THE C-SUITE SURVIVAL GUIDE:

How to Make Health Care **A Controllable Cost**

NEXTGEN BENEFITS

THE C-SUITE'S GUIDE TO MAKING HEALTH CARE A CONTROLLABLE COST

The coronavirus crisis is forcing America's C-Suites to take swift and immediate action on numerous fronts, including cutting costs in response to declining revenues.[1]

Confronted with the immediate economic impact of the COVID-19 pandemic and even a possible recession, as a CEO or CFO you likely are under tremendous pressure to cut all controllable costs. Yet your second- or third-highest expense is health care, an OpEx relegated to SG&A and a cost that you believe is beyond your control.

Conventional wisdom holds that, outside of gutting your health plan, your health care spend presents a binary choice: Accept the cost of offering health care OR stop offering health care. Eliminating health care as an employee benefit is unimaginable for most companies...until it becomes an existential issue. Faced with insolvency, both benefits and payroll become fair game.

But, before events force you and your company to that point, you should know something about the conventional wisdom that health care is an uncontrollable cost.

The conventional wisdom is **dead wrong.**

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[1] YPO Chief Executive Global Survey on the Business Impact of COVID-19." https://www.ypo.org/2020/03/ceos-weigh-in-on-covid-19-pandemic/

HEALTH CARE'S BIG LIE

America's C-Suites are the unwitting victims of what propagandists call a "big lie," when a known falsehood is stated and repeated and treated as if it is self-evidently true. When bold enough and repeated often enough, a big lie eventually is accepted unquestionably as truth.

In this case, health care's middlemen – the insurance companies and benefits brokers – have been spreading health care's Big Lie in company C-Suites for decades:

> **You have no control over the cost of healthcare. Healthcare costs – and your health insurance rates – will increase annually and there's nothing that can be done about it."**

After hearing that deceptive refrain over and over from credible and reputable industry "experts," CEOs and CFOs eventually accepted the Big Lie as gospel.

Being smart executives, once convinced they had no control over health care costs, they promptly labeled health care an OpEx, stuffed it in SG&A, and gave operational control to a line manager in HR. Which is how a middle manager with no P&L responsibility came to run what has become one of the company's biggest budgets and largest business units...*the health care business unit*.

Our premiums today are less than they were in 2014 when we completely insured the [health] plan. We expect this to remain the same in 2020, with no cost increases and a reduction in [medical] claims.

—Azam Mirza, Co-Founder & President
Akorbi, Inc., Dallas, TX

MISALIGNED INCENTIVES

Fair-minded executives might question the claim that health insurance companies and benefits brokers have been pushing a lie – and a whopper, at that – on the C-Suite. Why, you ask, would they lie like that? Well, "follow the money" is always a good strategy when looking for motive.

Rising health care costs drive up the cost of insurance premiums. Premiums are insurance companies' revenue. Higher premiums mean more revenue and higher profits, too, since a profit margin on a higher number is a higher number. In other words, when health care costs force premiums higher, the insurance company, or carrier, makes more money. The carrier's financial incentives are misaligned with yours as a company. If you and your company were to successfully control and lower the cost of health care, you would negatively impact the carrier's finances. And the insurance company would never act on its own to lower the cost of health care; that would be counter to their financial interest. This is why companies with fully insured health plans managed by the insurance company see annual rate increases every year and will never see their health care costs or premiums go down.

Brokers, too, have financial incentives misaligned with yours. Most brokers are paid commission – usually 3-7% of your premium – by the insurance company. So when rising health care costs cause your premiums to increase by, let's say, 10 percent, your broker gets a 10 percent raise. The broker fails to keep your costs down yet he gets paid more. You can see why your broker doesn't want you and your company working to control and lower your health care costs. And his misaligned incentives disincentivize him from working on your behalf to lower your cost of health care.

