

[Health](#)

Buying the Farm

With health insurance costs these days, why not just buy the whole clinic?

By: [David Rosenfeld](#) | July 09, 2008 | 09:10 AM (PDT) | [Comments](#)

It wasn't so much a sarcastic comment to Jim Carnicella, human resources director for the city of [Ocoee](#), a small town in central Florida. The cost of the city's health plan that covers 700 employees and their families rose by 20 percent last year — up to \$2.4 million — putting a serious dent in tax dollars that could go to other services like police and education.

Carnicella talked the City Council into [self-funding](#) its insurance plan, basically paying the full cost of medical claims and carrying [stop-loss insurance](#) that kicks in once the city spends \$50,000 a year. Based on six months of this already, the move will likely save — “You're not going to believe this,” he told me — roughly \$700,000 in medical costs this year.

Taking things a step further, Ocoee now has its own health clinic, spending \$60,000 to remodel an old home it already owned next to City Hall. For \$160,000 a year, the city will staff a doctor and a nurse practitioner for 20 hours a week, paying them higher rates than they would expect otherwise, and the doctor doesn't have to deal with insurance companies.

Employees still have the option of using the full range of benefits under the city's health plan, but many choose the clinic for primary care because it's convenient and less expensive. It handles common illnesses, chronic conditions, health screenings, lab tests and pharmaceutical drugs, all at no cost to the employee.

Taken together, through this self-funded health plan and an on-site clinic, Ocoee taxpayers will likely save up to 30 percent on overall medical costs, compared with last year's costs. Its employees, meanwhile, save thousands of dollars in co-pays and deductibles. Carnicella had just accomplished something worthy of a parade with a marching band entirely in his honor, an absolute dream for thousands of other employers and labor unions in America faced with doubling health care costs over three years.

“What I've learned over the years is that the way insurers build premium is they add 8 to 20 percent in administration and overhead,” Carnicella said. “We pay that inflated charge through the health plan because the doctor has to make money; the health plan has to make money. Every time someone uses our own health clinic, we will save 50 to 60 percent on what the insurer and the provider would have charged us for the same service.”

This idea of cutting out the middleman — one of the most powerful and wealthiest middlemen in this country — is not all that new to corporate America. Fortune 500 corporations for 30 years have tackled the rising costs of health care in part by running on-site health clinics where employees and their families can see a doctor right at work.

Think of [Kaiser Permanente](#), originally a shipbuilder, which got into health care as an afterthought.

What *is* new, however, is a growing list of midsize companies, as well as cities and county governments, [some as small as 225 employees](#), which also have found that it can be less expensive to own and operate their own health clinic to benefit their employees than to continue to pay for the rising costs of insurance.

A Watson Wyatt [study](#) in March found that since 2000, businesses adopting work-site clinics did so more to lower medical costs than to treat mainly work-related injuries, as they had in previous decades. Nearly a third of companies with more than 1,000 employees now have an on-site health center or plan to have one by 2009, up from 27 percent in 2006, according to [Watson Wyatt/National Business Group on Health Research](#).

Further studies show that medical costs go down for the employer, and its work force sees a profound improvement in health. People are more prone to see a doctor to manage chronic conditions, receive preventive screenings, fill prescriptions or get general checkups. It's a win for patients, payers and providers but probably not so much for insurance companies. But whether health insurers will come right out and say these clinics are a threat to their bottom line has yet to happen.

Proof Positive

Ernie Clevenger spent 20 years in the health insurance industry as a stop-loss insurance underwriter. Five years ago, he created [CareHere](#), an administrator of on-site employer health clinics. His company, which doubled in size each of the past two years, now has 70 clinics in 11 states.

He didn't care to comment directly on whether his business was a way to cut insurers out of the action, saying only that the idea was "insightful thinking." He insisted that insurers could adapt by downsizing. Some insurers, such as [Horizon Blue Cross Blue Shield of New Jersey](#), have even opened their own employer-clinics, showing proof positive that even insurers see the value in directly providing care.

