Cash for Colonoscopies: Colorado Tries to Lower Health Costs Through Incentives

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State employees in Colorado are being asked to be better consumers when shopping for health care services. And if they choose lower-cost and higher-quality providers, they could get a check in the mail for a portion of the savings.

It's part of an initiative known as the Colorado Purchasing Alliance, through which employers in the state are banding together to negotiate lower prices for health care services. The state government is one of 12 employers that have agreed to join the alliance and will be the first to use the newly negotiated rates and consumer incentives.

The goal is to disrupt what's considered a dysfunctional market for health care by encouraging employers and employees to make better choices and forcing health systems in the state — which have some of the highest prices and profits in the country — to cut their rates.

Since July 1, state employees have had access to the Healthcare Bluebook, which is an online tool, owned by a health data company of the same name, that ranks health providers by both costs and quality. Providers in the top 25% for quality are designated in green, the bottom 25% in red, and anyone in between in yellow. The same color scale is used for costs.

"If you go to a green-green provider, then we'll send you a check," said Josh Benn, director of employee benefits contracts for the Colorado government.

The checks can range from less than $50 for something like a mammogram to thousands of dollars for surgery. In most cases, the money helps offset the employee's copayments, coinsurance, or deductible. But for preventive services like colonoscopies, which have no copay, it's extra cash in the employee's pocket.

The reward program is available only to employees who choose the state's self-funded health plan, which is administered through Cigna, not the Kaiser Permanente option, which has a closed network of providers. Of the nearly 20,000 people, both employees and family members, on the

Cigna plan, more than 1,200 used the tool in the first six weeks, conducting 4,500 searches.

“We could cut the network to the bone and really limit choice, but part of what I want to do is encourage people to make better decisions,” Benn said. “There are ways to curb health care spending without harming employees.”

Although it’s too early to tell how much the state will save through the program, Healthcare Bluebook estimates that employers save an average of $1,500 every time an enrolled member uses the online tool to choose a provider.

“And you wind up with fewer complications and sick days,” Benn said.

Larimer County, in northern Colorado, has been using Healthcare Bluebook since 2018 in its incentive program to counteract the high prices it was paying for employees’ care under its self-funded plan. With little competition, the local health systems were charging county employees nearly double the prices in Denver, just two hours to the south.

“We have one particularly dominant health care system here that knows they are the system of choice, just based on market reputation, and they are willing and able to charge accordingly,” said Jennifer Whitener, benefits manager for the county.

Whitener recalled one employee who needed a hip replacement and found a free-standing orthopedic surgery center that cost $20,000 less than a hospital-owned facility and had higher quality ratings.

“Being able to share information in terms of how you can shop for health care and that not everyone is charging the same price for everything, and — oh, there’s actually a difference in quality depending on where you go — has been eye-opening,” she said.

Over the first four years, the county paid out an average of $15,000 in rewards per year. The county calculated that for every $1 it spends to offer Healthcare Bluebook to its employees, it saves $3.50.

Andrea Bilderback, a health promotion and outreach specialist with the county, used the tool when deciding where to have a mammogram and a colonoscopy after recently turning 40. She wound up getting a check for $100 for the colonoscopy and $35 for the mammogram, neither of which had any out-of-pocket costs. She and her husband used the funds for a date night, a welcome respite for the parents of a 1½-year-old boy.

“It was like free money,” Bilderback said.

Such incentives have been used with varying degrees of success across the country. Self-Insured Schools of California, a purchasing alliance that represents 450 school districts in the Golden State, implemented a similar system years ago. Officials compared the prices they paid for five common procedures — arthroscopies, cataract surgeries, colonoscopies, upper GIs, and endoscopies — at hospitals versus free-standing surgery centers. They found that surgery centers

were generally much cheaper and the care was often rated as better. The group capped the amount of money it would pay hospitals, leaving employees on the hook for any balance. If they went to a surgery center, there would be no cap.

For example, arthroscopies were capped at $4,500, so if a hospital charged $6,000, the patient could be billed for the remaining $1,500. But if that patient went to a surgery center, the plan would cover the entire cost, no matter the amount.

In the first year, starting Oct. 1, 2018, the new approach had shifted 54% of procedures from high-cost hospitals to lower-cost surgery centers, saving the school districts $3.1 million in health care costs.

“If you could pay $25,000 for a car or $75,000 and the only difference was the overhead of the dealership, why would you pay $75,000?” said John Stenerson, Self-Insured Schools of California’s deputy executive officer. “That’s kind of like what we do with medical pricing all the time.”

The Colorado alliance did a similar analysis of the 10 most frequent outpatient procedures paid for by its employer members. Even before negotiating any rates, those employers could cut their costs for those procedures in half by sending employees to surgery centers instead of hospitals. Surgery centers tend to charge less than hospitals for the same procedures, and hospitals often tack on a facility fee that increases costs for consumers and employers. A recent study found that costs for a range of orthopedic surgeries were an average of 26% lower at ambulatory surgery centers than at hospitals.

The cash-back incentive program is part of a broader effort by the Colorado alliance to lower health care costs for state employees and 12 other employers, mostly school districts and local governments. But the state employees are what give the alliance a sizable block of covered lives and greater negotiating power with doctors, hospitals, and other health providers.

Robert Smith, head of the Colorado Business Group on Health, which is spearheading the alliance, believes the purchasing-alliance model can revolutionize the health care market and use the power of the employers to drive down costs. Most companies, he explained, pay premiums to a health plan to cover their employees but allow those health plans to negotiate rates with hospitals, doctors, and other providers. It would be too complicated and time-consuming for most businesses to take on that role themselves.

Health-purchasing alliances, on the other hand, allow employers to band together and negotiate rates for a much larger group of employees, giving them greater market power to negotiate lower rates.

“Health care outcomes are not related to the price,” Smith said. “You can pay twice as much for some of the worst health care at one facility, and then you can get some of the best health care at half the price at another facility 10 miles away.”

But if employers changed the way they buy health care, it could create a competitive market, Smith said.

So far, most of the negotiated rates have been limited to providers in the populous Front Range region of Colorado that includes Denver, Fort Collins, and Colorado Springs. The alliance is trying to sign up providers in other areas, particularly in the western part of the state, but it might take three years or more to fully transition to the new model.

Purchasing alliances have been tried in other parts of the country with limited success. A report by the nonprofit Catalyst for Payment Reform found that such alliances often had early success but couldn't survive, in part because of the reactions of the large health care systems. Those systems often undercut the pricing of purchasing alliances to drive them out of business.

So far, Smith has negotiated with free-standing ambulatory surgery centers, imaging facilities, and physician-owned clinics. But he has had little luck getting the larger health systems to play ball.

"If it's disruptive enough that it affects their bottom line and they notice it," said Benn, the state employee benefits director, "then, yeah, I think they'll come to the table."

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