Runaway Health Spending Targeted by Midwest Business Coalition

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- One of first commercial groups to set health spending caps
- Employers have no legal authority to enforce limits

A coalition of Midwest businesses is setting targets that would limit the growth of health-care spending over the next three years.

The Midwest Health Initiative, funded by the St. Louis Area Business Health Coalition, is working with health-care systems, insurers, medical groups, labor unions, and public sector employers in the St. Louis area to hold health-care spending increases to 5% in 2023 and 4% each year for 2024 and 2025, Louise Probst, the coalition’s executive director, said in an interview.

The initiative—which includes companies such as Boeing Co., Anheuser-Busch Cos. LLC, and Bayer—is following in the footsteps of Massachusetts and other states that have embraced spending growth targets in an effort to curb the nation’s runaway health-care costs.

Oregon and Washington cap health-care spending in their states by setting medical prices at a multiple of Medicare rates for providers enrolled in state employee or some Affordable Care Act plans, and at least 10 states are establishing spending growth targets using different types of levers, according to a report issued by the initiative.

Only Massachusetts, which became the first state to enact targets for annual spending increases in 2012, has enough years of experience to assess success, said Debra Lipson, a senior fellow with public policy research firm Mathematica.

The state, which had among the highest per-person spending in the country when it set spending targets, saw its rank in health spending fall to seventh highest in 2019, she said.

Legal Authority Lacking

Employers have no legal authority to enforce the price targets, and the Midwestern group appears to be the first commercial group to try an approach similar to what governments are doing.

The group hopes public pressure will provide an incentive for health-care providers to keep their prices and spending within the goals.

The initiative has a database of claims costs for about 2 million commercially insured people covered by employers in the region, Probst said.

The initiative will use the data to determine per member per month spending targets and measure quality, she said.

Health-care spending growth dropped to 2.7% or $4.3 trillion in 2021 after rising sharply during the pandemic, the Centers for Medicare & Medicaid Services reported in 2022.

Prior to the pandemic, spending rose about 4% to about $3.8 trillion in 2019, and it rose about 5% to $3.6 trillion in 2018.

In addition to holding down health-care spending growth, the group is promoting the use of primary care practitioners, and it plans to report the results of its initiative publicly starting in the spring of 2024, she said.

“A key message from employers is they’re really tired of trying to manage health-care spending on the backs of their employees” by raising the employee share of premiums and out-of-pocket costs, Probst said.

Controlling Spending

Employers understand they must be a part of controlling spending, and they’re looking for ways to support health-care providers in achieving lower spending, Probst said.

David Cook, president of the St. Louis-area United Food and Commercial Workers, which covers about 10,000 mostly retail grocery workers and their families, said in an interview that he would like to see lower spending growth targets. The USFW is a member of the St. Louis Area Business Health Coalition.

However, Cook said, the hospitals wanted higher targets.

A major accomplishment of the group is that “We got everybody that matters at the table,” including hospitals, insurers, and employers, he said. “We all realized, I think during this process, that this uncontrollable increase is not sustainable any longer. And we got the hospitals to agree to that.”

If hospitals hit the spending targets, “we can start adjusting that target,"Cook said.

J.C. McWilliams, vice president of managed care for BJC HealthCare, said in an interview that the three-year spending targets may provide “the opportunity for purchasers and providers of health-care to meaningfully collaborate on efforts to deeply understand health-care cost drivers, and opportunities to bend the cost curve together.”

BJC is one of the largest nonprofit health-care organizations in the US, operating 14 hospitals in the St. Louis area and rural Missouri, including Barnes-Jewish Hospital, St. Louis Children’s Hospital, and Siteman Cancer Center.

Employers can collaborate with health-care providers to help achieve those goals by identifying “ways to drive meaningful change.” That includes a “broad spectrum” of cost drivers, such as improving the health status of employees and their family members, smart benefit design, improving quality and efficiency in health-care delivery, and “understanding the myriad of other inflationary cost drivers on the provision of care,” he said.

John Ziegler, senior vice president and chief administrative officer of 3,300-employee coal mining company Arch Resources Inc., said in an interview that “from the purchaser side, we wanted negative growth.”

But, he said, “we’re not going to be able to sit around the table and tell the providers that they were going to have to have negative growth, especially on something that’s a voluntary activity.”

The group focused instead on keeping spending growth comparable to wage growth, Ziegler said.

‘A Strong Signal’

The St. Louis-area project with employers “sends a strong signal to the major insurance companies and providers that the one of the major financing sources for commercial health insurance wants to see some changes,” Mathematica’s Lipson said in an interview.

“One of the ways the employers in particular have been trying to control their health-care spending is by shifting more of the cost to employees,” through a greater share of monthly premiums or higher out-of-pocket costs through higher annual deductibles and copayments, Lipson said. “Either that or they just cover those increased costs themselves, but then can’t provide the kind of wage increases that employees might want.”

Affordability for consumers needs to be measured separately, Lipson said. Some states, such as Connecticut and Rhode Island, are setting spending targets that include consumer affordability, Lipson said.

Generally only large self-insured employers have the means to implement strategies to control consumer costs as well as costs paid by the employer, Lipson said.

“If they’re really serious about trying to contain overall costs both for the employer and the employee, then they have to kind of get their hands dirty and be much more sophisticated,” she said.

That could involve asking their plan administrators to negotiate value-based payment arrangements with health systems based on meeting quality and cost targets, she said. Those arrangements base payments on the value of the service in contrast to fee-for-service payments based on individual services, which are believed to contribute to higher expenses for a higher volume of services.

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