Both the broker and the insurance company have an unquestionable incentive to keep you from working to lower your health care costs. Thus, health care's Big Lie, which over the past decade has cost American business billions of dollars in profits. Meanwhile, insurance company share values have skyrocketed, with Anthem up over 500 percent and Cigna and UnitedHealthcare up over 1,000 percent over the past 10 years.[2]

[2] Historical share price data for Anthem, Cigna, Humana & UnitedHealth, https://www.macrotrends.net

ALTERNATIVE FUNDING ARRANGEMENT

Prevented by their financial incentives from working to control and lower your health care costs, the health insurance companies obviously cannot be your partner in your fight to make health care a controllable cost. Their fully insured health plans allow you zero control over your health care costs, dictating the vendors that are used and refusing to implement effective cost-containment strategies. Moreover, in most years they force you to overpay for your health care by charging you far more than your employees actually spend on health care. If your annual premiums total $1 million but your employees use only $600,000 worth of health care, do you get any of that overcharge back? Of course not. But you almost certainly will get a premium increase at your renewal, despite grossly overpaying in the previous year.

To make your health care a controllable cost, it's necessary to move from a fully insured health plan to an alternative funding arrangement that has two major benefits:

1) You pay only for the health care your employees actually purchase during the year; and
2) You gain total control over your health care spend and all aspects of your health plan.

Important Note: Actual control of your health plan requires your benefits adviser to engage an independent and "unbundled" Third-Party Administrator (TPA) to manage your plan, one that allows your adviser to utilize vendors – such as the Pharmacy Benefit Manager or Medical Utilization Manager – of his or her choosing. If you use a carrier's Administrative-Services-Only (ASO) arrangement to administer your plan, the ASO will prevent you from controlling health care costs, just as in their fully insured plans.

Once you have real control of your health plan, you can begin to implement the same business strategies that you use to control costs in every business unit in your company except – until now – health care.

MANAGING THE HEALTH CARE SUPPLY CHAIN

To maximize their revenue and profits, insurance companies and brokers had to convince you and your C-Suite colleagues to ignore the health care supply chain. After all, when you already negotiate the price of paperclips down to one-tenth of one cent, there is no reason you couldn't manage the cost of the health care that your employees purchase. Health care is not somehow exempt from the rules of economics.

In fact, forward-thinking CEOs and CFOs who apply standard supply chain management techniques to health care are reducing their company's year-over-year health care spend by 10 to 20 percent or more in the first year alone. Fourth-year savings can reach 40-50 percent of the original health care spend. For example, a company with a $1 million annual health care spend in 2019 could be down to an annual health care spend of $600,000 or even $500,000 by the end of 2023.

The March-April 2020 issue of *Chief Executive* magazine profiles three innovative CEOs who have taken control of their health care spend and are managing their health care supply chain with impressive results.[3] (See the adjacent Case Study on Akorbi CEO Azam Mirza, who is featured in the *Chief Executive* article.)

> [I can see] where every penny goes in paying for employee healthcare, helping us forecast where best to allocate capital to grow the business and price our products and services.
>
> **—Jim Eickhoff, CEO**
> ***Creative Dining, Grand Rapids, MI***

ELIMINATING YOUR EMPLOYEES' OUT-OF-POCKET COSTS

Because reducing health care costs would be detrimental to your broker's financial interests, most of your cost savings in your health care plan over the past 10 years have been the result of shifting costs onto your employees. Increasing the employee's share of the premium, raising the deductible, charging higher co-payments, increasing the co-insurance... all shift the cost of health care from the company to the employee. Sadly, so-called "consumerism" has been used as a fig leaf for shifting health care costs to your employees.

[3] "Healthy Choices," *Chief Executive*, March-April 2020, pp. 67-71.

Tragically, deductibles have risen so much that many employees now pay expensive premiums for insurance they can't afford to use except for catastrophic care, i.e., for severe illnesses such as cancer and real emergencies where they have no choice, like heart attacks, strokes, and serious accidents. With just 41 percent of Americans able to cover a $1,000 emergency expense with savings,[4] for many employees a $1,500, $3,000, or $5,000 health care deductible can be an insurmountable barrier to accessing needed care.

