



January 2025

PBGH Direct Contracting Forum: Key Takeaways for Employers

An Impactful Day

There has been growing demand for better and more affordable care which has led to a lot of momentum building towards direct contracting between employers and health care provider organizations. Despite the interest, direct contracting is still relatively rare as a health benefits strategy despite strong results from employers who have undertaken it. To understand what was causing the disconnect and how PBGH could support our members seeking innovative strategies, we hosted the PBGH Direct Contracting Summit in December 2024. Since this event was the first of its kind, we were unsure of the interest and planned for a small turnout. However it quickly became clear how much we underestimated demand.

The employer interest and registration exceeded what we had originally planned to accommodate. We had to adjust our plans to ensure space for health care provider organizations to participate and be represented.

It quickly became apparent that part of the disconnect that could be preventing successful direct contracting relationships between employers and providers is they don't often talk. From the outset, physicians from health systems were talking with employer representatives about their barriers and preconceptions about the other side's perspective on direct contracting relationships.



2024 PBGH Direct
Contracting Forum
December 12
Austin, TX

“There is a blueprint on how to create these [relationships] and draft a direct contract. You don’t have to reinvent the wheel or start from scratch. Take advantage of what PBGH has pulled together and the tools available based on what other employers have already accomplished.”

- Linda Brady, The Boeing Company

As the day progressed, the sharing of best practices that often occurs at PBGH meetings amongst employers was also supplemented by the health care provider perspective around the same problem, leading to meaningful and rich problem solving. Without a forum bringing together varied stakeholders, we miss an opportunity to work together towards a shared goal of better patient care.

The PBGH Direct Contracting Forum created the opportunity for this conversation to start, and the takeaways from the meeting shared here can help employers who want to take the first steps in direct contracting. It is more critical now than ever for employers to be bold in their health care strategy. No one can deny that we are facing a crisis in health care, and direct contracting may be a key way forward by bringing unexpected and aligned allies together to drive the innovation our health care system needs to improve.

Employer Reasons for Direct Contracting:



Cost Savings



Fiduciary Control



Improved Quality



Customized Services



Better Access and Patient Experience



Transparency

Background

The PBGH Direct Contracting Forum took place in December 2024, and in bringing together self-insured employers and health care provider organizations, one thing became abundantly clear: there is real interest from employers to create direct relationships with providers to meet the needs of their employees and families. Many employers are frustrated with the rising cost of health care with minimal transparency and continued employee complaints about their experience. Fiduciary pressure to control costs and ensure high value care is also pushing employers to innovate beyond traditional arrangements with incumbent partners. In prior years, the thought of doing direct contracting was considered too difficult by many employers. Recently, however, there has been momentum driven by leading employers with impressive results from direct contracting arrangements, new market entrants that make direct contracting easier, and growing frustration with the current state of U.S. health care.

“The cost of our health care goes into the cost of goods sold.”

- MaryBeth Kramer, Rivian Automotive

PBGH worked with members to outline key functions required in any direct arrangement including: payment, contracting, partner selection, communications, and performance monitoring of quality measures. The group also explored different models of direct arrangements from employer case studies. Despite growing interest in direct contracting, no one has yet consolidated the approaches to create a cohesive framework that reflects employer priorities and needs, which PBGH has initiated with this forum. Because of its close relationships with leading employers, technical expertise with quality measurement, and long track record of enabling innovation, PBGH is well positioned to support employer direct contracting initiatives. Given demand, PBGH will continue to develop needed support—including an ongoing forum to enable effective employer and provider partnerships.

Multiple Ways to Set Up the Same Core Processes:

- How will you process, pay and track claims?
- What is your procurement and contracting process?
- Who will deliver the health care services?
- What is your communications plan to members?
- How will you monitor performance?

Some Key Takeaways from the Forum Will Inform Next Steps for PBGH and Its Members:

Employers need to have a north star—and communicate it.

Employers must define what they want to buy. The details of arrangements may vary, but employers need to articulate what they want for their employees. This process should start with reviewing data to understand employee health needs. Once it is clear what employers need for their workforce, they should not compromise on that vision. This may mean stepping back and envisioning what success would look like to enable optimal employee health and patient experience. PBGH has assisted employers to create terms and measure sets for primary and maternity care—and will be creating others. The process and pace of achievement may vary, but clearly articulating goals and expectations is essential to finding the right partners. Bringing this clear vision to the table with provider partners allows parties to evaluate readiness and design the right arrangement.

Employers must ensure their health plan contracts allow flexibility.

Jumbo employers are not in a position to leave their health plans and will continue to rely on them for many services and wrap networks. Direct arrangements in regions with concentrated headcount can be an important complement to traditional plan networks. Employers who are seeking to enter direct contracting arrangements are sometimes prohibited from doing so in their health plan contracts. Employers should include specific provisions in their health plan contracts guaranteeing their right to have:

1. Centers of Excellence
2. Direct Contracts
3. Full data and audit rights
4. Network curation rights
5. Full flexibility to design new arrangements with providers

Health plans should be expected to meet employers' needs without limiting them from any arrangements that will benefit their employees. RFPs should clarify employer expectations for maximum flexibility and control, or employers can also addend current contracts to ensure flexibility.

