



Deal or No Deal?

When is a Health Insurance Discount Really a Discount?

By Samuel J. Schmitz

As we move into the latter half of the year, during some tough economic times, businesses are analyzing budgets for next year. Everything scrutinized, including one of the biggest line items—a company's health insurance benefits.

But how does a company determine how employee health insurance benefits fit into the bottom line? For businesses that are self insured for health benefits, one common tool is the discount off the health care provider's billed charges. The type and amount of discounts provided are a way to easily see how going with Company A for insurance benefits, versus Company B, will effect a businesses bottom line. Sounds logical, yes, but unfortunately, as commonplace as it is, it is a flawed system.

To begin, the definition of the word “discount” can be ambiguous. There is no industry-wide definition of what constitutes a policy discount. Secondly, because discount selling is based on percentages and there are no strictly enforced mathematical formulas for determining those percentages, again, the discount becomes an ambiguous number.

Consider this comparison. GoodHealth, a regional proprietary PPO, and Life Form, a national carrier, are both negotiating with Acme Company for its health benefits contract. Acme's CEO has expressed concerns over costs.

GoodHealth offers a broad network of regional providers, data collection analysis, cost control through high-quality care and real consumer choice and, of course, discounts; specifically, a 45 percent discount.

Life Form, the national carrier, offers similar extraneous benefits, but Life Form presents Acme Company with a whopping 60 percent discount.

When comparing basic numbers, the choice seems obvious. But what one must ask is, how were the percentage discounts calculated?

GoodHealth determined its offered discount by dividing \$90,000 in known discounts by \$200,000 in known charges. \$90,000 divided by \$200,000 equals 45 percent – basic math for most of us.

Life Form used a little fuzzy math to reach its 60 percent discount. They started with the \$200,000 in submitted charges, but also factored in \$20,000 in known ineligible charges and another \$30,000 in

employee deductibles and out-of-pocket expenses. After whittling the eligible charges down to \$150,000, Life Form divided that number into the \$90,000 in known discounts, resulting in an over discount of 60 percent.

Not a lie, just a clever manipulation of a system lacking in rigid definitions.

When comparing proposals, make sure you compare apples to apples. Know exactly how those short-term discounts were reached. Are the quoted discounts in your locale or some other region? How many providers in the proposed network offer the quoted discount? Is the quoted discount an average of all claims, or just selected episodes? And, look at the long-term picture too. One company may offer a larger discount up front, taking a loss themselves to bring your company onboard. Ask them to show how they'll maintain that discount long-term.

Whatever the outcome, it is advisable to be wary that there are tricks of the trade. Asking questions is the sure way to insure the long-term health of your company's bottom line.

Samuel J. Schmitz is Executive Director of the Employers' Coalition on Health (ECOH), a non-profit a non-profit coalition of local employers who collaborate with providers to progressively reform the health care delivery system in northern Illinois. Learn more on the web at www.ecoh.com.