

Always Low Prices

Instead of skimping on the most expensive care, Wal-Mart is sending workers to the most elite hospitals. Turns out, it's a great way to save money. **By Margot Sanger-Katz**

Wal-Mart has become the country's dominant retailer by exerting relentless downward pressure on prices and costs. That pressure didn't work with health insurance: The company got a bad name for withholding coverage from low-wage workers, and broad efforts (such as wellness programs) failed to push down its per-person costs. But corporate officials found an unusual trend in their data, according to Tom Emerick, a former Wal-Mart executive who now runs a health-benefits consultancy. Typical employees, even those with chronic diseases, aren't breaking the bank; the biggest costs come from the small number of employees with very complicated, expensive health problems. If the company could find a better way to care for those workers, the reasoning went, it could improve their health and lower its long-term spending.

So last October, Wal-Mart announced that employees who needed certain pricey surgeries would have the option of traveling to one of the six best hospitals in the country that specialize in those procedures. Cashiers in California and store greeters in Alabama could fly to the Mayo Clinic in Minnesota—all expenses paid. The model, sometimes called “centers of excellence” or “travel surgery,” has caught on among a few large corporations and their employees. Unlike in retail stores, where the cheapest item is probably the shoddiest, this program is premised on the idea that cheaper health care is to be found at the nation's very best providers. “We come at it from the perspective of how can we improve quality,” said Sally Welborn, Wal-Mart's senior vice president of global benefits. “When we improve quality, often there will be a reduction in waste or unintended or unnecessary cost.”

Health-policy experts have long recognized the huge variation in the quality of care among hospitals. Some have higher rates of complications, such as infections or errors, that can cause disability or require lengthy, repeated hospitalizations. Others employ poor diagnosticians. After all, even a high-quality spine operation is a waste if it's the wrong treatment for the patient's condition. (Medical research suggests that as many as 20 percent of such procedures, which cost tens of thousands of dollars, are inappropriate.) Emerick says the key to the Wal-Mart approach is picking facilities that measure high on quality, have the expertise to identify when

a patient's local doctor has given the wrong diagnosis, and possess the credibility to talk patients out of surgery they don't need.

A second element is hospital payments. Instead of the usual arrangement, where insurance companies reimburse providers à la carte for various services, the travel-surgery programs are based on a flat fee for all the care involved in a procedure. Tough transplants don't cost the employer any more than patients who sail through the surgery easily. The flat fee reduces employers' risks and gives the hospital an incentive to avoid problems that could prove expensive down the line.

The approach builds on research showing that for certain procedures, volume and outcomes are related. Surgeons who rarely do something struggle more than those who do it all day long. The effect is not true for every surgery, but in pitching itself to Wal-Mart and Lowes, which has its own travel-surgery program, the Cleveland Clinic highlighted its superior expertise in certain rare and expensive heart operations. “The opportunity to work with really the very best of the best organizations increases the likelihood of finding really differentiated outcomes,” says Michael McMillan, the executive director of market and network services at the Cleveland Clinic, which has treated about 100 employees from the two companies and is in talks with other

employers about contracts. Some academics say the assumption that all health care should be local drives down quality and reduces competition. “It is absurd to think that we would service the stealth missile in the corner garage,” says Regina Herzlinger, a health economist at Harvard Business School.

Still, some scholarship cautions against premature enthusiasm. Ateev Mehrotra, an associate professor at the University of Pittsburgh and a policy analyst at Rand, favored this model until he studied it. In joint-replacement and spine surgeries, he found, hospitals deemed “excellent” by evidence-based guidelines failed to outperform other hospitals on quality or cost, when he compared similar procedures. Mehrotra also pointed to studies indicating that travel has downsides—such as medical records that don't transfer well or social dislocation, both of which can worsen health outcomes. Overall, the U.S. health care system is pulling in the opposite direction, toward approaches where large groups of providers and hospitals in an area work together to ensure low-cost, high-quality care for local patients.

Optimists about travel surgery predict they will get results because they focus narrowly on the most elite hospitals and because the published studies don't account for surgeries that are averted through better diagnosis. But several employers and hospitals acknowledged it will take time—at least a year, Wal-Mart estimates, despite its huge workforce—before they can prove the accuracy of their instincts. Cleveland Clinic is still collecting cases for a comprehensive study. Johns Hopkins, which has a similar contract with Pepsico, has seen only five cases in the past 18 months; workers have been slow to join the new voluntary program.

In the meantime, other businesses are exploring the model. “With Wal-Mart doing this, a lot is going to change,” Emerick said. The National Business Group on Health, which represents benefits managers at large employers, says more than 10 percent of its members are using price incentives to steer workers to high-quality hospitals. Another 19 percent say they're considering it for next year. “The good news about business and employers, unlike the government, is, if they start something and find it's not doing what they think it's going to do, they can stop,” says Helen Darling, the group's president and CEO. Few are likely planning on it, though. They know Wal-Mart is the low-price expert. ■



Happy customers: Employees like this insurance model.