Lehigh County Pennsylvania

Office Of The Controller

Mark Pinsley, MBA
COUNTY CONTROLLER

Nanton John, CIA, CFE
DEPUTY CONTROLLER

Memorandum

To:	Administration & Board of Commissioners
From:	Controller Mark Pinsley
Date:	July 22, 2025
Subject:	Structural Deficit

To the Board of Commissioners: Exploring Potential Healthcare Cost Savings for Lehigh County

The Department of Government Efficiency (DOGE) has increased public dialogue about fraud, waste, and abuse at the federal level. As the Controller's office has a primary responsibility for identifying fraud, waste, and abuse in county operations, we believe the public may be more interested in examining areas of local government where significant costs could be reevaluated, particularly in healthcare, which constitutes one of the County's largest expense categories.

Lehigh County is currently facing a structural deficit of nearly $4 million. Healthcare spending represents one area that could be examined for potential cost reductions. The Controller's Office believes that reforms like reference-based pricing (RBP), direct hospital contracting, or paying cash prices could reduce expenses, potentially eliminating a significant portion of the deficit without cutting services.

On October 21, 2022, our office issued Report #22-16, titled Performance Audit: Highmark Medical Claims Payments 2021. The report recommended that the County evaluate savings opportunities through competitive pricing models, such as reference-based pricing (RBP). At the time, the County received a quote from ELAP, an RBP provider, which estimated nearly $4 million in annual savings. The idea was not pursued under the previous board.

In light of current budget constraints, the Controller's Office recommends that the board evaluate whether revisiting these approaches: RBP, direct contracting with local hospitals, or cash payments might yield cost savings.

In addition to RBP and direct contracting, the County should evaluate the use of cash pricing, which many hospitals publish and is available in machine-readable format. For example, see: https://hospitalpricingfiles.org In practice, employers may be able to secure lower rates by paying hospitals directly at the published cash price—often bypassing inflated insurance markups. This approach may yield savings, particularly for high-cost procedures.

What is Reference-Based Pricing (RBP)? Reference-based pricing sets a maximum amount the County will pay for medical services based on a percentage above what Medicare pays. For example, if Medicare pays $1,000 for a service, the County may agree to pay $1,400. Instead of relying on inflated insurance network rates, RBP puts a cap on pricing. Some providers, like ELAP or Homestead, also offer legal and negotiation support to prevent patients from being stuck with surprise bills.

What is Direct Contracting? Direct contracting allows the County to negotiate directly with a hospital (such as St. Luke's or Lehigh Valley Health Network) to secure lower rates. In exchange for steering employees to that hospital, the County may receive better pricing and more predictability. This can be used on its own or combined with RBP.

What is Cash Pricing? Cash pricing refers to the upfront, out-of-pocket price that hospitals typically accept when an individual does not have insurance. The theory is that employers can bypass traditional insurance markups and generate savings. In advance, hospitals would

need to agree to allow patients to temporarily “drop” insurance for a specific service to accept the lower cash rate. To pursue this strategy, the County would need both major local hospital systems, St. Luke’s and Lehigh Valley Health Network (LVHN)—to provide a complete and transparent list of their cash prices.

Update to earlier findings To update our 2022 findings, the Controller’s Office recently contacted two additional providers, Homestead Smart Health and Occunet. Their preliminary savings estimates were based on the information that Lehigh County spent approximately $23 million on healthcare in 2021. Of that amount, 29.8% went to inpatient care, 32.8% to outpatient care, and 36.4% to professional services. Both providers indicated that a more precise estimate would require the claims file, which has the detailed and up-to-date information, but never-the-less felt significant savings could be achieved.

- **Homestead Smart Health** estimated $3.4 million in savings, with potential cumulative savings of $16.4 million over three years, assuming a 6% annual trend in cost increases.