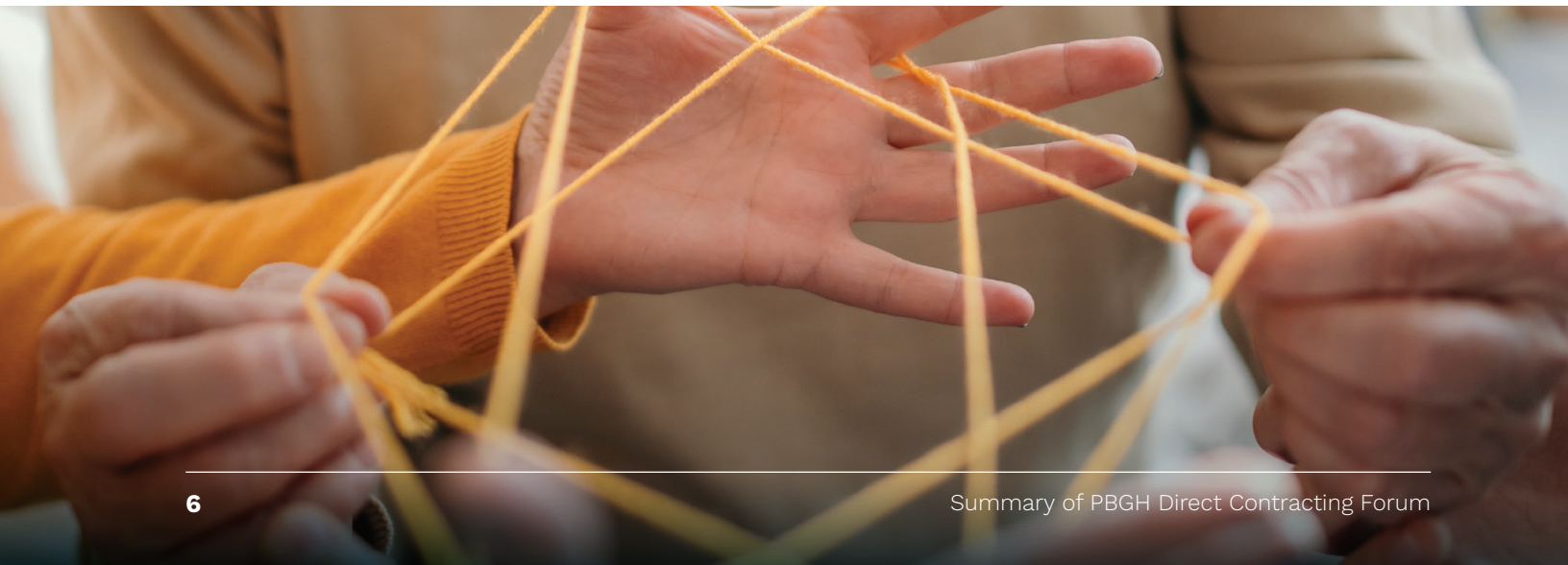
Successful direct contracts require a partnership approach.

Direct contracting is still relatively new for many employers, and similarly to many providers. It requires significant changes—on both sides—to be successful. Traditionally contentious negotiations and outsourced functions may evolve to a shared understanding and joint problem solving through direct relationships. Transparency is essential and will enable trust, improvement and accountability. These are new roles and skills for all involved and may take time to develop. However, there is a mutually beneficial relationship that can occur and drive innovation needed to achieve a shared goal of better patient care and experience.

“The strategy this year, in 2025, is finding and focusing on the good partners: [the ones] where you’re getting the right data and the right performance, and then direct contracting with them.”

- Michael Costello, NextEra Energy Resources

Standards and performance expectations should be very clear to all involved and should be written into a term sheet or similar document. Flexibility should be built into the arrangement to enable providers multiple approaches to achieving those standards. Contracts may span multiple years, however there are annual reviews and changes that need to occur, particularly when it comes to goal setting since it is based on the previous year’s performance. It is preferable to build in a contract structure, for instance with the use of exhibits, which allows for flexibility without having to do a complete contract addendum every year. Having a direct relationship allows for learning, and contracts should be flexible enough so that as expectations and approaches change, the contract does not have to.



Employers do not have to do this alone.

There is growing experience amongst employers of how to create successful direct contracting relationships and readiness to share best practices. Beyond sharing experiences, employers may also be better served by working together through a group purchasing framework. It is not feasible for individual employers to contract with every provider and adequate volume is needed by providers which can be achieved by aggregating across employers. Any consensus reached in terms of quality measures and reporting expectations can reduce administrative burden on provider organizations. Alignment of goals and standards also allows for employers with a smaller headcount in an area to participate in direct contracts without increasing burden for their teams or for provider partners. This may accelerate improvement on common goals.

