

Best Practices in Healthcare

September 2020

Understanding cost is key

- Understand the costs-whether HR “owns” benefits there is no excuse for the CFO to not understand the costs
- Healthcare is one of the largest cost items and it affects every employee, every candidate and can be a benefit that is well managed OR a cost that is not managed. Healthcare cost is meaningful to employees
- IF you do not understand it, the next CFO probably will understand it, be able to explain it and manage it.
- Healthcare is part of the comp equation-every dollar to healthcare is a dollar that has to come out of wages or the bottom line!

Cost education

- Current cost, risk and future costs go hand in hand
- Costs are generally
 - 85% claims
 - 10% admin
 - 5% reserves for mega claims
- 10% of lives drive 70% of costs

Your broker will not want to share this info!

HIPPA

- Ever been told it's HIPPA data and therefore they can't give info to you?
- Then get HIPPA certified-it costs only a few dollars a year AND it will help keep you (and your HR team) out of trouble. We can help.
- Once you are certified, then demand “your” data and demand it in a format you can analyze-just like any other cost!

Risk and “insurance”

- You really don't have healthcare insurance!
- You are prepaying your estimated claims PLUS an admin % and a profit margin % approved by your state insurance commissioner.
- If their estimate is low, they raise your rates next year. Healthcare companies do not lose money.

Eureka moment #1

- You are paying your broker and your carrier to pay your claims, manage the network coverage and manage paperwork. They don't want to lower your costs.
- They insure their risk through stop loss insurance.
- If their estimate is high (they make more money).
- If their estimate is low (they don't make as much and might break even) but they will make it up next year (and no brokers will want to bid into your business because the information is known to all)!

90% are fully insured

- Most private companies are fully insured for healthcare BUT not for auto, business insurance or workers comp. WHY?
- Modest self insurance will dramatically reduce costs and does NOT increase your risk. You may get a dividend (refund).
- You are just insuring what the carrier insures without the adm and profit margin!
- Did your broker suggest this?

Role of a broker

- Does your broker work for you?
- Carrier pays him so their goals are his goals!
- They are like used car sales person-they sell what they have on the lot!
- They distract you with “offer” du jour.
- Such as wellness programs, reference based pricing, admin fee but they should be helping you reduce claims.

Goal Alignment Eureka # 2

- Use a fee paid advisor-could be flat fee or performance based fee.
- You would not buy an ERP without a consultant but you trust your healthcare salesman to spend millions of dollars of the company's money AND a lot of the employees' money.
- Can you spell Fiduciary? You are one!

CFO's Fiduciary Role

- HR does not have a fiduciary responsibility
- CEO and Board do not-the CFO does!
- Healthcare spends a lot of the employee's money-payroll deduction, copay and deductible and therefore
- Sarbanes holds the CFO responsible to analyze alternatives and act responsibly!

CFO's role

- HR may manage benefits but CFO has to analyze, monitor, forecast and understand the risk and cost of Healthcare.
- Don't delegate healthcare responsibility!
- It is a monthly responsibility-demand the information, analyze it and challenge the broker to provide your information.
- Engage and listen to your advisor.

Understand their business model

- Require your broker to provide a detailed compensation statement (like 401k)
- “How do you (the broker) get paid?”
 - Commissions from carrier
 - Per capita charge from employer
 - Rebates from drug manufacturers
 - Rebate/bonus from network
- Have the CFO provide it (not the rep!)

Examples

- We found a school district that did not know that \$17 MILLION of rebates from drug companies were not passed back to them in the previous three year contract!
- Ever notice that your broker always drives a nicer car than you do and always eats lunch at the club or a nice restaurant?
- Ever hear of a layoff of a broker?
- Ever see your broker during the year?

Intermediate analysis

- We covered the basic so far.
- Good CFO will want to know the alternatives, the cutting edge issues and ideas and best practices.
- Again-that is why you need to hire an advisor.
- Advisor can be passive (educate) or aggressive-at your side during reviews and evaluations

Advisors

- Your broker will N E V E R offer to educate you (have they?) They will distract you.
- A broker is not an advisor-(remember goal alignment issue?)
- Find an advisor-we can help you find one.
- Best money you will spend!
- Certainly protects your fiduciary role!(I would tell the Board and D&O broker)

Broker tricks

- First-they condition you on the market increase %
- Second-they delay their renewal proposal waiting for 10 months of data so you don't have information AND don't have time to engage another broker. Stall tactic.
- Third-they will dance around and find a way to beat the market increase!
- Just like a car salesman!

Advanced Tricks

- They will distract you with a gimmick
 - It was wellness for a few years
 - Then it was fitness programs/ gym memberships/telemedicine
 - Recently reference based pricing (what good is a larger discount from “list price”? Do you know anyone who paid list for a car?)
 - Do you feel used yet?

Best practices

- Advisor will help you understand

Your cost trends and drivers, the market cost trends, risk drivers and how to manage/balance cost and risk without reducing quality or squeezing costs to employees.

Tactics-partial self insurance, plan design, pharma best practices, etc.

An example

- On the drug ads on TV, ever wonder what it means “If you are unable to afford this drug, perhaps we (mfr) can provide these drugs at a lower or zero cost”?
- Ask your broker to explain AND if it could apply **BECAUSE** it DOES APPLY!
- It is the Manufacturers Assistance Program and they all have them.

Example

- When you review your prescription spend for the previous quarter (or year), ask your broker to identify the drugs with MAP (manufacturers assistance program) and why you and your employee's paid the plan's price?
- Education is key. MAP is complicated for a reason and brokers don't mention it because it reduces their compensation!

An MAP example

- Harvoni is an expensive 84 day pill treatment program for Hepatitis C.
- Ask your broker for your plan details.
- Something like this: \$ 84k list price
employee pays copay per day(\$10 to 15k)
company pays the balance less the plan discount. Typical cost to company is over \$40k but could be close to zero!

Self insurance

- Your advisor will explain how it works
You do the same as your carrier and save the admin and profit upcharge. Manage the risk!
- I did it at my company. Saved “so much” that in third year we took part of the savings and insured the deductible for our employees. Still reduced costs 25%!
- We turned healthcare into a benefit that employees love AND a recruiting tool!
- Eliminated recruiters and ad expense!

Small firm ideas

- Even small firms (from 1 to 25 employees) have best practices to consider including:
 - a la carte programs (avail. in 36 states)
 - outsource it along with payroll and HR
- Goal is to consolidate, simply (reduce risk and cost) and allow executives to focus on their key responsibilities with world class results
- We can help with introductions

Large firms

- Even large firms should be aware of best practices
- Definitely self insure to some degree!
- One unique best practice can help you “gently” remove spouses who work and have access to their own healthcare coverage off of your plan via an incentive. Carrot and not the stick solution that is brilliant. Savings over 20% are common!

Want to learn more ?

- Read the guide written for CFOs.
- Amazon has it!

