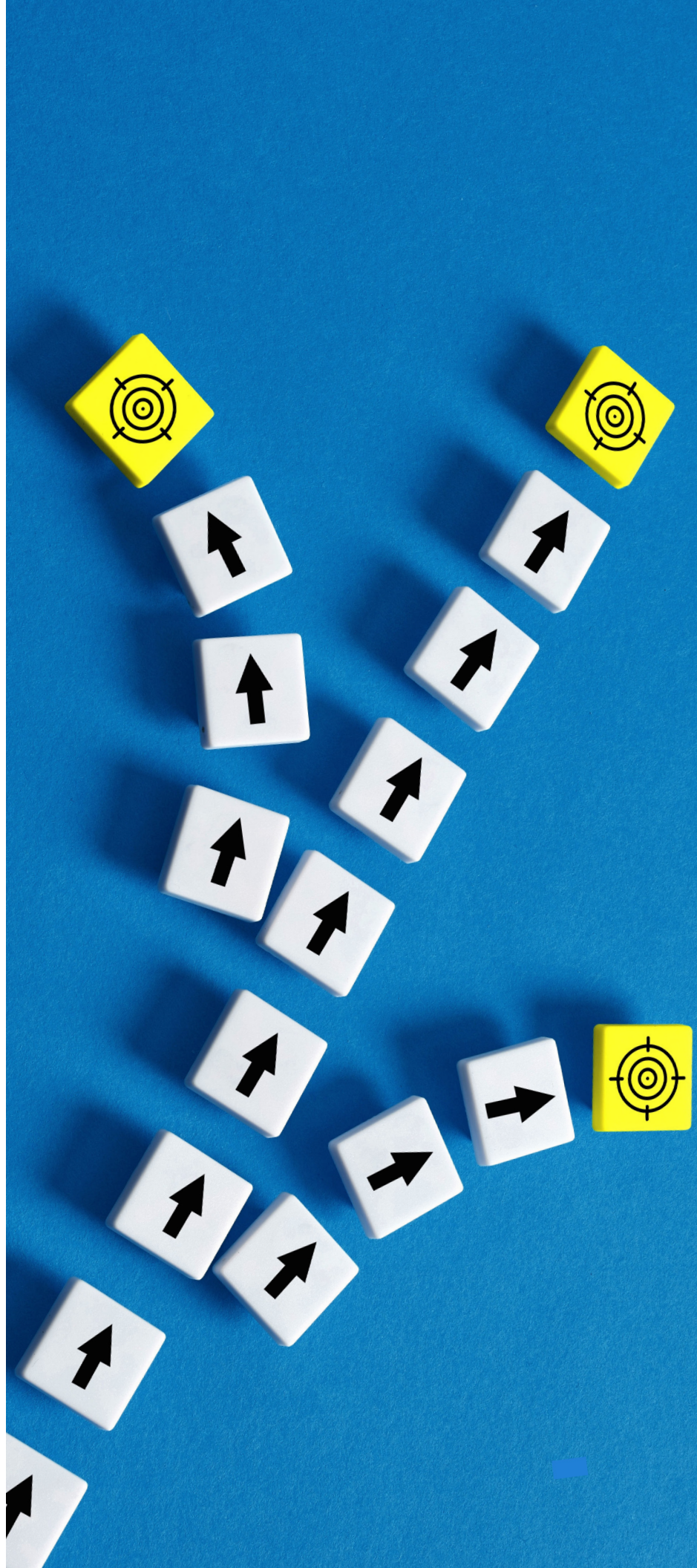


A Path Not Taken: Vendor Management in Employer Sponsored Healthcare



INTRODUCTION

When Optimum reviewed a broad sample of employer survey findings, a missed opportunity stood out.

Today’s employers are throwing everything they can at the intractable problem of year-over-year cost increases in their employee health plans. Beyond cost management, employers are challenged to provide a workplace benefits offering that attracts and retains employees in an uncertain hiring environment.

At Optimum, we wondered about the role of vendors in supporting employers in these challenges. Employers outsource health plan administration to external vendors, and spend a great deal of time hiring trusted advisors, issuing requests for proposals (RFPs), and managing these relationships.

So we wondered: Are companies getting enough support from their vendors? Are they fully optimizing these relationships?

We “surveyed the surveys.”

