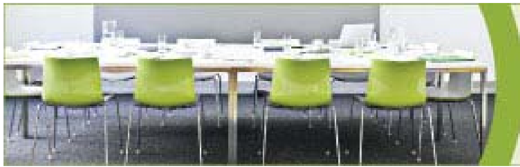

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Why have ASO plans become commodities?

Mike Sullivan | October 19, 2009

It is amazing to see how many products and services have been commoditized over the past 10 to 15 years as access to the internet has evolved. While it is easy to understand the commoditization of flights or hotel bookings that are discreet transactions that often don't exceed a few hundred dollars, it is fascinating to see how administrative services only (ASO) plans have become so universally viewed as a commodity—at least from the standpoint of extended health benefits—when there is so much flowing through these plans annually, and so much at stake.

If the demographic, disease state and utilization profile of a plan population is unique, and it is these characteristics that are driving the overall spend, how is it possible that we have arrived at a point when renewal discussions around ASO plans focus entirely on the ASO fees?

Anyone with experience negotiating understands that price (or in this case ASO fees) is only part of the story. Much like the plan sponsors that occupy the Canadian market, no two ASO vendors are the same. Yet many plan sponsors base their decisions on ASO fees alone, and tend to ignore the overall return on investment such plans provide.

Consider the example of travellers with different needs: two men in their twenties heading to Chicago for a bachelor party weekend, and a businesswoman heading to town for a conference. The woman is a self-employed expert in monetary policy and is interested in containing the overall cost of her trip since she is the employer, and any travel related costs effectively come out of her own pocket. The men travelling are also concerned with cost, but have much less to consider.

Our friends on the bachelor party can easily get away focusing on price and booking an inexpensive hotel in downtown Chicago using Priceline. Their only stipulations are that it not exceed $90 per night, and be close to a merchant who sells ice-cold Old Style beer. The hotel will be used for a place to sleep and store clothes, and nothing else. A pure commodity play if there was ever one.

However, the businesswoman recalls from a previous trip that hotel ABC near the convention centre has an upgrade program. The rate may be double the cost of what you would be paying at the $90/night option, but this option provides for breakfast, complimentary internet access, complimentary business centre access, top of the line fitness centre, free local and toll-free calls, a short walk to the convention centre, and a quiet room. All of a sudden, it makes a great deal more sense to pay more because she is receiving much more in return. Why would this businesswoman commoditize her travel? At the end of the day, she would have spent more to access all of the services she required at the $90 per night option.

Let's use 5% as the example for the total fee charges in a typical ASO program. If 5% is the fee structure and 95% of the total cost is related to the claims experience, why are we not focusing more attention on whom and what can impact that 95% figure? When I refer to "we" I'm including plan sponsors, advisors, and vendors themselves.

Suppose for a moment that a client has a particular set of challenges within their claims experience. If their vendor is able to institute a solution that reduces claims costs by 4% to 6% without having to alter the structure of the existing design, is that not worth some consideration? Would a plan sponsor not be willing to pay 1% or 2% more in ASO fees to save 4% or more on claims? It is fascinating to hear stories of ASO fee negotiations—shaving a quarter of a point here, or half of a point there, and introducing a commodity relationship moving forward with your vendor, when the real issue isn't the 5% fees, it's the 95% of the claims experience.

In fact, using the example above, if your vendor could help you contain claims cost by 5%, and these claims cost represent 95% of the overall pie, you have effectively just paid for 4.75% of the 5% ASO fee.

Here's what I mean (these are all real case examples):

1. Pharmacy ABC has an inventory of Crestor 10mg on the shelf. They paid the same price for every single tablet of that product sitting there, yet three patients with different private drug plan vendors came in during a given month, and here is what they paid for the ingredient cost alone (no dispensing fees considered here) for a 3 month supply of the product. How much value could Plan Member 1's vendor add from a claims cost management perspective to the others, if this is the simple biggest consideration for the plan?

• Plan Member 1 – $134.64
• Plan Member 2 – $143.42
• Plan Member 3 – $159.66

2. Plan sponsor ABC paid $874,556 (after ODB copayments are considered) in one year for Limited Use Drugs for plan members that were over the age of 65. If your vendor (or prospective vendor) has a program that pushes back to the ODB plan (where applicable) before paying for the claim, how much would that be worth to your plan? Do you know what the answer is? If not—and few plans do—wouldn't it make sense to know that before discussing ASO fees if you have a sizable older plan member population? It would have been worth much more than a 5% ASO fee for this group.

3. Plan sponsor XYZ has a very serious issue with a disability leaves related to mental illness. Direct short-term disability and illness costs alone are costing this plan as much as what they spending on prescription drugs for the entire plan over the course of a year. How valuable would it be to this plan sponsor to have a vendor with the ability to integrate drug claims and disability data in order to determine appropriate solutions to the problem, and to develop a set of leading indicators for disability to impact the volume and duration of future claims?

4. Plan sponsor DEF has just seen increases in spending on age-related chronic conditions (ARCC) that are double the overall plan trend, and has calculated that it is nowhere near saturated with respect to the incidence of these ARCC within the plan. That means not only with these existing ARCC claims reoccur every year, but the plan can expect a significant increase in these claims in the next 2 years based on the demographic and utilization profile of the group. How much value would a vendor who can provided targeted health and wellness solutions and related services offer a group like this that is about to undergo a dramatic shift in their claims experience?

Some things in life are commodities for a reason—they are straightforward and in abundant supply. However, if I'm a plan sponsor, I don't view my plan member population as a commodity. I view my plan member population as the lifeblood of my business and as something unique worthy of appropriate consideration. If I am a vendor, I would feel as though I have a great deal more to add than simply paying a claim if I had invested in creating robust offerings.

If that's the case, isn't it puzzling how unsophisticated the general process of renewal discussions and selection of vendor partners appear to be? Looking at things more strategically and with more sophistication could certainly benefit all parties.

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