When circumstances force an employee to seek care, serious conditions or injuries can leave your employees facing an out-of-pocket expense of up to $8,150 for an individual or $16,300 for a family.[5] For many employees, this can be financially devastating. A joint study from Harvard Medical School and Harvard Law School found that over half of bankruptcies in this country involve unpaid medical bills.[6] Of those who filed because of medical debt, 75 percent had insurance when they became ill or injured.

But while the status quo practice is to shift more health care costs onto employees, companies that take control of their health care spend and manage the costs can provide health care to their employees with lower *or even zero* out-of-pocket expenses. The health care cost savings often allow these companies to eliminate the deductible and co-insurance. Imagine a company's competitive advantage in recruiting and retaining talent with low insurance premiums and "free health care."

Results of the C-Suite's managing their health care supply chain: A more affordable and sustainable health care spend for the company; much better benefits for the employees; and a real ROI measurable in easier recruiting, higher retention, and greater productivity.

[4] https://www.bankrate.com/banking/savings/financial-security-january-2020.
[5] Affordable Care Act group plan maximum allowable out-of-pocket limits, 2020. Internal Revenue Service.
[6] "Illness And Injury As Contributors To Bankruptcy," https://www.healthaffairs.org/doVfull/10.1377

FROM OPEX INTO A CONTROLLABLE CAPEX

The secret to making health care a controllable cost and lowering that cost is as simple as:

1) treating your health care spend as a capital allocation;
2) providing oversight of the health care spend by an executive with P&L responsibility;
3) moving to alternative funding to take control of your health care spend and health plan; and
4) managing your health care supply chain to reduce the frequency and severity of claims.

Frankly, managing health care costs is, in concept, no different from managing the cost of raw materials or office supplies. Although, to be fair, managing health care costs in practice is much more complex than managing the cost of ball bearings or paper clips. But you can call on consultants who specialize in managing the health care supply chain.

The bottom line is that, despite what your broker and insurance company rep repeatedly tell you, you can and, as a fiduciary, you ***must*** manage your health care costs, especially in times of economic crisis that might pose an existential threat to your company.

So let's take a look at the high-impact action steps you can take in your company to make your health care spend a controllable cost and how you can begin to control and reduce that cost.

MAKE HEALTH CARE A CONTROLLABLE COST

If you have a fully insured health plan from an insurance company.

If your health care financing arrangement is a fully insured plan from an insurance company (usually a Blue Cross affiliate, UnitedHealthcare, Cigna, Aetna, or Humana) you have no real options to control costs due to the insurance company's control and misaligned incentives.

Moreover, as mentioned above, you likely are overpaying for your health care with a fully insured plan.

Would you like to see how much money you are being overcharged each year by your insurance company? Obtain a full report on your total annual medical and pharmacy claims costs (the amount your employees actually spent on health care):

- Ask your current broker to obtain a full medical and Rx claims report from your insurance company for your previous plan year. (Note: You are highly unlikely to get such a report since the insurance company doesn't want to reveal your overpayment. Expect stalling, delays, and incomplete data.)
- When you are unable to get your complete claims report, visit the NextGen Benefits Network website (see the back page of this white paper) and request a NextGen Benefits adviser contact you about a Claims Analysis Report for optics into your actual health care costs to see how much you are being overcharged by your insurance company.

If you have a fully insured health plan from an insurance company

There are multiple actions you can take to control your health care costs if you are self-funded or part of a health care coalition.

NOTE: As mentioned previously, if an insurance company ASO arrangement manages your self-funded plan, you will have tremendous difficulty working within their restrictions on cost-containment. Moving to an independent and unbundled Third-Party Administrator makes it simple for a NextGen Benefits adviser to effectively manage your health care costs.

However, in a crisis situation when immediate cost savings are required, many of these cost-containment strategies can be implemented as a bolt-on solution or by creating an overlay plan that bypasses parts of your existing health plan to generate immediate cost savings.