“It was inspiring to see so many employers truly engaged around their employees’ overall health and the openness to innovative direct partnerships with health systems in addressing their employees’ healthcare needs.”

- Bradley Byars, Providence St. Joseph Health Network

Employers need to be willing to walk away from existing partners.

Many employers who have been successful in direct contracting noted pre-existing relationships with partners that did not support their goals or did not bring value. As fiduciaries, employers need to be able to step away from those relationships to build something that does meet their needs and drives better quality and patient experience on behalf of employees and families. Employers are acting as fiduciaries of their employees’ funds and purchasing health care benefits on their behalf. They cannot acquiesce to plans, vendors, consultants, or providers who will not be responsive. Not all providers will want the challenge of a direct contract and not all partners will be willing to implement new arrangements. Employers must identify and choose aligned partners. Employers must lead even if it means forging new partnerships.

Moving Forward

Employer case studies make it clear that regardless of market immaturity, direct contracting is a feasible and desirable alternative. Every PBGH member who has initiated a direct arrangement reported better outcomes, access and experience—all at lower cost. There is growing evidence to inform successful approaches and willingness to partner among employers and providers. Many employers who have had success (and failures) are willing to share their lessons learned and evidence of what works. Many also volunteered to share contract terms and best practices and partner with other employers through PBGH to scale effective strategies.

Despite readiness, a key barrier is identifying the right partners: interested employers and providers lack a way to find each other. Even in regions where employers know local providers, it is not clear who to call, readiness to engage on both ends, nor how to begin meaningful conversations that could lead to successful partnerships. The PBGH Direct Contracting Forum created a unique opportunity for willing employers and providers to understand each other's priorities and challenges and gauge what is needed to forge mutually beneficial partnerships to improve patient care. The positive response and clear interest from all parties creates an opportunity to develop an ongoing forum and platform to enable direct contracting at scale.

“This is a fundamental perspective shift for a lot of health systems who are used to doing business as they’ve been doing for many years. Workflows are embedded; processes are built, and [employers] are asking them to do something different.”

- Tracy Chu, Scripps Health

Although direct contracting may seem daunting, employers can and should have the same high expectations of quality and transparency from health care as they do when procuring any other good or service with any other partner. Purchasers can know the quality, price and terms of the arrangement, and whether they match business needs, when they have access to the right data, tools and expertise. If any partner will not or cannot deliver, then, as fiduciaries, employers are obliged to hold those partners accountable or find alternatives. Applying these practices to health care purchasing holds great promise for quality and affordability.

PBGH is here to support its members in their strategic objectives that also help them achieve fiduciary success. The forum demonstrated strong interest and a need to bring multiple stakeholders together to share perspectives on how to be successful in forging mutually beneficial partnerships for better value in the health care system.

It is also important to note the changing environment and its impact. There is growing interest from federal policymakers to tackle the affordability crisis and enable alternative approaches. Legislation is in development to specifically enable direct contracting that PBGH is supporting and is getting early traction. Employers and health care provider organizations can reach out to PBGH to join us in our upcoming advocacy efforts for policies that enable direct contracting. The affordability crisis and the fiduciary pressure on employers change the urgency for innovative approaches to health care purchasing.

There are initiatives from which we can learn and build. PBGH is currently enabling several direct contracting initiatives most recently in Puget Sound between multiple employers and multiple Advanced Primary Care partners who agreed to common metrics and goals. The terms of the contracts are available to other employers wishing to join or use in other regions. Contract templates that can easily be adopted are available to members. PBGH has also developed a Care Excellence designation program to identify advanced primary care practices that meet employer standards and provide ongoing quality assessments. All of this work creates a strong foundation from which to build.

We thank all who took this step with us to achieve better health care for U.S. workers and families. In 2025 PBGH will be working with members to design a shared strategy and look forward to innovating with interested partners.

To join this work please reach out to Dr. Raymond Tsai at rtsai@pbgh.org.



Pro Tips for Employers

How to Create Effective Direct Contracts

1. Create and articulate your vision.
2. Review your data to understand your needs and areas for opportunity.
3. Evaluate your current health plan contracts and amend them as necessary to make direct contracting possible.
4. Create a project team internally to project manage and lead the workstream(s) needed to implement the direct contract. Make sure to include an inventory of necessary skills needed for implementation.
5. Select the region and focus area (primary care, maternity, COE, etc.) to start.
6. Evaluate partner options by region—know their quality, safety and relative cost.
7. Conduct an RFP—or other selection process—to identify those with the best performance and those most willing to enter a direct arrangement. Review their performance and understand variations and trade-offs. Meet directly with finalists to select your partner(s).
8. Create a term sheet for initial discussions.
9. Understand how claims will be processed, paid and tracked.
10. Draft a contract reflecting your priorities, and leverage best practices/terms.
11. Consider benefit design changes that are needed to encourage use of any direct contracting relationships in conjunction with existing benefits.
12. Plan your employee communications. They need to understand the why and how to take advantage of new partnerships.
13. Set expectations and intervals for continued monitoring of performance.