For answers, Optimum reviewed more than thirty employer surveys conducted by leading consulting firms over a three-year period to help us identify the role of vendors in addressing employer sponsored health plan challenges. These

annual healthcare surveys provide insightful guidance to workplace plan decision-makers, who rely on the results when making future plan and program decisions.

Vendor management: A missed opportunity for business outsourcing.

While we understand that the tactics employers use to address their HR issues will vary based on individual company dynamics, we reasoned that what ALL the employers had in common was a multitude of external vendor relationships. These relationships include insurance companies, managed care and mental health provider networks, point solution providers, and a plethora of HR supply chain vendors that are often siloed and complex, making vendor accountability an even bigger challenge.

Based on our review, we discovered that employers did **NOT** report a focus on an approach that could potentially assist them with their challenges: **Vendor management**. Indeed, there was zero focus on optimizing these relationships, even as one assumes their importance as a key business process outsourcing (BPO) partners.

KEY TAKEAWAYS



- *Optimum reviewed a large sample of survey findings to help us identify key opportunities for human resources (HR) and employee benefits leaders to pursue.*
- *Based on our analysis, vendor management across the HR supply chain, is an untapped area with great potential and merits further consideration.*
- *Ensuring that vendors are aligned with an organization’s business goals and taking measures to enforce greater accountability from these relationships may help mitigate cost and improve outcomes for today’s employers.*

Our review of the survey responses from nearly 10,000 organizations reveals this lack of focus. We think this is a strategic miss.

Why? Because we believe that greater scrutiny and tighter management of an organization's chosen vendors could potentially help organizations improve their outcomes. A focused vendor management strategy can hold your vendors accountable for pursuing and achieving your business objectives, not their own, consistent with SLA's and performance guarantees seen with other vendors.

Vendor management can include a process of harmonization, where, for example, all the vendors in an HR supply chain are evaluated for potential consolidation, maximum effectiveness and cost savings. Such an evaluation may lead to the pursuit of new contract terms with chosen vendors to enable more meaningful and measurable outcomes. (See Parts 3 and 4 where we discuss this topic in more detail.)

This appraisal explores the implications of the vendor management "gap" for today's decision-makers.



OUR METHODOLOGY

- We completed a review of surveys and studies conducted by eleven organizations (Aon, Business Group on Health, Deloitte, Gartner, KFF, Lockton, Mercer, PwC, Segal, SHRM, and WTW) over a three-year period (2021 through 2023).
- Survey respondents spanned multiple industries and included small, medium and large-sized employers.
- Nearly 10,000 employers were covered in these surveys, plus approximately 70 health insurance providers, 30 health benefits experts and/or actuaries and over 1,300 clinicians.

PART 1

What employers say are their top challenges.

Based on the consensus of the survey respondents, we summarize three broad challenges facing today's employers below:

1. HR recruitment.

Gartner found that recruiting is a top priority for 46% of HR leaders¹ and 26% of CEOs ranked talent shortage as the top damaging factor to their business outlook.² Organization after organization in the surveys reported that recruitment and retention was THE top factor in their benefits decision-making.

Comprehensive health benefits are often a decisive factor for job seekers, especially in competitive industries, and employers continue to view health benefits as a valuable recruitment and retention tool.

The importance that workers place on benefits means that employers have had to implement creative retention strategies and expanded benefits packages to combat attrition, with, for example, many employers exploring “perks that make a difference.” Nearly two-thirds (64%) of employers of all sizes were planning benefit enhancements for 2024 with this in mind.³

Recruitment and retention are THE top factors in benefits decision-making.

2. Rising healthcare costs.

There is constant upward pressure on healthcare costs, and employers need to decide how to manage costs without negatively impacting their recruitment and retention strategy. Pharmacy benefits costs, for example, are escalating (an 8.4% increase in 2023 alone). This is partly due to the proliferation of GLP-1 drugs to treat diabetes and obesity, and employers continue to grapple with the cost ramifications.³

Over three-quarters of health insurers anticipate higher or significantly higher medical trend over the next three years.⁴ Costs for 2024, for example, were predicted to rise between 5.4% and 7.7% with no relief in sight.⁵

“In what remains a tight labor market, employers are absorbing most of the health care cost increases,” says Debbie Ashford, Aon North America Chief Actuary.⁷



Chief Financial Officers are worried about healthcare expenses

Healthcare benefits typically represent the largest expense compared to other operating expenses. According to Mercer in their report “The CFO Perspective on Health,” a majority of CFOs surveyed (68%) viewed health benefit costs as a significant or very significant concern, as compared to other operating expenses.⁶

“As we’re returning to more normal post-pandemic utilization of the healthcare system, we’re seeing the conversation switch to the prevalence of cancer and specialty drugs and treatments, GLP-1s to treat obesity and behavioral health,” says Craig Kurtzweil, chief data & analytics officer for UnitedHealthcare Employer & Individual, “but underpinning it all is a concern around costs.”⁸

“In what remains a tight labor market, employers are absorbing most of the health care cost increases.”⁷

3. Keeping their workforce healthy.

Employers are struggling with the long-term complex conditions such as musculoskeletal disorders, cancer and mental health disorders found within their workforce.

