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### With coverage costs rising, employers report 9 benefits of contracting health care directly

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Direct contracting in employee benefits has become a much more prevalent strategy to control health care costs, particularly among larger employers and organizations seeking to manage health care expenses and have more control over quality of care.

According to a recent [survey](#) conducted by HR Dive and Brighton Health Plan Solutions, around 75% of employers are currently engaged in some form of direct contracting, and around 41% are likely to consider it as a strategy in 2025.

Direct contracting involves a self-funded employer negotiating directly with health care providers, such as hospitals and clinics, to secure medical services for their employees at predetermined rates. By bypassing insurance carriers and forging direct relationships with health care providers, pharmacies, and other service vendors, companies aim to streamline costs, enhance employee access to quality care, and gain greater control over benefit design and administration.

However, this strategy brings its own set of challenges and considerations. From navigating complex health care networks to ensuring adequate coverage and compliance, engaging a broker as a partner in the direct contracting process is essential. In this article, we explore the cost-saving potential and challenges of direct contracting, underscoring the importance of the broker's role in helping employers navigate this benefit solution.

#### **DIRECT CONTRACTING: COST-SAVING POTENTIAL**

Employers have long sought to control health care costs. According to the Kaiser Family Foundation 2023 Health Benefits [Survey](#), premiums for single coverage exceed \$8,000 per year, with workers contributing an average of 17% for single coverage. The same survey indicates that employers' costs for family coverage

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have surged, averaging over \$22,000 per year. Direct contracting offers significant potential for cost savings by reducing administrative overhead, negotiating favorable pricing as a preferred client of the health system, and focusing on preventive care and efficient service delivery. By streamlining the health care delivery process and fostering closer collaboration with providers, direct contracting not only curtails unnecessary expenses but can also enhance overall health outcomes for employees.

Here are the main benefits of direct contracting as reported by employers:

## BENEFITS

1. **Lower administrative costs.** Reduces fees and overhead associated with traditional insurance plans by bypassing insurance companies.
2. **Enhanced provider relationships.** Direct relationships with health care providers improve communication and care coordination.
3. **Bundled payments.** Controls costs for specific procedures and reduces unexpected expenses.
4. **Focus on preventive and integrated care.** Emphasizes preventive care and chronic disease management, leading to better overall health outcomes and reduced costly interventions. Providers in direct contracts are also incentivized to coordinate care, reducing duplicative services and ensuring that patients receive comprehensive and continuous care.
5. **Clear pricing.** Offers transparent pricing structures for predictable health care expenses, reducing financial uncertainty.
6. **Employee engagement.** Includes wellness programs and initiatives that improve employee health outcomes and satisfaction.
7. **Performance metrics and outcome.** Providers in direct contracts are often held to specific performance metrics, ensuring accountability for delivering high-quality care.
8. **Outcome-based contracts.** Contracts can include clauses that tie compensation to health outcomes and patient satisfaction, incentivizing providers to provide optimal care.
9. **Improved data access.** Facilitates better data-sharing for monitoring health care utilization, costs, and outcomes.

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## CHALLENGES AND THE ROLE OF BROKERS

As employers increasingly turn to direct contracting to manage health care costs and improve the quality of employee benefits, they often encounter a complex array of challenges in negotiating and managing these direct relationships with health care providers.

This is where the expertise of a broker becomes essential. A skilled broker can guide employers through the intricacies of direct contracting, from identifying the right providers and negotiating favorable terms to ensuring compliance with regulatory requirements and optimizing care coordination.

Here are the main challenges brought about by direct contracting and the areas where brokers become an invaluable tool:

1. **Complex negotiations.** Direct contract negotiations require specialized knowledge not typically found within standard HR departments. Engaging a broker to assist in direct contracting ensures employers go into these negotiations with their best foot forward. Brokers help employers understand options, evaluate plans, and make informed decisions tailored to their needs and budget.
2. **Limited provider choices.** By opting not to go through an insurance carrier and their network of providers, employees may have fewer health care providers to choose from, leading to dissatisfaction if their preferred doctors or hospitals are out of network. Brokers have established relationships with a wide range of health care providers, networks, and other industry stakeholders, which can be leveraged to identify high-quality providers and facilitate introductions.

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- 3. High administrative burden.** Managing contracts and administrative tasks can be challenging, especially for smaller employers. Brokers handle documentation, reporting, compliance, and contract management, reducing the employer's burden and ensuring adherence to regulations.
- 4. Cost analysis.** Brokers can conduct detailed analyses to identify potential savings and cost-effective solutions. They can benchmark pricing and services to ensure competitive rates.
- 5. Customized plans.** Brokers work with employers to design customized health plans that meet the specific needs of their workforce, ensuring that the benefits offered are relevant and valuable to employees.
- 6. Employee education.** Brokers can assist in educating employees about their benefits, how to access care, and the advantages of direct contracting arrangements, leading to higher satisfaction and engagement.
- 7. Financial risk.** Employers may face increased financial risk if health care costs exceed negotiated rates due to unforeseen medical needs or poor claims management. Brokers are skilled at identifying potential risks associated with direct contracting and can develop strategies to mitigate these risks. In case of unforeseen issues, brokers can provide contingency plans and solutions to ensure continuity of care and benefits.
- 8. Scale and leverage issues.** Smaller employers may struggle to obtain favorable terms due to having less negotiating leverage than larger organizations or traditional insurers. Brokers typically have established relationships with multiple health care providers and other service vendors, allowing them to negotiate competitive rates and secure comprehensive coverage options for their clients. Providers are often more willing to negotiate better rates with brokers they trust and have worked with previously.

While the traditional employer-broker-insurance carrier intermediary model may be disrupted in direct contracting, employers still require expert support in claims management, employee advocacy, open enrollment assistance, and other services. Brokers provide these essential services throughout the entire employer-provider relationship, ensuring a smooth and efficient benefits management process.

## WHERE TO START

If your organization is interested in pursuing direct contracting, the best place to start is with a feasibility study to determine if your group of employees is a good fit. A broker can perform this study on your behalf. If the study finds you are a good candidate, discussions should begin with the employer, broker, and provider at the table.

A broker can also be a key advisor in developing specialized plan designs and innovative solutions, ensuring access and benefits are maximized for better health outcomes. They can guide you through compliance considerations related to ERISA, ACA, HIPAA, and mental health parity.

## CONCLUSION

Direct contracting in employee benefits offers a promising strategy for employers aiming to control health care costs and improve care quality. By negotiating directly with health care providers, employers can streamline costs, enhance access to quality care, and gain greater control over benefit design and administration. Brokers help navigate complex negotiations, limited provider choices, administrative burdens, financial risks, and scalability issues.

Engaging a skilled broker is essential to navigate these complexities. As direct contracting becomes more prevalent, leveraging the expertise of brokers will be crucial for employers seeking to optimize their health care strategies and achieve better health outcomes for their employees.

## References and Resources

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