To document just how effective an on-site clinic can be, Clevenger commissioned a study using [multiple regression](#) analysis. Researchers figured out that for every point decrease in cholesterol, the payer saves \$161.55, based on a study of a CareHere client in Tennessee (CareHere Regression Analysis Example pdf in shared drive). And that's exactly what's happening at CareHere clinics, Clevenger said.

In the company's home state of Tennessee, Blue Cross Blue Shield conducted its own study of six companies before and after they owned a work-site clinic. The health plan supplied cost data for the first year, and CareHere shared data in the second, Clevenger said. At the same time, average plans of comparable groups went up by 11.5 percent under the health insurer. Overall costs for the companies with their own clinics went up between 5.5 percent and -1 percent, cutting the rise of medical inflation at least by half.

The study and its dramatic findings have not been made public. Clevenger said [Blue Cross Blue Shield of Tennessee](#) has the rights. Spokeswoman Mary Thompson said the company wouldn't talk about its findings.

"At this time, we don't have enough experience or data to validate any findings," she said. "We realize these clinics offer a valuable option for our customers. From a claims

perspective, we are unable to speak to the effectiveness of the retail clinics. When we do have information, (if) we feel comfortable in its validity, then we'd be happy to share, but at this time we do not."

[Whole Health Management](#), a leader in on-site clinics, points to savings for companies with more than 1,000 employees of anywhere from \$2.3 million to \$12 million in direct medical costs, prescription drugs and indirect lost time.

The only thing that slowed CareHere from growing even faster in recent years has been the shortage in primary care doctors, casting some doubt on the work-site clinic sustaining power.

Because of an aging physician work force and the increasing demands of the baby boom generation, the nation right now is [falling behind](#) in filling available family medicine positions, according to the American Academy of Family Physicians. More medical school graduates are choosing specialties because of salary discrepancies detailed in a Merritt Hawkins & Associates 2007 study (Merritt Hawkins Recruiting Incentives 2007 pdf in shared drive).

The AAFP in 2006 called on medical schools to increase their graduates in family medicine. By 2020, the nation will need 41.6 family physicians for every 1,000 people or 139,531 primary care doctors. In 2005, it had 31.2 per every 1,000 people, according to another [AAFP study](#).

Without a medical doctor or a doctor of osteopathy to staff an employer-sponsored clinic, the concept could face the disapproval of the American Medical Association, which so far has yet to weigh in but which, in 2006, called for all store-based clinics to be [staffed by a physician or doctor of osteopathy](#). Last year, the AMA cranked up its criticism by calling for an [investigation of store-based clinics](#) because of possible conflicts of interest.

Is the Party Over or Just Begun?

The industry of administrating on-site clinics took off last year with several mergers. [Walgreens Co.](#) purchased the two leading on-site clinic administrators — [CHD Meridian](#) and [Whole Health Management](#) — as well as [Take Care Health Systems](#), one of the largest providers of pharmacy-based clinics. The buyout signaled an industry wedding of work-site clinics with retail convenience clinics. [CVS/pharmacy](#), in turn, purchased [MinuteClinic](#), the leading pharmacy-based clinic administrator.

If other industry mergers are any indication, costs to users may increase as competition dwindles. Yet so far, independent companies, such as CareHere, are able to outbid the big guys on smaller clients especially. As more industry consolidation occurs, will employers still be able to reap as much savings as they do now?

"Part of the problem of the great American business system is greed for profit sets in," said Ray Tomlinson, president of Florida-based [Crowne Consulting Group](#), who also worked with the city of Ocoee to establish its work-site clinic. "We think we have to make a profit on every little service."

It's difficult to blame corporations for spotting a good thing. Lessons from other countries have taught many American health care thinkers that clinics are the best way to deliver the

most cost-effective and highest-quality care. So with or without achieving universal health coverage in America, the local clinic will likely continue making a comeback.

Next steps could include more counties running their own clinics for employees and retirement beneficiaries. Counties are, after all, in a unique position as many already operate health clinics for low-income or disabled people. Look for groups of small businesses also to start contributing to a shared health clinic. And more convenience clinics are undoubtedly bound for your neighborhood.

“It’s what’s best for the patient,” Clevenger said. “More times than not, that’s also what’s best for the payer, and the provider sees it as fresh air.”

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