Aon’s Debbie Ashford points out that key drivers of volatility for employers are new treatments and increased care costs for patients managing long-term complex conditions. “It is not uncommon to see one percent of membership driving 40 percent of health care spend in any given year,” she says.⁹

The Business Group on Health found in its survey that 77% of respondents saw increased mental health issues in 2023.¹⁰


“It is not uncommon to see one percent of membership driving 40 percent of health care spend in any given year.”⁹





PART 2


Strategies employers are using to address their challenges.


Some of the initiatives companies are using are familiar, recurring tactics to control costs, including:

- 

Increasing deductibles, coinsurance, co-pays, and premium contributions.
- 

Adopting and/or refining high deductible health plans (HDHPs).
- 

Adopting custom or narrow drug formularies.
- 

Requiring spousal surcharges.
- 

Conducting periodic dependent eligibility audits to crack down on misuse.

In an encouraging development, Aon reports that many leading employers are considering the use of a “Global Health Dashboard” for regular claims and diagnostic data for their healthcare plans, which can then be used to make more informed decisions on program and cost management.¹¹

Beyond these tactics, employers report they are using various strategies to address their challenges of controlling cost, managing their talent pipeline and keeping their workers healthy, which we address in the chart below.



Employers report these initiatives to combat their challenges

Initiative	Rationale	Strategies Being Considered
1. Offering benefits and more flexible work options to enhance employee recruitment and retention	<p>Companies are recognizing that compensation alone doesn't build the sense of belonging that a well-designed benefits program can. They are continuing to evolve how and where employees work. Post-pandemic, a remarkable 58% of workers reported having the option to work from home at least one day a week.¹⁴</p>	<ul style="list-style-type: none"> ▪ A home office/technology and/or a cell phone stipend ▪ Tuition reimbursement ▪ Student loan repayments ▪ Fertility benefits ▪ Caregiving support ▪ Pet insurance ▪ Legal services ▪ Identity protection ▪ Free or subsidized meals at work ▪ Subsidized transportation^{12, 13}
2. Tightening their complex condition management and pharmacy spend	<p>Healthcare costs can be driven by a relatively small number of high-need individuals. What's more, pharmacy benefit costs continue to rise as new specialty drugs drive spend.</p>	<ul style="list-style-type: none"> ▪ Implementing intensive case management and prescription drug management programs to better manage claims related to cancer care, renal care or dialysis, and catastrophic care. ▪ Providing healthcare navigator services for employees. ▪ Encouraging employees to work with diabetes, hypertension and weight coaches. ▪ Expanding PBMs with tighter prescription management and formulary controls, prior authorization and drug tiering. Ascertaining if the medical plan or PBM is the most cost-effective for the access and delivery of certain medications. ▪ Utilization control (evaluation of a treatment plan with an eye toward cost control). ▪ Introducing high-performing networks. ▪ Encouraging the use of Centers of Excellence (COE). ▪ Expanded pre-approvals for care.¹⁵
3. Focusing on workplace/total wellbeing	<p>83% of global employers report having a well-being strategy in place and consider it a top priority for the next five years.¹⁶ Companies also are realizing that they cannot rely on ad-hoc perks and programs alone. For any wellbeing strategy to work, it must be built on an understanding of root causes, underlying cost drivers and evaluated by using robust data.¹⁷</p>	<ul style="list-style-type: none"> ▪ Wellness promotion education and tools ▪ Fitness/gym programs ▪ EAPs ▪ Wellbeing portals ▪ Financial health education
4. Using digital therapeutics/virtual care to improve access and follow-up	<p>The pandemic accelerated providers' improvement in digital experiences and this trend shows no sign of slowing down. PWC reports that virtual primary care visits are expected to increase in the coming years as well.¹⁸</p>	<ul style="list-style-type: none"> ▪ Companies are actively focused on expanding telehealth and virtual care solutions for behavioral health support. 55% of employers plan to expand their virtual health offerings.¹⁹ ▪ In addition to improving access for their worker populations and increasingly being viewed as complementary to in-person visits, telehealth has also emerged as a top cost management strategy for employers.

