As part of their constant quest to purchase high-quality health care coverage at the most economical price, employers should keep in mind that all vendor relationships are business arrangements, every aspect of which is open to negotiation. This article discusses strategies for the negotiation of better and mutually beneficial health care vendor relationships. Tactics to consider:

**Consolidate Vendors** To improve an employer’s negotiating advantage, an important first step is to consolidate health care vendors, solidifying a close working partnership with one or two. Not only will this generate savings, but it can also help simplify the administration and communication of an employer’s health care programs.

Companies that consolidate their vendors should make the relative exclusivity of these relationships work to their advantage by getting something in return for the additional enrollment opportunities they provide. For instance, the vendor may receive more or exclusive access to employees for solicitation purposes (e.g., through brown-bag lunch seminars) in return for a rate or fee discount.

Employers who are thinking of changing vendors as part of their consolidation process should request an implementation credit or an implementation audit credit from any newly selected vendor or the incumbent. These will give the employer additional funds to offset the cost of a vendor change. These additional services should be funded by the vendor as the cost of gaining new business. Many vendors use money from their marketing budget or reduce their first year’s retention to offset these extra services.

Employers should make it known that they expect these credits and/or allowances before they solicit bids. Unless they clearly state how important these items are, bidders will not include them in their initial offer.

**Bargain for a Guarantee or Plan Design Changes** Employers can improve the financial impact of any benefit program changes they make by negotiating with vendors for a desired outcome. For instance, they can ask for a guarantee on the savings estimate vendors provide (this could be in the form of a range) toward a plan design, network change or benefit enhancement.
Employers may also get other services included at the vendor’s expense to help improve the success of a new plan design. These can include extra implementation support, a dedicated member service team and/or additional support for open enrollment.

**Strike an Endorsement Deal** In exchange for endorsing a vendor, employers can ask for a financial discount or “value added” service. This discussion should only occur with vendors that are already providing excellent service. Such requests are built around the employer’s above-board contribution (time and expense) toward building the vendor’s business by participating in a trade show or public event.

**Negotiate an Early Payment Discount** Employers can establish a rate or fee discount for paying premiums or administrative fees sooner than the 30 days typically allowed. Significant discounts may be available to employers that pay within 48 hours. Essentially, this approach taps into the simple concept that time is money. Although employers can use it with all vendors, it is most effective for employers that have an employee population of 5,000 or more and vendors that receive monthly payments of at least several million dollars.

Employers should run whatever discount the vendor offers past their CFO or finance department to make sure it exceeds the organization’s current return on investment (ROI). The discount will be acceptable only if it exceeds the organization’s ROI. It is important that employers always ask for this discount — a vendor in need of cash flow may make a surprisingly generous offer.

One large financial institution found it beneficial to prepay 100 percent of its premiums at the beginning of each year in exchange for a 20 percent discount. At the end of each year, it would reconcile the account and decide whether to prepay again — which it always did.

**Volunteer to Pilot New Programs** Vendors routinely develop new programs or services and look for clients willing to test them. Although most employers refrain from exposing their employees to concepts that have not been fully tested for effectiveness, volunteering for a pilot has several advantages.

Collaborating with a major vendor on new programs gives an employer additional negotiating leverage with its other vendors. Those vendors realize the employer could elevate the pilot from an optional plan to full replacement status, eliminating their plans as options.

Many national health care providers are now piloting their own wellness programs or proactive outreach programs. Employers should take the opportunity to pioneer these new programs in exchange for free services or discounted rates. Limiting the number of employees eligible for the pilot can help smooth implementation and improve chances for success. One way to impose such a limit is to isolate the enrollment to one location.

**Link Performance Guarantees to Cost** Most performance guarantees are designed to improve unacceptable service and not to reduce costs. However, the increasing costs and the decreasing popularity of managed care have frustrated many employers who feel forced to spend more money for less service.

One solution is to link performance guarantees to both unacceptable service and cost reduction. For instance, an employer can establish a guarantee to be reimbursed for the cost of time and expenses (consulting fees or employer costs) to:

- Perform a site visit at a claim office due to poor service,
- Correct inaccurate claim payments and eligibility records,
- Correct errors on underwriting or pricing calculations,
- Complete an on-site audit of a claim office due to numerous errors, and
- Solicit bids due to vendor replacements because of poor service, plan design changes or an abnormal amount of network changes.

Another approach for performance guarantees is to position them to reward for positive results as well as penalize poor results. A common method is to hold a portion of the vendor's premium or administrative fee until the year-end assessment of the vendor's performance is completed to determine whether they have earned the entire amount or a portion of the money being held. This dividend or bonus payment approach can be used to reward positive outcomes in many different areas, such as overall good service, network savings or disease-management savings. For example, an administrator may guarantee that a self-insured employer's aggregate claims will not rise more than 3 percent that year, even though the health trend is 8 percent. If the employer's claims increase less than 3 percent, the vendor would receive a bonus. If the claims increase by more than 3 percent, the employer would receive a discount on its administrative fee.

**Reduce Waste** Employers need to pay close attention to what services employees are using and identify those that provide no value. Vendors should be asked to exchange them for more useful services or for a cost discount. It is also important to spot any resources that are being wasted, such as printed experience reports, communications or summary plan descriptions that could be distributed online instead.

**Ask for Wellness Program Support** Employers should not have to bear all the costs of wellness programs. One solution is to auction high-visibility events to competing vendors. It is important to remember these vendors are competing for membership. Employers can encourage them to donate raffle items (e.g., mountain bikes or waived deductibles) or contribute in other ways (e.g., paying for flu shots). To increase vendor visibility, employers can consider co-hosting a health fair with a local hospital or sponsoring a health-related charity function (e.g., a walk or run).

**Conclusion**

Negotiating a mutually beneficial arrangement will benefit all parties. A vendor that becomes one of a few vendors to an employer is going to get a much larger piece of the enrollment pie. At the same time, the employer will be in a position to negotiate better rates, discounts, improved services and other benefits for itself and its employees.

**About the author:**

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