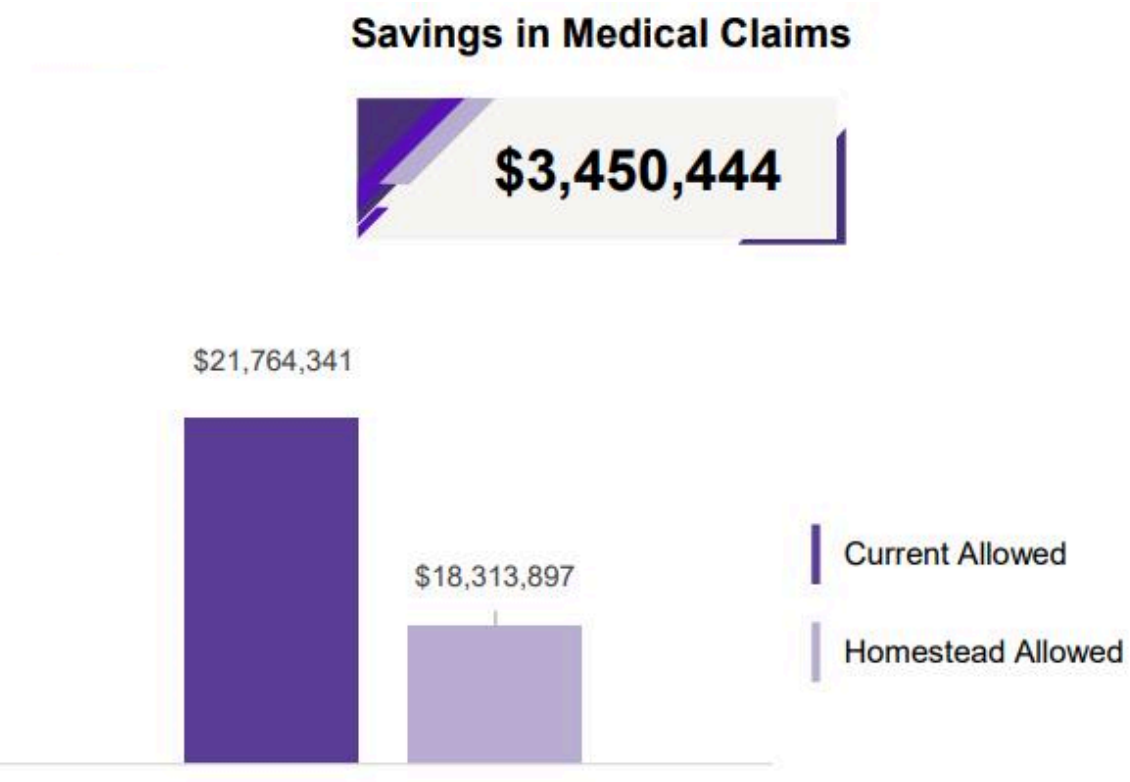

Figure 1: Estimated Annual Savings by Homestead Smart Health

- **Occunet** estimated $2.9 million in annual savings based on inpatient, outpatient, and professional service claims.

Figure 2: Estimated Annual Savings by Occunet

Both providers noted their offerings include:

- Open access to providers (no networks required)
- Fair payment limits based on Medicare benchmarks
- Balance billing protection for members
- Cost transparency tools and concierge support
- Legal and negotiation services for billing disputes

Frequently Asked Questions:

Q: What is direct contracting and how is it different from reference-based pricing (RBP)? A: Direct contracting means the County works out pricing directly with a local hospital or health system in exchange for encouraging employees to use that provider. This can lead to simpler billing and more predictable costs. Reference-based pricing does not involve any agreement with a hospital. Instead, the County sets a cap on what it will pay for services based on Medicare rates and uses legal support to settle any billing disputes. Direct contracting offers stability with a preferred provider, while reference-based pricing allows more flexibility but may require more negotiation.

Q: Do savings still apply if there is no direct contract with a hospital? A: Yes. Most clients use full reference-based pricing without direct contracts and still realize savings.