Employers report these initiatives to combat their challenges (cont'd.)

Initiative	Rationale	Strategies Being Considered
5. Stepping up mental health programs and support	<p>According to UHC, 92% of surveyed employees said it's important to work for an employer who values their emotional and psychological well-being and provides employee mental health support.²⁰</p> <p>Nearly half of employees globally report feeling stressed in everyday life.²¹ It's unsurprising, then, that the nation's largest employers ranked improving access to behavioral health care as their number one priority for the next three to five years.²¹</p>	<ul style="list-style-type: none"> ▪ Two-thirds of survey respondents plan to improve their EAP. ▪ Over a third are training managers to recognize behavioral health issues and direct employees to existing resources. ▪ Nearly a fourth are responding to a shortage of mental health professionals by contracting with supplemental networks. ▪ Implementing virtual counseling for behavioral health issues is among the top five cost management strategies used by employers.²²
6. Recognizing and addressing health disparities among different populations	<p>Employers are stepping up their efforts to impact social determinants of health, including healthcare access, financial management resources, and childcare.</p> <p>Companies are looking for cost-effective ways to address this issue, and employers are pivoting to strategies that don't always shift costs to employees, such as providing more intensive care management and steering patients to higher-quality care.²³</p>	<p>Employers are considering expanded coverage in the following areas:</p> <ul style="list-style-type: none"> ▪ LGBTQ+, including family-building support and specialized support for mental health. ▪ Fertility benefits, adoption and surrogacy benefits. ▪ Enhancing coverage across the reproductive health spectrum to help mitigate women's challenges, such as lack of access to care and increasing rates of maternal morbidity. ▪ Increasing coverage for doulas. ▪ Addressing benefit gaps for people with disabilities.²³



PART 3

The road not traveled: Vendor Management.

What is vendor management and what role does it play in helping plan sponsors with these issues? Vendor management is a critically important benefits program objectives (BPO) strategy designed to hold your vendors accountable for helping your organization meet its key BPO for any given year.

A strong vendor management process involves mapping out and attaining operational efficiencies throughout the healthcare plan ecosystem, ensuring transparency in the sponsor and participant experience, and receiving regularly updated, accurate data, diagnostics, reporting and predictive modeling to inform your decision-making and planning.

Questions to ask yourself to seek greater accountability from your vendors

To implement a vendor management strategy, we suggest you consider the following questions in your internal deliberations and relationships with your vendors:

- Each year, do you provide your vendors with a thorough briefing of your overarching business objectives for your benefits program? Are your vendors in alignment with your stated objectives? Are they paying you lip service or is this in writing?
- Do your vendor agreements include clear and tight articulation of KPIs? Do they reflect fulfillment of specific deliverables, product enhancements, metrics, etc.? Are they incented to meet certain deliverables?
- Are your vendors using scorecards and dashboard analytics that enable you to review success measures across your HR programs and to identify future opportunities? Do these tools demonstrate you are receiving optimal outcomes?
- Has your organization spent time focused on issuing RFPs to new vendors versus extracting greater value from your existing vendors? If you work with many vendors, are you looking at the sum of all your parts? Are there operational efficiencies you might be overlooking?
- Has your organization integrated operations across your vendor supply chain where appropriate? (i.e. Behavioral health integrated with your insurer?)

A Strategically Underutilized BPO Model

“In our analysis we concluded that there are a common set of initiatives employer-sponsored health plans use within their overall benefits plan strategy to combat their vendor and cost challenges. Vendor management is a strategic outsourcing option that remains severely underutilized and worth pursuing for greater alignment with an employer’s business objectives to achieve measurable results.”²⁴

– David Neikrug, CEO, Optimum

What are some ways your vendors can better support your organization?

Given the initiatives plan sponsors report that they are pursuing, what role can vendors play in helping them to improve outcomes? Here we present some suggestions in pursuit of greater value.