Ask your broker to get aggressive and take immediate action in the following areas:

PHARMACY (RX)

Pharmacy represents some of the lowest hanging fruit for cost containment. There is tremendous waste and abuse (and even fraud) in your pharmacy spend.

- **Pharmacy Cost-Containment.** Implement a pharmacy cost-containment vendor that works with your traditional Pharmacy Benefits Manager (PBM) to ensure generic equivalents are used, employees are obtaining the lowest cost for their drugs, and dangerous drug interactions are avoided. **SAVINGS: 15-20 percent of your Rx spend over 12 months.**
- **Fiduciary PBM.** Retain a fiduciary PBM to manage your employees' prescriptions. **SAVINGS: 40-50 percent of your Rx spend within 30-60 days.**
- **Specialty-Drug Cost Mitigation.** Implement a specialty-drug cost-mitigation program to source high-cost specialty meds. **SAVINGS: 70-100 percent of your specialty-drug spend within 60-90 days; 100 percent ($0 copay) for employees on specialty drugs.**

HEALTH CARE ADVOCACY & TELEHEALTH

- **Health Care Advocacy/Concierge.** Install a health care advocacy/concierge service as the entry point to your health plan, requiring employees to contact the advocate to access the health care system. Top advocacy/ concierge programs provide employees a wide range of assistance, from giving information on the health plan, answering health questions, even offering access to a nurse for clinical questions. The health advocate/ concierge should serve as your health plan's gatekeeper, directing employees to your zero-dollar-copay tele-health service as a first step before employees engage more costly options, such as a physician's office, Urgent Care, or the emergency room. **SAVINGS: Will generate savings as employees are directed to the lowest-cost option that meets their health care needs. See savings estimate for $0-Copay Telehealth below.**

- **$0-Copay Telehealth.** Implement a $0-copay tele-health service that makes physicians available to employees via smartphone, tablet or computer at half to a third less than the cost to your plan of a visit to a doctor's office. Telehealth also improves productivity by reducing absenteeism due to doctor office visits during work hours and sick days due to incidental infections from waiting room exposure to other patients.

Meaningful utilization of telehealth requires either mandating employees access care through an advocate/ concierge and/or extensive and ongoing employee education. **SAVINGS: Estimated savings average $472 per visit by keeping employees from unnecessary visits to the doctor's office, urgent care, or the emergency room.**[7]

MEDICAL CLAIMS

- **Claims Repricing.** Engage a claims repricing vendor to negotiate excessive hospital and surgery center charges. Charges to employer-sponsored plans are often 300 to even 1,000 percent above the price allowed by Medicare, which the government sets at cost plus a modest profit. **SAVINGS: 30-80+ percent, dependent on provider pricing and provider competition in a market.**

- **Payment Integrity.** Implement a medical claims review by a qualified forensic analytics vendor to ensure payment integrity by identifying and recovering funds based on improper and inaccurate provider charges. Fulfills CEO and CFO's fiduciary responsibility under the federal ERISA law. Two-year claims look back is allowed in most states. **SAVINGS: Seven to 10 percent of annual spend times the number of years allowed for the look back.**

[7] "Can Telemedicine Be Both Cost Efficient and High Quality?" *US News & World Report*. February 27, 2018

MEDICAL UTILIZATION

- **Medical Second Opinion.** Require an independent medical second opinion on every procedure above a certain dollar amount (e.g., $3,000 or $5,000). Use a low-cost virtual second opinion service that utilizes top specialists across the country and requires no office visit by the employee. **SAVINGS: Over 20 percent of patients with a serious diagnosis are first misdiagnosed, according to the Mayo Clinic.[8] The least costly claim is the one that never occurs.**

- **Medical Utilization Management.** Engage a medical utilization management vendor to enforce second opinions when indicated and to identify high-value (high outcomes/low cost) providers for employees to use their health care needs. **SAVINGS: 50-70+ percent on each procedure when the employee follows the nurse's recommendation of provider(s).**

