
Employer Purchasing Pools: California's Experience Making Health Insurance Available to Small Employers

By John Grgurina, Jr.

This chapter describes PacAdvantage, the country's largest non-profit small-employer, health insurance purchasing pool. PacAdvantage now includes over 11,000 small California businesses, covering about 130,000 employees and dependents. PacAdvantage combines the purchasing power of small businesses (two to 50 employees) by sharing risks and negotiating competitive prices that offer a wide choice of quality plans, full-service products, and affordable co-pays. PacAdvantage has been able to expand coverage; before joining PacAdvantage, 30% of small-business employees were uninsured.

Health care costs have risen sharply in the past several years, with premiums potentially doubling in the next four to five years. This trend stems from many factors, including new and expensive drug therapies, increased negotiation power of consolidated hospital and provider groups, and administrative inefficiencies. At the same time, research on customer satisfaction and clinical quality indicates that overall health care quality has not kept pace with escalating costs.

One response that California has tried is the creation of small-employer purchasing pools, which spread the potential risks among a greater number of consumers. These pools attempt to balance the competing demands of quality, availability, and cost.

Small businesses have found it particularly challenging to offer and maintain a choice of affordable health, dental, vision, and chiropractic coverage options to employees during a time of escalating costs. Small firms that do offer coverage typically can provide only one plan to their work force. In many cases, small employers do not offer any insurance coverage to employees or their families because of cost, lack of options, and administrative complexity. The high rate of uninsured workers in small businesses adds costs to the health care system when the price of their unpaid care must be shifted to the public sector, and to customers who pay through insurance or out of pocket.

California's Response: Insurance Purchasing Pools for Small Businesses

California is a pioneer in helping small employers provide insurance through employer purchasing pools. The Pacific Business Group on Health (PBGH), founded in 1989, is a nationally recognized, nonprofit coalition of major California employers that aims to improve the quality and availability of health care while moderating costs. Referred to as value-based purchasing, employer purchasing pools balance the competing demands of quality, availability, and cost.

PacAdvantage is the country's largest nonprofit small-employer health insurance purchasing pool for employers with two to 50 eligible employees. Taken over by PBGH from the State of California in 1999, PacAdvantage combines the purchasing power of thousands of small businesses by sharing the risks and negotiating competitive prices for small business owners. It allows participating businesses to offer their employees a wide choice of quality health insurance plans, full-service products, and affordable co-payments. Among PacAdvantage's features are:

- ❖ **Choice.** Seven health plans are available [offering three Health Maintenance organization (HMO) co-pay products; two Preferred Provider Organization (PPO) products and one Point of Service (POS) product]; seven dental plans [offering Dental Maintenance Organization (DMO); Dental Provider Organization (DPO) and fee for service products]; two vision plans (offering two co-pay products); and a complementary care plan (offering two co-pay products).
- ❖ **Affordability.** Rate stability through pooling employers, offering a maximum employer contribution level, and employee choice of health plan, product (HMO, PPO, POS), and co-pay level;
- ❖ **Simplicity.** One convenient bill includes all the options that employees choose; and
- ❖ **Quality.** Similar benefits offered to large employers associated with PBGH are available to small employers through PacAdvantage.

How Did PacAdvantage Get Started?

PacAdvantage originated in 1992 as part of small-business health insurance reforms enacted in California under Assembly Bill 1672. No state funding was provided. However, a loan was authorized from the state's high risk pool (The Major Risk Medical Insurance Program), which was to be repaid over time. The loan from the high-risk pool was \$5.5 million over a two-year period. Revenues to repay the loan and for the operation of the purchasing pool were generated from administration charges paid to participating employers in the program. Formerly known as The Health Insurance Plan of California (HIPC), PacAdvantage now includes over 11,000 small California businesses, covering about 130,000 employees and dependents.

How Does California's PacAdvantage Work?

PacAdvantage pools small businesses to leverage purchasing clout to make health insurance more affordable. PacAdvantage strives to increase consumer choice and improve quality. The program also works to reduce the administrative burden for small employers.

PBGH's goal of containing cost increases while encouraging higher quality may seem like "Mission Impossible," especially now—when health care costs are escalating and the quality of products and services are stagnating. Yet, PBGH's promotion of value in health care is taking hold at many levels.

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A variety of PBGH initiatives seek to:

- ❖ Reward quality;
- ❖ Contain costs;
- ❖ Develop innovative benefit packages;
- ❖ Problem-solve in areas such as provider disruption;
- ❖ Push health plans and providers to improve performance; and
- ❖ Provide tools to members to be better purchasers.

PBGH identifies methods to improve performance through effective value purchasing and engaging consumers in making informed health care choices. For example, through the Negotiating Alliance and other purchasing strategies, PBGH supports employers in identifying ways to compare value across health plans. The coalition identifies health care and business trends, assesses the impact of those trends, and recommends practical steps to advance a common agenda.

Activities include:

- ❖ Restructuring performance measures.
- ❖ Coordinating with all PBGH members to better reflect purchaser priorities as a guide to selecting health plans.
- ❖ Helping employers to develop and assess near- and long-term purchasing strategies.

PBGH seeks to provide incentives to employees of both large and small employers to be “smart shoppers” in meeting their own health care needs. PBGH increases the availability and usefulness of information about the quality and economic efficiency of all levels of care: health plans, hospitals, medical groups, and individual physicians.