	Type of Vendor	Questions to Consider
Reworking complex condition management approach	Case Management Health Plan Provider	<ul style="list-style-type: none"> Does your vendor provide intensive case management services to help your organization rein in expenses by reducing the likelihood of duplicative or low-value services? Do they offer regular and comprehensive reporting to help you understand what is driving your complex condition claims (i.e., musculoskeletal or cancer)? Is your vendor, if separate from your health insurance provider, integrating its services and reporting to ensure visibility into program outcomes? Does this reporting drill down from an enterprise to a business unit level to help you identify specific gaps, over or under-utilization, and to manage the trend? Does your vendor promote the use of Centers of Excellence (COEs) who are measured on cost, low readmission rates and short inpatient stays?
Using digital therapeutics/virtual care to improve access and follow up	Health Plan Provider Behavioral Health Point Solution Provider	<ul style="list-style-type: none"> Does your provider offer a digital/virtual care ecosystem? If so, are the apps integrated and talking to each other? Or are they standalone and in silos? Who serves as the “quarterback” for all of these digital tools on behalf of the patient? Are network doctors in the loop? What is the member experience? Ease of access? Does your provider supply metrics on utilization and cost reduction?
Stepping up mental health programs and support	Behavioral Health Point Solution Provider	<ul style="list-style-type: none"> Does your provider offer both in-person and virtual care support for greater accessibility? Is your selected behavioral provider integrated into your mainstream health plan so you can monitor and measure results, i.e., the transition of patients from an EAP to the health plan? Does your provider offer clear, comprehensive and targeted mental health reporting so you can hone in on problem areas and apply solutions?
Tighten management of networks and pharmacy programs	Pharmacy Benefits Manager	<ul style="list-style-type: none"> What are your PBM’s pricing practices? How are they addressing biosimilars? Other specialty drugs reaching the market? Are cost relief programs in place for specialty drugs? In order to effectively manage high-cost drugs like GLP-1’s, are prior authorizations in place? How are they determining which channel (health plan or PBM) is most cost-effective for delivery of specific medications? Due to the complex dynamics between drug manufacturers and PBMs, are you consistently monitoring and reviewing their prescription drug plan vendor contract terms?
Recognizing and addressing health disparities among different populations	Health Plan Provider	<ul style="list-style-type: none"> Can your vendors produce data to help your organization determine where your healthcare disparities exist? (Having the coverage and being able to use the coverage are two separate things.) Does your provider offer the following: <ul style="list-style-type: none"> Specialized behavioral health support. Targeted communications, including languages other than English. Health provider search functionalities to identify acceptable providers. Coverage for doulas, midwives, birth centers or other alternative care to improve outcomes for women of color. Enhancements to improve racial or ethnic group’s member experience.
Ensuring subrogation process coordination	Subrogation Vendor	<ul style="list-style-type: none"> Does your subrogation process produce expected results and recoveries?

PART 4

Consider the merits of a vendor management strategy.

It is standard operating practice for companies to actively outsource many aspects of their HR supply chain workstream, yet rarely do they take a step back to evaluate all the moving parts and review for greater efficiencies. What accounts for this lack of focus?

It's true that companies are often challenged with the obligations that come with vendor management. The HR team is typically engulfed in the day to day and in the annual cycle of benefits administration. Managing an array of vendors can be a complicated, time-consuming and data-intensive process, requiring expertise and familiarity with market dynamics, contract management and a consistent, diligent approach.

When you consider all the moving parts inherent in the HR supply chain workstream, the problem is magnified. A patchwork of vendors may have developed over time, each one with a specific business rationale. Yet operational efficiencies and cost savings may be overlooked.

If your various vendor relationships and programs don't work together, you miss out on the benefits of integration and your internal teams are dealing with a greater administrative burden. And if they don't deliver the savings and efficiencies you expect, it makes it difficult to justify results to your management team and key stakeholders.

That is why, based on our review of the employer surveys we embarked upon here, we believe greater emphasis on a vendor management strategy is indicated for today's employers.

Vendor harmonization yields greater results

Reimagining that typical working model may yield a tangible return on investment. Picture your HR workstream vendors working in concert within an aggregated, holistic and more effective model.

At Optimum, we have found that as much as 60% of HR supply chain costs lie in the time it takes to find the best vendor and liaise with them throughout the relationship.²⁵ By concentrating on only a few vendors, these costs may decrease significantly. We refer to this as "vendor harmonization," a process of increasing the number of goods and services provided by the best-in-class vendor.

