

# CFOs Can Control the Health Care Supply Chain

Savvy finance chiefs are taking control of their health care spend by using unbundled plans. **By Randy Hansen and Nick Hansen**

Think of what we know regarding your company's employer-sponsored health care:

- Health care, although a top-three expense, is not a controllable cost.
- Health care inflation is a constant and, because of the national medical trend, we should expect annual cost increases.
- Based on your company size, self-funded medical plans are too much of a financial risk.

Well, all of the above statements are **false**. For years the health care industry has pushed these myths on us, and like any muscle memory, they tend not to go away easily.

So, if health care costs *were* controllable, would you want to know?

What is the one myth causing you to overspend grossly on your number two or number three largest line item? "Health care is not a controllable cost." Think of it, what is one of the few corporate costs that we feel we have zero control over? Health care.

Brent, one of our clients and CFO of a 400-plus employee company in Arizona, Montana, Texas, Washington, and Mexico, was staring down the barrel of a 22% rate increase on his fully insured health plan. Being creative and knowing there had to be a better solution, he asked us to help him unbundle his health plan with absolutely no change in benefits.

With our guidance, he engaged a new breed of health care vendors that are committed to managing the quality and cost of health care. In the first year alone, Brent lowered his per-



employee-per-year (PEPY)<sup>1</sup> cost from a renewal rate of \$10,415 to an actual cost of just \$6,768. A 35% decrease, that's nearly \$1.5 million in savings with no change in benefits. How would it feel to hand out your financials with an additional \$1.5 million in EBITDA?

## It's a Health Care Problem

A 2019 study published in the *Journal of the American Medical Association* found that 25% of all health care spending is waste, fraud, and abuse, totaling as

much as \$935 billion. What if you could eliminate much of the fraud, waste, and abuse by managing the health care supply chain? Shouldn't our goal be to ensure the best quality care while reducing claims' frequency and severity?

According to new research from GoodRx, since 2014, drug prices have climbed 33%, outpacing price increases

for any other medical commodity or service. That's due, in large part, to the predatory practices of so-called pharmacy benefits managers (PBMs). PBMs book astounding profits because they game the prescription drug supply chain. So, can you affect your company's prescription drug costs? Yes, you *absolutely* can, without denying important drugs to your employees.

## Status Quo Isn't the Answer

If you are waiting for your insurance company to solve the problem, make yourself comfortable; it will be a while. Unbundling a health care plan and hiring vendors that work in your best interests is not just a theory. CFOs across the country are taking this bold step.

We see companies with a PEPY cost of health care ranging from \$3,800 to \$12,000 or higher. The plans that un-

<sup>1</sup> A company's PEPY is calculated by taking total annual cost for health care and dividing it by average monthly employee count for that year. PEPY is the most effective metric for comparing year-over-year health care costs.

bundle correctly are always on the lower end of the PEPY costs. Ever heard this: “You can lower costs by raising deductibles and copays.” Raising deductible and copay costs on employees is not a strategy. Well-designed unbundled health plans actually can reduce or even eliminate employees’ out-of-pocket costs.

But commissioned brokers married to the status quo aren’t offering unbundled plans. Savvy CEOs and CFOs are engaging fee-based health care consultants in a strategic and financial conversation to take control of their health care spend using an unbundled plan. These consultants utilize vendors that are transparent about health care costs and are paid based on the value they bring to managing the health care supply chain. And these consultants are transparent about their compensation and fees.

Do you have any idea what your broker is actually paid annually? No?



⋮ Randy Hansen and Nick Hansen

Why not? Do you have any other vendors you don’t know how they are paid or how much they are paid? The back-room deals made in a typical health care plan would shock you. The broker’s hidden fees, rebates, and bonuses are part of the reason we should expect annual cost increases.

### **C-Suite Leadership**

Lastly, once they realize health care is a controllable cost, how many CFOs will continue delegating one of their

top three operating expenses to a line manager in the HR department? Making health care a controllable cost requires financial and strategic oversight from a C-level executive with P&L responsibility. That could be you.

So, what’s next? Disabused now of the myth that they can’t control health care costs, bold and progressive CFOs will challenge the status quo. Foundational to a compensation package, health care is becoming increasingly important to employees and their families when deciding where they work. Take a strategic and financial approach to this top-three operating expense, reclaim control of your health care spend, and ensure you aren’t overspending in this critical cost area. CFO

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