept an audit, or whether they want to accept a negotiation."

Alternative approaches

While the international payer and assistance community remains highly dependent on PPOs, alternative approaches are being looked at. "We can see that there are a number of discussions on alternate payment methodologies, alternate reimbursement systems," says Patrick Hrusa, senior director for business development and provider relations for Toronto-based Allianz Global Assistance.

In the assistance arena, for instance, some smaller European assistance companies and insurers are pooling together to offer combined cost containment solutions, patterned to a degree after the group purchasing organisation (GPO) model. GPOs are common in various industries, as businesses band together to aggregate buying power and obtain discounts from supply-chain manufacturers and product distributors. US medical providers form similar groups to get discounts on medical supplies. Global assistance company alliances are not trying to secure lower prices for machine parts or blood gas analysers, however. They hope to use their collective clout to negotiate discounted medical services from US providers for their clients.

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The difficulty with that approach, explains Raija Itzchaki, president of Europ Assistance's GMMI Inc. in Sunrise, Florida, is that often it is difficult for the various interests to mesh their insurance policy requirements so that each alliance member gets what they want. "That is a challenge from our perspective," she says. "But there certainly is some value in volumes. It potentially may have better benefits than 10 smaller companies would have by themselves."

For Itzchaki, the best method for international payers to contain US healthcare costs is simply to carefully craft health coverage plans for their clients. "The single most effective way to control costs," she says, "is by policy wording – policies with limited network access and policy incentives for using that network."

Hrusa, who manages medical claims for clients in North, Central and South America, thinks the best cost containment approach is the direct approach. When international insurers form direct relationships with American providers, they can negotiate for discounts directly. "If you have enough volume then you should be contracting directly," he says. Of course, many outsiders lack sufficient US patient volume to make that a practical option, he acknowledges, and 'that is why they turn to PPOs, HMOs and GPOs'.

Technical assistance

Another wrinkle on cost containment is addressed by Gitte Bach, president and CEO of California-based New Frontier Group. Her global healthcare management company, which works with overseas insurers and assistance companies in the US, has developed a proprietary, high-tech approach to cost containment. The system evolved out of Bach's previous experience at International Health Insurance Denmark in Copenhagen. "We dealt

with reinsurers as far as how do we find solutions, where do we involve ourselves with PPOs or go direct to hospitals, or we actually use another third party," Bach says. "There were some gaps in that."
Her solution was the Onyx platform. The self-developed, proprietary operating system centrally co-ordinates assistance, insurance claims and medical transport. It can also directly access targeted provider networks that offer deep discounts in various US regions. Onyx can be used, for example, to direct an injured expatriate to an urgent care clinic where New Frontier has negotiated discounted rates, and steer them away from an expensive emergency room. "It has taken a lot of effort and economy to do it," says Bach, "but it really allows us a way of looking at the claim, looking at the patients, looking at our customers and customising solutions for them."
It is not at all unusual for assistance providers to do their own in-house cost containment as an integral part of their business, according to Bach. Forming alliances helps, especially in terms of working with large stateside PPOs that require a certain caseload volume threshold before they will grant access and agree to negotiate with providers for discounted rates.
Developing Onyx-like technical solutions is an expensive proposition, Bach says, but she thinks that international insurers and assistance providers will increasingly look to technological advances to further the cost containment cause. It is possible, she says, that New Frontier might one day lease its Onyx platform to outsiders, though that is not happening yet.
Bach agrees with Galen Grobstein on a key point though – US healthcare is so expensive, complex and unfamiliar to outsiders, that local cost containers, including PPOs, will continue to play an important role: "They know the local market and they know the best places to go to get the best deals."

Future shock

Experts agree that, regardless of the forms it may take, cost containment is not going away; it is an absolute essential for internationals needing to access the US healthcare marketplace. They also uniformly recognise that pressures are being brought to bear that will likely lead to higher costs going forward.

