Adam Russo, Esq. of The Phia Group, Explains the Real Causes of High Healthcare Costs
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Adam Russo, Esq., Co-Founder and CEO of The Phia Group LLC, discussed what "insurance" means to the various buyers of healthcare, and why understanding what costs mean to different players in the healthcare system is essential to guiding meaningful reform around transparency and healthcare cost containment. Following is a summary of his talk at the Free Market Medicine Association (FMMA) 2015 Conference in Oklahoma City, OK.

Currently, there are major misalignments in how buyers, sellers, and third parties view costs in the healthcare system, which in turn drive up costs for the entire system. Members in a health plan experience the cost of healthcare as only their co-payments and deductibles. This structure shields the employees from the full cost of the healthcare they receive from their medical providers. Self-funded plans experience the cost of healthcare as the cost of their employees' medical bills. This includes all of the claims that are paid up to the point where their stop-loss coverage kicks in, or "up to the spec." This all means that only the stop-loss carriers are concerned about the full cost of insurance claims. An insurance broker's job is to keep employers satisfied by ensuring that they only have to worry about paying claims up to the spec. Finally, the hospital just wants to get paid for their charges –not spend time negotiating claims.

The problem with this system is that almost all the entities involved are indifferent to the full amount of the bill because only a portion of the total cost affects them. Insured employees only bear the cost of the co-payment and deductible. Everyone in the system is passing the buck, and the incentives are not aligned to decrease the total cost of the bill.

Mr. Russo astutely noted that if the state ACA insurance exchanges underperform, states will be motivated to create laws that will drive employees from self-insured companies into exchanges. They could do this by manipulating how stop-loss insurance is regulated. Stop-loss insurance by self-insured group plans is governed by ERISA, a federal law. However, through regulation, states can increase the minimum stop-loss spec requirement and thus the financial risk to self-insured businesses. This would cause more businesses to abandon their self-funded plans, leaving the state exchange plans as their employees' only option.

Mr. Russo also noted that the architecture of the current self-insurance market is not ideally designed to control hospital charges. Part of The Phia Group's role is to negotiate claims down with hospitals. For serious hospitalizations, hospitals may charge several hundred thousand dollars to millions of dollars for an employee's hospital stay. While you would assume that a company would do anything it takes to negotiate a bill down with a hospital, often Third Party Administrators (TPAs), like The Phia Group, are not given adequate time to make this happen. Bills are often paid without negotiation because the employer knows that stop-loss coverage will apply, and they will not absorb the entire bill. A plan is often pressured by their human resources

department to quickly pay a claim because an employee is put in a tough position. For example, an outstanding hospital bill may be ruining an employee's credit, and they may have debt collectors after them to pay it. Employers do not want their employees to be upset when they were guaranteed health insurance. Quite understandably, employers do not want to risk losing good staff.

Mr. Russo maintained that medical providers and hospitals will continue to take advantage of this system as long as the players don't agree that the overall costs of medical care are the real problem. He believes that the only way to change this dynamic is to introduce transparency into the medical system. Currently the networks and insurance carriers benefit from medical providers not having to publish their prices. In many network contracts, clauses even require the provider to keep its fee schedule confidential. Networks and insurance carriers benefit from the lack of transparent pricing, so they do not want doctors — like those at Surgery Center of Oklahoma — to post their prices publicly.

We appreciate Mr. Russo's insightful explanation of the current policy challenges, which prevent the system from minimizing healthcare costs. In order for everyone to benefit from increased efficiencies and lower healthcare charges, the incentives of all parties must be aligned. Price transparency would allow customers (patients and employers) to evaluate whether insurance companies are offering adequate return for their money. Real cost control will not occur until costs are actually considered by everyone in the cost-benefit chain.

From my perspective, by offering transparent costs of all medical services, a reduction in healthcare spending across the board would become inevitable. The reason that some entities are against transparent pricing is because they currently stand to gain from these market inefficiencies. These misalignments are often shielded from the public eye and are therefore not well understood by the majority of companies and individuals who purchase insurance. We all stand to gain from a closer look at which groups are currently profiting from these unfortunate inefficiencies that continue to keep healthcare unaffordable for the majority of Americans.

About The Phia Group

The Phia Group, LLC, headquartered in Braintree, Massachusetts, is an experienced provider of health care cost containment techniques offering comprehensive claims recovery, plan document and consulting services designed to control health care costs and protect plan assets. Contact Adam Russo at 781-535-5622, arusso@PhiaGroup.com and visit www.PhiaGroup.com.