Companies Form New Alliance to Target Health-Care Costs

Twenty major employers band together in bid to hold down the cost of providing workers with benefits.

WASHINGTON—Twenty major companies—including American Express Co., Macy’s Inc. and Verizon Communications Inc.—are banding together to use their collective data and market power in a bid to hold down the cost of providing workers with health-care benefits.

The newly formed alliance of companies, which cover about four million people among them, plan to share information about members’ employee health spending and outcomes, with an eye toward using findings to change how they contract for care. Ultimately, some members say, they could even form a purchasing cooperative to negotiate for lower prices, or try to change their
relationships with insurance administrators and drug-benefit managers.

The move, given the size of the companies involved, could ripple through the world of employer-provided health coverage, which has long been the way most Americans—about 170 million—get their health coverage. Participants said they hoped others ultimately could join in their effort. Big employers typically self-fund their workers’ medical treatment, through plans administered by traditional insurance companies that collect employee contributions in the form of premiums and deductibles.

That leaves them directly exposed to the rising costs of care and prescription drugs, in particular. But to date, companies largely have focused on trying to change the way workers’ plans and contributions are structured.

An insurance industry official suggested insurers could support an initiative like the alliance, noting that insurers, too, want to have greater transparency about health costs and treatment outcomes.

Companies signing on to the alliance say they are committed to continuing to provide health benefits, but they must shake up the way they do it more dramatically than anyone has tried to do so far.

“Health care is one of the things that employees need and want,” said Marc Reed, chief administrative officer of Verizon. “What we’re trying to do is to make this sustainable so that kind of coverage can continue.”

Participating companies have agreed to buy into what they are calling the Health Transformation Alliance and aggregate their data about provider costs and patient outcomes starting as soon as this year. A pilot project specifically aimed at curbing prescription medication costs also is in the works for 2017, the alliance is expected to announce.

Executives at some of the companies that have played a key role in recruiting others note that it is too soon to say for sure what they will identify as areas for savings.

“I’ve got my suspicions as an individual company,” said Kim Hauer, chief human resources officer at Caterpillar Inc. “It would somewhat be speculation on my part” to draw firmer conclusions, she said, but noted that the alliance’s plans to pay particular attention to the health-care supply chain showed that “clearly we think there could be
Some opportunity there.”

Several people interviewed said they hoped getting data for a large number of people that encompassed health-care networks nationwide could reveal which treatments and health providers had better outcomes in treating certain illnesses. That would allow them to steer workers to specific providers considered to reflect good value for money, through recommendations or formal incentives.

“The fact is that when you start looking at this on a larger basis, now you’ve got four million lives, you can see where people are going for health care, you can see the outcomes,” said Mr. Reed of Verizon.

Ultimately, he added, the alliance “could end up morphing into some kind of cooperative where we could use our aggregate scale to purchase these types of services on behalf of our employees.”

Bill Allen, chief human resources officer at Macy’s, said it was possible the companies also would take a hard look at the health industry’s middlemen, such as pharmacy-benefit managers and the third-party administrators that act as the front line operators of corporate health insurance when the companies themselves meet the cost of claims.

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**STRENGTH IN NUMBERS**

Here are the 20 companies that have signed on to the alliance:

- American Express
- American Water
- BNSF Railway Co.
- Brunswick Corp.
- Caterpillar Inc.
- Coca-Cola Co.
- E.I. du Pont de Nemours & Co.
- HCA Inc.
- Hartford Financial Services Group Inc.
- IBM Corp.
- Ingersoll-Rand
- International Paper Co.
- Lincoln Financial Group
- Macy’s Inc.
- Marriott International Inc.
- NextEra Energy Inc.
- Pitney Bowes Inc.
- Shell Oil Co.
- Verizon Communications Inc.
- Weyerhaeuser Co.

Source: Health Transformation Alliance
“It’s certainly an area that we’re interested in and we’ve got to really understand where the data brings us,” he said.

The 2010 health-care overhaul made relatively small changes to employer-sponsored insurance. Some companies whose workers have variable shifts cut back on their hours to limit their exposure to new requirements that they offer benefits to most employees or pay a penalty, but there haven’t been signs that employers are widely dropping full-time workers’ benefits to take advantage of the health law’s new offerings.

The law—and Obama administration more generally—has been trying to shift the Medicare federal insurance program for the elderly toward payment based on patient outcomes.

The new employer initiative was conceived by the American Health Policy Institute, a think tank headed by Tevi Troy, a top health official in the George W. Bush administration. Several of the companies that have been first to join the alliance also had worked with that think tank in the past.

Some big employers, such as Sears Holdings Corp. and Darden Restaurants Inc., which owns the Olive Garden, have experimented with creating private exchanges—online marketplaces where an employer’s workers can shop for different types of health plans, usually with a fixed contribution from the employer.

Some members of the alliance have taken a dim view of such approaches, arguing that they have shown modest savings at best.

“Employers are not seeking a better private exchange; they are seeking an affordable system dedicated to promoting and sustaining health,” concluded Mr. Allen and Kevin Cox, the chief human resources officer at American Express, in a “call to action” they circulated among potential alliance members.

Mr. Cox said the idea emerged from a meeting during “a dark and stormy weekend” on the eastern shore of Maryland. Several executives gathered there for a discussion agreed they “don’t really understand the supply chain, nobody is going to solve this for us, and no single company can really make a sustainable difference in the health-care supply chain.”

“I think we’re targeting the whole supply chain” now, Mr. Cox said.

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