- **Bundled-Price Surgery.** Implement a bundled-price surgery program to make these high-quality/low-cost procedures available to your employees. **SAVINGS: 60-70+ percent on each procedure.**

- **Diagnostic Imaging.** Provide employees with low-cost diagnostic imaging center options for expensive tests such as a CT Scan or MRI. **SAVINGS: 30-80+ percent on each diagnostic test.**

- **Employee Out-of-Pocket Costs.** Once one or more of the above medical utilization plans are in place, incentivize your employees to make smart provider choices by creating a program to reduce or eliminate employee out-of-pocket (OOP) health care costs when they choose a high-value health care provider or low-cost imaging center. **SAVINGS: See all above.**

[8] Extent of diagnostic agreement among medical referrals," *Journal of Evaluation in Clinical Practice*. April 4, 2017.

BEHAVIORAL HEALTH

- **Employee Assistance Program.** Implement an Employee Assistance Program (EAP), which provides employees access to counseling sessions with a professional therapist at no cost to the employee or your plan (three to five sessions, depending on the program). Counseling sessions are available over the phone, as well as in person with a local counselor. **SAVINGS: Employees needing counseling always should be directed to the EAP first to save your health plan the cost of 3-5 sessions.**

- **Virtual Behavioral Health.** Engage a virtual behavioral health counseling service that increases access to mental health treatment by providing services via smartphone, tablet or computer. For use after an employee exhausts the EAP counseling benefit, these counseling sessions are available at low or no cost to the employee and at a substantially reduced cost to your plan. **SAVINGS: Addresses an important employee need while controlling costs to save over current counseling options.**