What Advantage Does California’s Model Offer Small Employers?

By pooling purchasing power and offering employees’ choice of health plans, small businesses and their employees can buy more affordable health care. Together, small businesses can receive insurance options formerly reserved for large corporations. PacAdvantage makes available multiple choices for health and optional benefits coverage to small employers joining the purchasing pool. These plans all offer the same set of benefits—the only variations are price and providers. PacAdvantage is based on consumer choice and offers a variety of health and optional benefits plans.

What Advantages Does California’s Model Offer Families?

The PacAdvantage model provides each employee the opportunity to select the health plan, product, and co-pay level that best meets their family needs. It also allows the employee to change plans, products, and co-pay levels each year

Together, small businesses can receive insurance options formerly reserved for large corporations.

during their employer's annual open enrollment period. With this opportunity employees may select a lower cost plan, change health plans to maintain their physician (if their physician is no longer available in the plan in which they are enrolled – which is happening in California on a more frequent basis), and change products that meet their changing family needs.

What Are the Effects of PacAdvantage?

PacAdvantage seeks to expand the number of insured employees in this sector and to offer a choice of health plans to each employee. Studies show that before joining PacAdvantage, more than 30% of small-business employees were uninsured and very few employees had the power of choice about their preferred health plan and product.

PacAdvantage has recently updated the HMO benefit offerings to more closely reflect packages being bought and sold in the California small-business market. For instance, previous HMO co-pays of \$5, \$10, and \$15 products changed to \$10, \$20, and \$30.

Additionally, in an effort to assist employees in making the best decisions about health plan, product type, and co-pay level, PacAdvantage now offers members an online health plan chooser tool. The PacPlan Chooser Tool (available at www.pacadvantage.org) gives consumers a way to bring cost, quality, and outside references into their health care decision-making.

This tool integrates member premium contributions, out-of-pocket costs, network providers, benefits, quality information, and plan rules into a single selection device. Its interactive capabilities give users the ability to rate and choose health plans according to their preferences. It is the first decision-making tool for members that has been used in the small-group market, and it provides a way for PacAdvantage members—and virtually all insured Californians—to better understand their health care coverage.

Other measures of PBGH efficacy include pioneering employee health plan satisfaction surveys in the early 1990s, and working closely with providers, payers, researchers, and others to achieve the highest quality and most cost-effective health care.

How Does PacAdvantage Meet Three Major Needs: Choice, Simplicity, and Affordability?

Choice

- ❖ Employers have a choice of affordable benefit packages for seven medical plans, seven dental plans, two vision plans, and one chiropractic/acupuncture plan, as well as a choice of employer contribution options.
- ❖ Employees have a choice of health insurance providers including Blue Shield, Health Net, and Kaiser. Employees have an annual open enrollment period in which they can change health plans and/or product types and/or co-pay levels.

Before joining PacAdvantage more than 30% of small-business employees were uninsured.

- ❖ Employees can choose from a comprehensive array of plan types, including HMOs, PPOs, and POS plans.
- ❖ Brokers have a larger selection of health, dental, and chiropractic/acupuncture plans than any other multi-choice program in California.

Simplicity

- ❖ Employers benefit from reduced paperwork through a simplified qualification and enrollment process and one monthly billing statement.
- ❖ Employees cannot be turned down for coverage because of health, age, occupation, or residence as is the rule in the rest of the small group marketplace.
- ❖ Brokers benefit from simplified benefits administration, as well as online quoting and sales tools.

Affordability

- ❖ Employers are guaranteed rates that are locked in for one full year.
- ❖ Employers can set a defined contribution and yet allow their employees to have a full array of choices from which to select.

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What Advice Can PacAdvantage Offer States Interested in Setting Up Employer Purchasing Pools?

The most important building block in creating a small-employer purchasing pool is that the market rules for the pool must be the same as for health plans offering products outside the pool. It is critical not to set up the pool with rules and or regulations that would provide an incentive for adverse selection to occur within the pool. For example, if most health plans were not required to cover self-employed individuals, but the small-group pool was, the adverse selection of the enrollment from high-risk, self-employed individuals would cause all of the pool's rates to rise. Over time, the pool's rates for small employers would be much higher than from the direct health plans. This could create a "death spiral" of rates and risk inside the pool, ultimately leading to its demise.

Conclusion:

What are the Lessons Learned From the PacAdvantage Experience?

The four major lessons learned from the small group purchasing pool are:

1. Employee choice of health plan, product, and co-pay are critical features highly valued by small employers and their employees. Employers and employees both strongly desire to have the choice between HMO and PPO products and want to have large brand name plans available to them.
2. The purchasing pool must be similar in operation to the market place to avoid adverse selection as well as to be a viable product in the small group market. These include:
 - ❖ Underwriting and eligibility rules

- ❖ Structure and payment of commissions to insurance agents and brokers
 - ❖ Benefit design and offerings
3. A voluntary purchasing pool (voluntary for employers to join and voluntary for health plans to participate) *by itself* will not dramatically reduce prices and solve the problem of the uninsured.
 4. Purchasing pools offer a great opportunity to be used as the vehicle for subsidy programs to encourage small employers to provide health coverage to their employees, particularly their uninsured employees.

This chapter was adapted with permission from information available at the following websites:

<http://www.pbgh.org/>

<http://www.pacadvantage.org/default.asp>

For more information

PacAdvantage website: <http://www.pacadvantage.org/default.asp>

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