



ELECTION 2008

## Still in the Game — Harnessing Employer Inventiveness in U.S. Health Care Reform

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Employers, historically key players in the U.S. health care system, are as interested in debates over health care reform as they have ever been. The pressures they face — the high and increasing

costs of health care and the balancing act between attracting labor and containing expenditures — have worsened as health care costs have grown faster than wages. Although the business community has been a reluctant actor in this arena, it remains skeptical that its interests will be served by solutions arising from the provider community or from increased government control. As policy analysts evaluate the effects of employer-sponsored insurance on universal coverage, the question of portability, and the lack of central control, employers will be trying to determine whether reform alternatives would leave their com-

pany and their employees better off than the current system.

There is no single “voice of business.” Large employers offering health benefits differ from smaller employers providing coverage, and both have priorities that are different from those of firms that don’t offer health benefits. Major suppliers to the health care system have an additional set of interests that are affected by reform. Most companies, however, face some common issues.

Issue number one is the high, increasing, and unpredictable cost of providing health benefits. Employers that offer health coverage do so essentially because their

competitors do.<sup>1</sup> Most employers voluntarily sponsor health insurance to attract and retain workers. Although economists argue that in the long run health care costs are part of total compensation and firms offset rising costs with lower wages, business competition is ferocious in the short term, and this argument does not factor into decision making.<sup>2</sup> Employers that fund health benefits have a higher cost base than those that don’t, and when competing globally, they are at a disadvantage because of the high costs in the United States.

Employers want to have healthy employees. It is intuitively obvious to business that healthier employees spend less money on health care and are more productive. The business community also believes in the power of competitive markets and consumer choice to de-

liver value. Employers have learned that competition and markets are not as easily adapted to the health care sector as they once thought, but they still believe that this type of approach is preferable to administrative pricing and other types of control. For employers, health benefits are supply-chain costs, and as with any procurement, the goal remains the highest quality at the lowest cost.

Above all, employers want both predictability and control of their own destiny. Businesses understand that whether we retain today's model of direct sponsorship or shift to a system in which they contribute through payroll taxes, they will continue to be substantial funders of the health care system. It is in the DNA of business to be wary of sacrificing authority over that for which it has responsibility.

After the fall of managed care, employers expressed interest in exiting the sponsorship of health benefits, and we saw a transient blip in support of a government-controlled system. Recent surveys have shown, however, that large firms are now reluctant to stop

offering coverage (see table). There are several reasons for this shift. One is that employers' complaints about involvement in health care are directly related to increases in health care costs, which have moderated in the past several years. Another is that business has seen government control as the main alternative, and its traditional skepticism about government's ability to drive efficiency has been magnified by the continued ability of special interests, both trade groups and lobbyists, to control the public policy process.

Yet business has not embraced the idea of free markets as a long-term, sustainable solution, as evidenced by its low uptake of high-deductible health savings account products. Employers believe that consumer choice is essential to improving value, but given the complexity of health care information, most are convinced that managed consumerism is preferable.

Finally, surveys indicate that the majority of people with employer-sponsored health coverage — who are the majority of Americans — are satisfied.<sup>3</sup> Although

employer-sponsored insurance is an imperfect system, employers have invested substantial resources in making it work and, given the vastness of the health care system and the risk of unanticipated negative consequences, they will approach comprehensive changes warily, preferring the devil they know to the devil they don't.

Employers believe that the private sector's flexibility and inventiveness are critical to improving the system. The Employee Retirement Income Security Act (ERISA), which allows employers to offer a national benefit plan that is exempt from state and local insurance oversight, has enabled employers to deliver equitable, competitive, administratively efficient, and innovative benefits to employees across state lines. It has led to initiatives such as managed care, performance measurement and reporting (e.g., by the Leapfrog Group), disease management, and pay for performance, all of which have been embraced by Medicare. Employers will fight hard to protect ERISA, which makes even market-based reforms difficult to sell. Proposals involving insurance exchanges that offer employees multiple insurance options (and may enable employers to exit sponsorship) are a case in point. Although employers appreciate the competitive aspects of this approach, the details of how the exchanges are regulated, the effects on innovations in benefit design, and the implications for ERISA will determine whether employers support it.

The majority of the uninsured are either employees or family members of workers at firms with

Approaches to Health Care Favored by U.S. Businesses.\*

Options Given for the Question "Does Your Company Favor the Following Options?"	Yes or Maybe	No	
		Undecided	
		percent	
Maintain existing system with improvements	84	10	3
Shared responsibility (e.g., Massachusetts model)	67	22	9
"Voucher" and insurance exchange	54	30	11
Single payer with supplemental private insurance	39	48	9

\* Data are from the annual member survey of the Human Resource Policy Association, conducted in January 2007. For this question, survey respondents were instructed: "Please indicate the option or options that you believe the association should carefully consider and develop as a recommendation to policy makers." Not all respondents answered each question.

fewer than 50 employees. Small companies staunchly resist a mandate that employers offer coverage, arguing that the expense would be economically ruinous. Large employers, which benefit from the tax sheltering of their health

in cost containment and quality of care.<sup>5</sup>

How, then, can policymakers address business's concerns? Solutions should reflect the business community's heterogeneity and provide alternatives for em-

ers to spell out what shared responsibility for covering the uninsured would look like.

The experience with health care reform in Massachusetts and some other locales has demonstrated that government and the private sector can work cooperatively to make progress. Although few employers are expert in the details of health care reform, they are good at assessing the value of a deal — and knowing a good one when they see it.

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care expenditures, also bear — through cost shifting — much of the cost of care for the uninsured, yet they are philosophical allies with small employers in resisting government mandates. Still, no one has yet put an economic value on what a pay-or-play policy would mean to them. The business community does not want to assume an undue burden for solving a societal challenge; it would support a goal of shared responsibility only insofar as it would not hinder competitiveness.<sup>4</sup>

Employers recognize that neither the restructuring of insurance nor universal coverage will address rising costs and quality shortfalls, and they anticipate that the costs of an inefficient system would continue to be borne by them and their employees. Support for reform will be contingent on policies that drive improvements

employers to choose from. A corollary is that the enthusiasm of some employers for a particular option should not be taken to represent broad support. Proposals must address cost containment, create a performance-sensitive health system, and include substantial efforts to pay providers according to the value of their services.

Facing rising costs head-on will require taking on powerful interest groups. Employers know that one company's cost is another's revenue, but they also believe that innovation is key to improvement. They will be looking for policies that aggressively reduce waste but also encourage new approaches.

Policymakers need to educate businesses about the impact that care for the uninsured has on companies' health care costs. They also need to work with employ-

Dr. Galvin reports holding stock and stock options in General Electric. No other potential conflict of interest relevant to this article was reported.

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