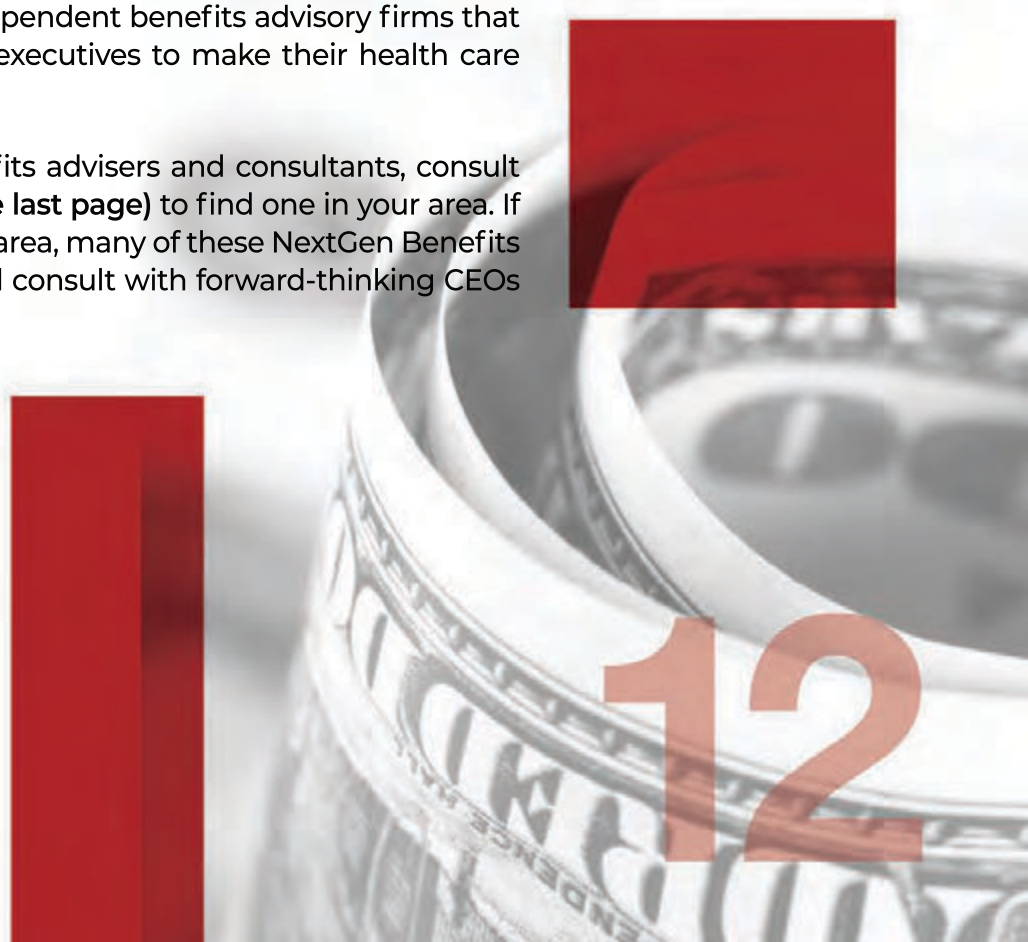
NEXT STEPS

As an executive, implementing these Action Steps will require the assistance of a highly qualified benefits broker or adviser/consultant.

If your broker doesn't move quickly and enthusiastically to implement some of these action steps, don't hesitate to find a benefits adviser or consultant who knows these strategies and can implement them quickly.

In the fast-evolving world of health care, the most sophisticated and effective advisers and consultants are members of the NextGen Benefits Network, a national alliance of independent benefits advisory firms that specialize in working with C-level executives to make their health care spend a controllable cost.

For a list of these innovative benefits advisers and consultants, consult the NextGen Benefits Network **(see last page)** to find one in your area. If there is not one in your immediate area, many of these NextGen Benefits Firms have a national footprint and consult with forward-thinking CEOs and CFOs across the U.S.



CASE STUDY: A CEO's Success Leaning into Health Care

Company: Akorbi
Co-Founder & CEO: Azam A. Mirza
Headquarters: Plano, TX
Employees: 300 Full-Time

Akorbi provides companies including Fortune 100 and 500 firms with enterprise solutions including interpretation, multilingual and technical staffing, multilingual contact centers with business process outsourcing capabilities, learning, and localization services. They have employees in six countries and across the U.S.

In 2018, Akorbi CEO Azam Mirza, working with **Daniel LaBroad**, a NextGen Benefits Adviser with Ovation Health & Life Services in Plano, began planning a move to an alternative funding arrangement for the company's health care, a coalition health plan in which like-minded companies share risk and pay only for the health care their employees purchase. The company joined the coalition on May 1, 2019. The new funding arrangement led to a reduction in the cost of stop-loss insurance from $360,000 to $225,000. **RESULT: An immediate cost savings to Akorbi of $135,000.**

More important, this new arrangement gave Mirza and his consultant, LaBroad, total control over the company's health care spend and health plan. Taking advantage, Mirza had LaBroad engage a fiduciary Pharmacy Benefit Manager (PBM) to better manage the prescription drug supply chain. The PBM reduced generic and brand-name prescription drug costs by over 50 percent. Separate cost-mitigation strategies practically eliminated specialty drug costs for the company while employees are receiving their high-cost specialty drugs with zero co-pay. **RESULT: Akorbi's pharmacy spend has been cut by 75 percent with better drug benefits for employees.**

Akorbi recently instituted a new clinical initiative known as bundled-price surgery, using a high-quality surgeon and surgery center that bundles fees for the surgeon, anesthesiologist, and the facility plus the cost of any appliance into a single, pre-negotiated cash price. The first use of bundled-price surgery involved an Akorbi employee who needed a total knee replacement (TKR). While the previous TKR surgery cost quoted by a provider was $100,000, the bundled-price surgery was just $28,000. **RESULT: The bundled-price surgery arrangement saved Akorbi $72,000 on a single total knee replacement.**

Based on the success of the bundled-price surgery initiative, LaBroad plans to implement Medical Utilization Management to detect waste, fraud, and abuse in the health care system and to ensure that employees receive the right care, from the right provider, at the right time, in the right place, and for the right price. Employees will be provided with a nurse concierge to guide them to high-value providers, such as bundled-price surgery centers, that will provide better medical outcomes at lower cost to both Akorbi and the employees.