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PwC, for example, points to the convenience factor as one likely cost driver. In the early 2000s, care utilisation and medical prices both drove overall costs upward. But after that, use of healthcare services declined precipitously while medical prices continued to modestly rise, accounting for the current 6.5-per-cent growth rate. But PwC projects that as conveniences like retail clinics and urgent care centers continue to proliferate – and as more previously uncovered Americans obtain insurance coverage under the ACA – utilisation rates will rise, likely inflating costs.
Another factor that worries experts is the proliferation of healthcare mergers and acquisitions (M&A). In her talk before the International Travel and Health Insurance Conference (ITIC) in San Diego earlier this year, Galen Grobstein presented research on M&A activity in the US healthcare market, showing that between 1998 and 2012, there were 1,113 mergers and acquisitions in the US, involving 2,277 hospitals. Citing research from Kaufman, Hall & Associates, Galen Grobstein indicated that there were more than 95 such transactions annually between 2012 and 2014.
In some cases, she said, mergers were intended to reduce struggling smaller hospitals, while others were done with the intent of creating economies of scale, so hospital systems could buy expensive therapeutic technologies in bulk and unify their >>

electronic medical records.

M&A's impact going forward, Galen Grobstein suggests, could be huge. It seems to be creating 'super-sized' hospital systems, both locally and regionally throughout the US .Their market power will be greatly inflated, forcing payers to negotiate contracts with entire healthcare systems rather than individual providers – a factor Galen Grobstein suggests could increase negotiated contract rates.

The word 'monopoly' comes up repeatedly in this conversation. "I think that the system will have to carefully evaluate monopolies," says Bach, "because monopolies are not going to bring anything good. I think that will be a very difficult development if that is the way that the world is actually turning."

Others, while also wary, are perhaps slightly less concerned. Itzchaki sees the issue as 'a little bit cyclical': "There could be a monopolised situation in a market for a period of time, but sooner rather than later, somebody else is going to get into that market and bring back that competitiveness. We find it goes a little bit on and off."

Hrusa has a similar view, if for different reasons. He sees it as contrary to the healthcare systems' interest to drive their prices beyond the reach of international patients. Tourists and expatriates will continue travelling to the US regardless of what happens in healthcare, he says – if a monopolised marketplace drives premiums past the point where those visitors can afford travel insurance or group plan premiums, they will still keep coming, and they will still need healthcare. In that instance, Hrusa thinks, hospitals would end up caring for patients who have no means of paying, and they would have to absorb those costs – monopolisation, therefore, is in no one's best interests.

Trump v. Clinton

The final factor is the political environment of the US Congress, which passed the ACA in 2010, requiring Americans to purchase health insurance and providing subsidies to those who cannot afford it. It has also expanded Medicaid coverage to indigent Americans and forbids insurers from denying coverage for pre-existing for addressing the fundamental issue of insuring millions of previously uncovered lives. However, he notes, there have been difficulties. Some insurers have suffered big losses trying to compete on the ACA's online exchanges. As this story was coming together, for example, insurance titan Aetna announced that it planned to scale back its participation in the Act, citing deep financial losses. Political pressure to repeal the law has been intense from the beginning. As of February, the Republican House had voted to repeal the law an astounding 62 times. Those were essentially symbolic votes that had no chance of withstanding a presidential veto, but demonstrate the virulence of conservative opposition to the Act.

As the contest between Democrat Hillary Clinton and renegade Republican Donald Trump nears, the lines over the ACA are drawn in stark relief. Clinton pledges to 'heal not repeal' the law. Trump sides with House Republicans who want it 'repealed and replaced'. Whoever wins, though, unpredictable changes lie ahead that will likely impact international payers and assistance companies as much as they do Americans. No one doubts, however, that in keeping with his maverick approach to the presidential race, unpredictability would be greatly increased under a President Trump. "If it were Trump, there is a high probability that more significant changes would be made," Hrusa says. "If the pool of uninsureds were to rise again because payments are limited, then companies will have to adapt to that. Payers and providers are looking forward to those discussions, right?"

What next?

Cost containment remains a vital issue for international payers and assistance companies that do business in the US healthcare market. Tried and true containment options like PPOs are still going strong, despite calls by some for wholesale changes to the cost containment landscape. Indeed, people are trying different approaches, such as forming GPO-styled business alliances and turning to information technology; but all forms of cost containment remain valid and on the table.

Going forward, there are some big questions for international players. How much will costs rise after 2017? What will happen to the ACA? And how will the Wild West presidential election of 2016 influence healthcare costs? There is a single answer to all those questions – stay tuned. ■

[1] www.pwc.com/us/en/health-industries/health-research-institute/behind-the-numbers.html