# CASE STUDY:

## Pacific Steel & Recycling

*How One Company Reduced Their Health Plan Cost by $3.6 Million*

Recycling plants like Pacific Steel and Recycling from Great Falls, Montana, help eliminate metal waste from our world by turning used materials into a new, functional product. Nearly 700 employees work from 46 branch locations in the Western United States and Alberta, Canada.

Pacific Steel's CEO Jeff Mullhollin and CFO Tim Culliton confronted an all-too-common problem: Health care spending was too high. And unfortunately, the company's expertise in reducing material waste didn't translate to solving the problem of eliminating wasteful spending in health care.

Starting in the early 2000s, Pacific Steel embarked on a journey to fixing its health care plan.

First, like many other employers, Pacific Steel tried to combat rising health care expenses by pushing more of the cost onto its employees. But Mullhollin and Culliton soon realized that raising deductibles and contributions didn't address the underlying issues, it just caused another problem: It pushed employees off the plan in favor of cheaper alternatives, like their spouse's plan or marketplace insurance or becoming part of the working uninsured.

The company was fully-insured until the mid-2000s; it later switched to a self-funded health plan with a carrier-based PPO network.

But after experiencing a nearly 400% increase in facility costs in the first part of 2013, the manufacturer implemented refer-

ence-based pricing (RBP) beginning January 1, 2014. However, the strategy didn't begin to work until two years later, when the USI health care consulting team came on board, according to Culliton.

Mullhollin and Culliton were led to Scott Haas, Erik Davis, and Terry Killilea, PharmD., all senior vice presidents at USI Insurance Services. Haas, Davis and Killilea are principal consultants within USI Insurance Services, providing health care consulting solutions to their clients.

This unique health care consulting practice ran the numbers provided by the company's TPA and found that some things didn't add up. Many areas were identified where Pacific Steel's 160% of Medicare reimbursement rate was working to its advantage and others where it was wasteful spending. Pacific Steel was often overpaying for certain types of care, spending more than what most other PPO networks pay.

## *The Power of Reference-Based Pricing and Direct Contracts*

That's when USI established benchmarks and metrics to analyze Pacific Steel's health plan data. The USI health care consulting practice repriced the historical claims data to Medicare allowed, which determined the cost basis under the PPO plan as well as the first version of RBP implemented January 1, 2014. Through this process, the USI consulting team developed a second generation RBP solution. Pacific Steel ended up going through two failed TPAs. But the new finalized RBP model involved a member advocacy component and a new TPA, one known for its adjudication integrity and process management.

The new model reimburses providers at fairer and more equitable rates relative to the previous RBP system. Pricing now varies by type and place of service, provider and facility. It also recognizes that 85% – 90% of all health care encounters are with ancillary providers, and the rest with facility-based organizations for surgeries or procedures.

Realizing that RBP cannot produce stellar results on its own, Haas views this strategy as part of an umbrella of alternative

reimbursement, as the marketplace evolves toward direct contracting arrangements "without the intermediary of a network or carrier in the middle of the relationship."

RBP addresses pricing, but it does not address utilization variance that will occur regardless of payment level of claims. while revised pricing cannot eradicate large claims or control utilization, Haas says the plan will cycle at "a lower cost threshold because of the reduction in claims cost, which primarily is reflective of a reduction in facility cost."

Pacific Steel now has more than 5,000 safe-harbor or direct contract agreements with high quality physicians and ancillary providers who have agreed not to balance-bill members. This creates an open-access environment, where care essentially can be sought from any provider that Pacific Steel has five direct contracts with and from hospitals and health systems that are based on revised pricing methodology agreements, and others are pending.

USI has also implemented a number of surgical case rates that lead to savings for the plan and the member by paying hospitals, providers, and clinicians a single pre-negotiated rate, instead of billing individually. These contracts pay the provider at the point of service and waive all out-of-pocket cost to the member. Haas negotiated rates for common procedures like hip, joint, and knee replacements. Under Pacific Steel's contract, a knee replacement at designated providers costs around $20,000 – under most plans this procedure can cost upwards of $50,000.

Part of setting those pre-negotiated rates was also doing the research to find the quality providers that practice valued-based care. Pacific Steel has an HR representative who works to match employees with the best clinicians. It encourages its employees to seek out the providers that offer the best care for the most value, incentivizing them to use these providers by waiving the copay. This reduces the number of repeat visits and prevents unnecessary treatment and prescriptions.

Conversely, the company deters employees from going to lower-value providers by informing them that they will have to

share the cost for receiving out-of-network care. Being up front about coverage also helps prevent surprise medical bills.

In addition to the cost reduction of the medical plan, the USI health care consulting practice reduced the PBM spend for prescription drugs by over $200,000 in the first year of the revised program. And since 2014, the cost basis of absent specialty-drug utilization has remained flat.

Haas builds plans using Health Rosetta principles. And every plan that incorporates them has what's called the Health Rosetta Dividend, where improving health benefits and lowering costs results in improvement in other areas.

It has made a significant difference at Pacific Steel. The per employee per month composite medical spend, excluding prescription drugs, plummeted 46.1% between the end of 2013 and 2018, falling to $442.32 from $812.13. "That calculates out to an aggregate cost reduction of about $3.6 million," Haas reports.

For Pacific Steel, which has an Employee Stock Ownership Plan – (ESOP) – meaning employees are shareholders of the company – when the company does well or saves money, employees see that success too.

While it took a long time for Pacific Steel to find the right plan and cut costs stories like this should comfort employers, because they show that it's never too late to make a change.