The Power of Alternative Employee Benefit Purchasing Models

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The current state of the economy has CFOs scrambling to lower costs and gain financial control in all areas of their organizations. One way to craft new solutions in the HR area is by using employee benefit coalition purchasing alliances to leverage market power. This article examines how modern-day coalitions are bringing classic aggregation theory into the 21st century and the reasons behind their growing popularity, where savings can typically run from 5 to 25 percent.

Historically, companies relied on vendors to provide best pricing and to operate efficiently. Group buying was widely ignored, especially by many large and mid-sized employers confident in their ability to independently achieve good value at the bargaining table. Recent trends in health care spending, however, have triggered renewed interest in coalitions amid reports that even the largest employers can produce gains they cannot win on their own. And interest has broadened as coalitions previously available only to larger employers with significant employee populations are now open to smaller groups.

 Suppliers, too, view the growing coalition market as a means to increase profitable market share—reducing outlays for marketing and sales support, simplifying negotiations, and helping contain claim costs, administrative fees, and communication expense.

The following trends point to why these alliances, which were well underway before the national/global economies faltered, are effective:

> Staffing shortages within HR ranks and benefit management teams.

> Increased volume and complexity of regulations.

> Growing consumerism and the need for sponsors to become more proactive in the transition to employee "ownership" through better price/product communication.

Steady Migration to the Alternative Market

For HR professionals, the last three decades have produced a dramatic revamping of the compliance landscape, impacting every major administrative area. Such changes touch everything from plan creation to tax qualification, governance, trust and fiduciary responsibility, documentation, reporting, disclosure, provider contracts, and claims and appeals. But while these changes have often been brought about to clarify operational guidelines, they have also challenged the ability of companies striving to stay abreast of new rules. Weighing the practical implications of new laws and assessing their impact on annual vendor agreements can take time and added deliberation. Thus, for the individual benefit manager, huddling with industry colleagues to plot a common course in the face of dramatic changes brought about by the Medicare Drug Act, HSAs, ERISA, cafeteria plan regulations, and HIPAA, for example, can represent immeasurable value. In addition, many coalition members are drawn to purchase groups for their ability to influence legislation and regulatory guidance.
What is Coalition Purchasing and Why Does It Work When Buying Employee Benefits?

Coalition purchasing of employee benefits applies principles of aggregation to influence price, performance, quality, and distribution of health and welfare products—the larger the group, the greater the return on benefit investment for individual firms. Moreover, coalitions can produce both upfront transactional gains as well as high levels of sustained consumer satisfaction normally unattainable, regardless of company size.

An attractive aspect of modern-day coalitions is the intermediary role they play as advocates for both the buyer and consumer of benefit products. While pricing control is their primary short-term focus, they can also enhance benefit performance and employee satisfaction, key drivers of morale and productivity.

Group purchasing means moving beyond connecting vendors to buyers on the basis of discounts alone. By pooling resources, progressive coalitions seek ways to bring improvements to issue-prone benefit systems through claim audits, data integration, financial reporting, ROI analysis, technology, and consumer advocacy. As coalition members band together in networks, the exchange of best practices, market intelligence, and benchmarking strategies spurs continuous improvement for the entire group.

Coalitions are also leading the way in areas of vendor accountability—negotiating financial guarantees and penalties to ensure contractual commitment to strong performance. Adopting a “measuring to manage” approach, today’s coalitions track claimant satisfaction and health outcomes, producing value to participating companies through a system of supplier incentives built upon rewards and penalties.

In its purest form, collective purchasing can be achieved without the risk, expense, or legal restructuring typically associated with most other co-buying strategies (such as strategic alliances, joint ventures, or partnerships.) Coalition members gain initially by spreading start-up costs among many participants. Further savings flow from the fact that, regardless of the number of employer...
participants, each phase (needs analysis, product design, request for proposal preparation, proposal review, and negotiation) is performed one time for all members.

**Going Forward: Questions CFOs Should be Asking Benefit Managers**

With each passing enrollment cycle, more and more benefit managers are looking for new cost management strategies. The initial inquiry into coalition strategies usually begins with the following questions.

> Are we doing our homework? What do we know about buying employee benefits through purchasing coalitions, and have we considered participation in coalitions as program renewals come up? (If not, why not?)

> Does our current vendor value our business? Is the vendor responsive to our employees' needs, our plan objectives, and our bottom line (i.e., are we confident we are getting the best price)?

> What are the hurdles to getting our job done and can coalitions help? Are we finding that growing benefit product complexity, increased regulation, or even reductions in our staff hamper our ability to effectively negotiate with and manage vendors?

> Can coalition membership help us do more for our company and workers without increased cost? Have factors—such as resource cutbacks and function outsourcing—compromised our ability to effectively communicate, enroll, and administer our program?

> What can we learn from industry leaders? How important is the ability to benchmark our plan pricing, eligibility standards, enrollment process, communication and education programs, and employee satisfaction against evolving industry standards?

**Conclusion**

The simplicity of the notion that otherwise separate and distinct companies will benefit by becoming "purchasing partners" often hides the tremendous economic power at stake. It may also explain why companies themselves frequently overlook opportunities to apply collective buying approaches within their own organizations (although more and more companies are encouraging risk and benefit managers to work together to share negotiating insight and to aggregate the full gamut of corporate insurance needs). Organizations can control increased spending, improve plan return on investment, and produce the kind of competitive advantage required in the marketplace by unlocking the power of the coalition movement with better, more efficient employee benefit buying models.

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To find out more about building employee benefit coalitions to reduce costs and improve service, contact Louis N. Anastasio at [louis_anastasio@aon.com](mailto:louis_anastasio@aon.com) or at 732-271-2447.