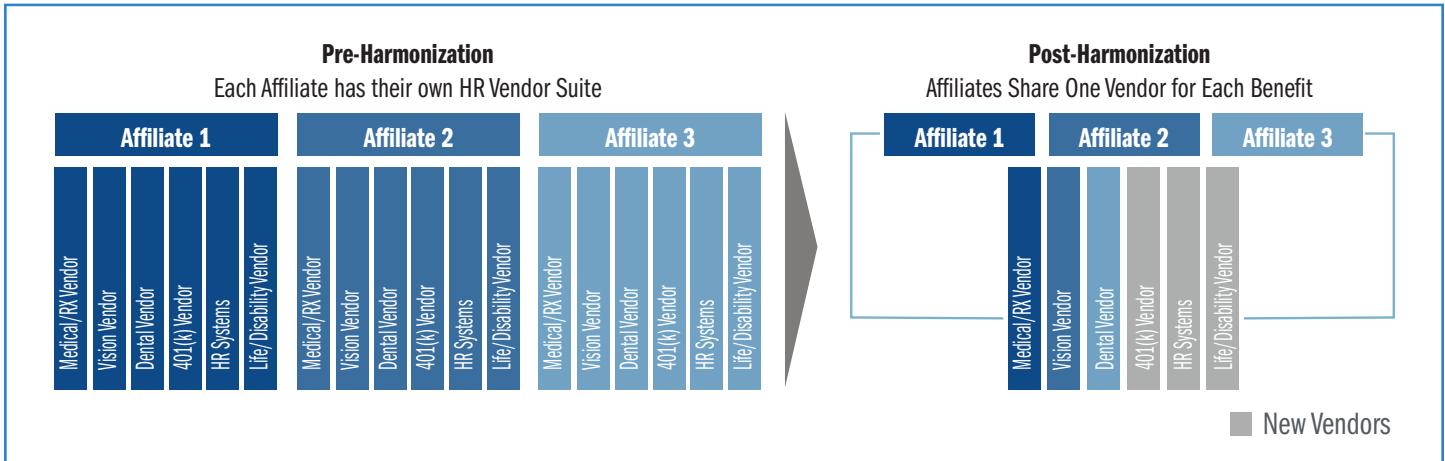


THE HR SUPPLY CHAIN:

Too many vendors and moving parts. Consider a holistic versus siloed approach.

Benefits of Vendor Management

The illustration below shows an example of a holding company with several affiliates, each with their own HR vendor suite. Pursuing a harmonization strategy allows the company to move from a “too many moving parts” to “carefully selected, fewer parts”. This enables the company to leverage the aggregate purchasing power of its portfolio to capture greater value.



Cost Savings

Economies of scale and aggregated purchasing power create value



Time Savings

Streamlined processes, fewer meetings, single customer support team, etc.



Enhanced Benefits

Access to benefits that were not available to them as standalone entities



Improved Compliance

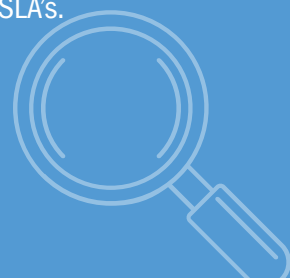
Consolidated reporting and streamlined compliance

It's time for a greater focus on vendor management.

Interestingly, in our review we noted that Mercer included this warning in their report: “As new vendor services enter the market many are promoting solutions or services that may focus more on generating revenue than producing measurable results or improving the participant experience.”²⁶

Indeed, Mercer’s caution is worth acknowledging. We believe in holding vendors accountable to your organization’s results, not to their own revenue projections. The stakes are too high to ignore the

vendor management opportunity in front of us. Ensuring that vendors are aligned with an organization’s business goals and taking measures to enforce greater accountability from these relationships may help mitigate costs and improve outcomes for today’s employers. Vendor performance and delivery of service must be held to the same high standards of scrutiny as other vendors, including performance guarantees and SLA’s.



About the Author

Optimum is a vendor management firm that optimizes and harmonizes the outsourced relationships in an organization's HR supply chain. Whether you are undergoing a corporate transaction or seeking stand-alone operational efficiencies in your HR workstream, we offer solutions and expertise that capture value, save time and improve outcomes. Optimum's clients typically reap significant savings in healthcare spend, improved compliance, and streamlined HR administrative processes.

To learn more about how Optimum can help your organization manage and optimize your vendor relationships for greater cost efficiencies, please call or email us for a complimentary discussion.

David Neikrug, CEO
212-652-8500
david.neikrug@optimatumsolutions.com
www.optimatumsolutions.com

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