Q: What happens to savings when a direct contract is used rather than RBP? A: Savings are typically reduced slightly in exchange for the predictability and access provided by a direct contract. Providers aim for rates close to 180 percent of Medicare. National averages can be much lower. For example, Homestead's national average effective rate is 144 percent of Medicare.

Q: What happens if an employee needs care outside of the direct contract hospital system, like while traveling or in an emergency? A: Employers who directly contract with hospitals typically engage a wrap network to provide nationwide coverage for out-of-area or emergency services. This ensures that employees are still covered if they are traveling or taken to a non-partner hospital by ambulance. The goal is to make care seamless and financially beneficial while minimizing gaps in access. But this would need to be discussed with the providers to make sure all details were understood.

Q: How does this work for retirees or employees who live out of state, such as in Florida? A: These plans use open networks. Members can go to any provider. A portal and app are provided to help them locate care. Coverage is available nationwide. Once again, this would need to be discussed with the providers to make sure all details were understood. It should be a question included in a request for proposal.

Recommendations:

1. The County should issue a request for proposals (RFP) for healthcare administration services to evaluate potential alternatives. As the budget process commences, this

presents an opportunity to explore potential cost-saving options. While the County currently has a contract with Highmark, we have not identified any cancellation penalties if the agreement is terminated at the end of the year. However, the absence of clear documentation does not guarantee that such penalties do not exist. We also could not confirm whether a new main contract agreement has been executed. If cancellation fees do apply, a return on investment (ROI) analysis should be conducted to determine whether terminating the contract or continuing under the current terms would result in the most cost-effective outcome for the County.

2. To ensure the integrity of the RFP process and maintain public trust, the County should carefully consider whether using a broker to guide or manage the evaluation of proposals is appropriate given potential conflicts of interest. Although the County pays its broker directly, it is not always possible to account for all potential sources of compensation. Brokers may receive indirect incentives—such as bonuses tied to the volume of business directed to specific insurers—which can create a conflict of interest, even if unintentionally. We are not suggesting such incentives have influenced decisions in our case; however, to fully assure the public that the process is objective and free of bias, the evaluation should be conducted either by internal staff or a neutral third party with no financial ties to insurers or prior County contracts. This approach provides the clearest path to identifying the best value for both taxpayers and employees.
3. The Board should request that the Administrative & Human Resources Committee allow all vendors submitting bids to present their proposals directly to the committee in a public forum and answer questions. Given that healthcare benefits represent one of the County's largest financial investments, enhanced transparency in this process would benefit stakeholders. Direct education of committee members by the providers themselves, rather than through intermediaries, would help ensure they fully understand the costs, trade-offs, and value of each proposal. This approach could strengthen accountability and help build public trust in the County's decision-making. This would also provide an important opportunity to understand how much it would impact an employee's ability to continue to use their preferred provider
4. The full RFP and all proposals should be made public, and comparisons should be based on equal, transparent criteria.

A Broader Vision: Use County Scale to Help Small Businesses

As part of this process, the Controller's Office recommends a practical and community-based strategy. Lehigh County could work with a local nonprofit organization or an independent company that manages health plans to establish a shared health care purchasing group. This group is often called a health cooperative.

In this model, Lehigh County would act as the lead participant. Because the County has a large number of employees, it can negotiate better prices for health care. By partnering with a local organization to set up a cooperative, small businesses and nonprofits in the area could choose to join and get access to the same lower prices.

The main goal is to help small businesses and nonprofits save money on health care by giving them the same buying power that large employers like the County have. This could make it easier for them to offer good coverage to their workers.

This approach would:

- Give small employers the ability to buy health care at lower prices
- Allow more people to benefit from fair and predictable health care costs
- Support local businesses by reducing one of their biggest expenses
- Keep more health care dollars within the Lehigh Valley community

Vendors who submit proposals should be asked to include ideas on how this type of cooperative could be set up and managed.