The most accurate measure of a company's health care costs is the Per-Employee-Per-Year (PEPY) cost. Under Mirza's bold leadership, guided by LaBroad's expertise and innovation, Akorbi is on track to reduce its PEPY to a remarkable $1,888 for the 2019-20 plan year, from the 2019 PEPY of $6,512. (Note: These numbers represent the PEPY cost of medical and pharmacy claims but do not include the plans' administrative costs.) **RESULT: Net year-over-year savings for the Akorbi health plan is on track to exceed $350,000 for the current plan year.**

The savings are so substantial that Mirza has decided to return some of the savings to their employees, electing to lower the employee contribution for this coming plan year, which is great timing considering the financial hardships many are facing in the wake of the COVID-19 crisis.

Although Mirza and the Akorbi leadership team are excited about the total cost savings, they are more excited that health care has become a controllable cost over the past six years since engaging LaBroad as their benefits adviser. "Our premiums today are less than they were in 2014 when we completely insured the [health] plan," said Mirza. "We expect this to remain the same in 2020, with no cost increases and a reduction in [medical] claims."

For Azam Mirza and Akorbi, taking control of the company's health care spend and managing the health care supply chain has been a huge success, turning health care into a controllable cost that is now a sustainable capital allocation.

ABOUT THE AUTHOR

Author and speaker Nelson Griswold is a consultant to many of the leading employee benefits advisers in the country, including three who have been honored as "Employee Benefit Adviser of the Year" and three as finalists for "Broker of the Year."

He is the architect of the NextGen Benefits movement that is revolutionizing employee benefits and lowering the cost of healthcare by 20-40 percent for companies across the U.S. Griswold is the Managing Director of the NextGen Benefits Network (NBN). The NBN is a national alliance of innovative employee benefits advisory and consulting firms that work with CEOs and CFOs to take control of their company's healthcare spend and make healthcare a controllable cost. Three leaders in the Network were featured in the March/April 2020 issue of *Chief Executive* magazine along with some of their CEO clients who are using NextGen strategies to lower their healthcare costs.

A monthly columnist for *Employee Benefit Adviser* magazine, Griswold is the lead author of the Amazon #1 bestsellers, *BREAKING THROUGH THE STATUS QUO: How Innovative Companies Are Changing The Benefits Game To Help Their Employees And Boost Their Bottom Line* and *NEXTGENERATION HEALTHCARE: Proven Secrets of Managing the Healthcare Value Chain to Improve Outcomes and Reduce Costs.*

He is Founder and Chairman of the ASCEND Agency Growth & Leadership Summit and serves as chairman of the Benefits Adviser Leadership Track at the World Health Care Congress in Washington, D.C. The immediate Past President of the Workplace Benefits Association, he also serves on the Executive Committee of the Voluntary Benefits Association and is a member of the Advisory Board of Ameriflex and the Validation Institute.

He and his wife Elizabeth live in Nashville.

Nelson Griswold
Managing Director
NextGen Benefits Network

ABOUT NEXTGEN BENEFITS

The **NextGen Benefits Network** is comprised of innovative leaders from the top independent employee benefits firms across the U.S., working with C-level executives to manage the health care supply chain.

NextGen Advisers have a single goal: to improve the quality of care & lower health care costs for both employers & employees.

Working with NextGen Benefits Advisers to deploy standard business practices to manage health care costs, companies reduce their year-over year health care spend by 10 to 20% or more - *in the first year alone*.

FIND A NEXTGEN ADVISER

NextGen Benefits Consultants & Firms are located throughout the country to drive solutions that reduce controllable costs while improving the quality and access of care for your employees.

Learn more about our NextGen Benefits firm:
BenefitHelp.com

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