How boards can engage in taming health care costs

Directors are demanding improvements in controlling this expense. Here is what a model of board intervention can look like.

By John Torinus Jr.

Two imperatives are driving corporate executives and their boards of directors toward what could be called “Value Health Care.”

The first is the inexorable escalation of health costs, often the second or third biggest spend for a corporation.

The second is the new realities behind the CEO cliché that invariably says, “Our people are our most important asset.” In an era of tightening labor supply, amidst projections of even thinner labor pools over the next decade, attraction and retention of employees have emerged as the paramount challenges for corporate stewards.

In short, health cost inflation degrades corporate profits, and labor shortages can constrain growth.

Fortunately, proactive executives in private companies have led the way to an innovative and disruptive new model for the delivery of health care for their people. They have made aggressive management of health costs and workforce health a strategic priority, so much so that it merits the attention of board members.

At my company, Serigraph Inc., progress on the strategic game plan for Value Health Care is regularly on the board agenda. The directors know that our total health costs, including drugs and dental, are running about $13,000 per employee per year, at least 30% below national averages for companies. That’s on par with other cutting-edge employers.

Serigraph’s gross health costs (employer and employee combined) are running at $7 million per year. They would be $10 million without the new model.

Our directors know that our average cholesterol and blood pressure levels are dropping, but smoking and obesity metrics have been stuck at dangerous and expensive levels.

John Torinus Jr. is chairman of Serigraph Inc., a global manufacturing company. He has served on several task forces aimed at fixing the economic side of medicine and, as an angel investor, has helped to launch several health care startups. He is the author of The Grassroots Health Care Revolution [BenBella Books, 2014] and The Company That Solved Health Care [BenBella Books, 2010].
The C-suite and board are demanding improvements in costs and workforce biometrics, as they should if they want to walk the talk on their concern for the company’s best asset.

So, what does the Value Health Care model look like? For openers, it is a major contrast to the busted delivery model that has driven the national health care bill to some $3 trillion, or 18% of the GDP. No other country comes close to that nosebleed level.

Prior to the current revolt in the private sector, the U.S. medical industry had these unfortunate characteristics:

• Reactive to symptoms versus proactive — sick care versus health care.
• Short-term focus, impersonal and transactional — office visits with primary care doctors are six to eight minutes.
• Expensive because most care is delivered by specialists, while other countries deliver most care through general practitioners.
• Payment systems based on thousands of coded procedures, resulting in medical bills that are heavy on procedures and incomprehensible to consumers.

Major moves by smart C-suites
In contrast, smart companies have deployed four platforms for managing costs and population health: self-insurance, consumer-driven plans (CDHP), proactive primary care, and value-based purchasing.

Most executives and their boards of companies with more than 200 employees have made the big decision to drop group insurance coverage. They have gone self-insured so they can keep for themselves the major savings that flow from better management of health costs.

Those companies underwrite the risk instead of insurers. And, with risk comes risk management from the top of the company on down to every employee.

The second major move by smart C-suites is to convert to a consumer-driven health plan

Reining in the beast

If you are the director of a company debilitated by out-of-control health care costs, rising two or three times the general rate of inflation, you are typical.

Health costs have been doubling about every eight years in the last half-century in the United States. Obamacare has done little to slow the pace. So your company has probably been caught in what might be called hyperinflation for that set of costs.

So, what should you as a director ask of your executive team to tame the beast?

If you are into lean disciplines, you ask the team for an A3, a tool that defines the scope of project, namely the gap of where the company is on health costs, say $20,000 per employee per year versus $13,000, best practice for companies that aggressively and innovatively manage workforce health and the associated costs. The A3 would serve as a map forward toward big savings.

That initiative could and should be part of the company’s overall strategic plan for the coming one to three years.

Then you would ask for a Health Care Dashboard that breaks out all the costs buckets included in combined health care cost for employer and employees (primary care, hospitalizations, dental, drugs, stop-loss insurance, HSAs, administration). The goal is to manage total costs, not cost shifting to employees.

Whether you realize it or not, you and your people are in a compact to manage the costs and family health. The management has to be top-down and bottom-up at the same time. Call it co-management. Family health and smart consumerism have to become part of the culture.

What’s really going on at healthy companies is behavior change at several levels: how your people utilize care, how they live their lives, how they purchase care when they need it, how they follow regimens if they have an expensive chronic disease, and how they relate to their doctors as partners in family health.

The dashboard should also include workforce biometrics: levels of cholesterol, hypertension, obesity, smoking, diabetes, asthma, and depression. That’s where the dollars are spent, and you can’t manage at the strategic level without the metrics.

In short, the board needs to know there is a high-level plan and a management system in place for health care, a strategic priority for any company. It can’t be delegated to the HR department; the C-suite has to engage.

— John Torinus Jr.
**Health as asset: Companies come to new understanding**

Patrick Cunningham is a leading voice for helping Americans understand that good health is an asset — not just a physical asset but also a financial asset. As chief executive of Manning & Napier, a major benefits management company and consultant based in Rochester, N.Y., Cunningham counsels his many business customers to treat employee health as a valuable resource for both employer and employee.

Cunningham was one of the first to see a health-wealth convergence in the management of health investments and retirement financial assets, such as 401(k) plans. It’s one of those ideas that seems patently obvious, once someone like Cunningham articulates it. Think of how many ways he is right:

- As personal health accounts build up — the average funded account now holds a balance of several thousand dollars and some have hit six figures — they can be managed side by side with the other pieces of an employee’s retirement portfolio. That allows the allocations in the two accounts to be coordinated for the right mix of stocks, bonds and other securities. In this dimension, health literally is a financial asset.
- The Health Savings Accounts (HSAs) and Health Reimbursement Accounts (HRAs) of healthy employees have fewer drawdowns and build faster than those of unhealthy people.
- If employees stay healthy, they miss fewer days of work, and, if paid hourly, fewer days of pay.
- In some organizations, employees can accumulate unused sick days and cash them in at retirement.
- Healthy people are more productive, which should mean faster job advancement.
- Healthy people often enjoy better morale, which helps job performance and, therefore, leads to raises.
- A healthy retired couple will spend as much as a quarter of a million dollars less in their post-work years than an unhealthy couple.
- Poor health leads to higher medical bills, therefore financial stress, which, in turn, causes health issues.
- An unhealthy employee, whose savings have been drained by high health costs, will have to work later in life. It’s reality that health care for older people costs twice that for workers in their prime.
- “Financial wellness” reduces stress, which, in turn, reduces physical and mental illnesses.

The combined impact of those positive monetary outcomes from good health has led innovative companies to more rigorous health planning at both the corporate and personal levels.

the workforce becomes a top corporate priority. Employees become smart consumers of care and conscientious stewards of family health, assisted and supported by the company.

Finally, the fourth platform, smart purchasing, kicks in when people need advanced care at a hospital from a specialist. Corporations are saving 20% or more by direct contracting for expensive procedures.

A hip replacement, for example, can be sourced in my market for $26,000 at the highest quality hospitals (identified by low infection rates), compared to average prices of about $43,000. Why would anyone pay $17,000 more?

This is called a bundled price that offers the huge advantage of a fixed, transparent price tag. One health care entrepreneur has just come to the market in Wisconsin with more than 800 bundled prices, from scans to lab work to major surgeries.

About one-third of a company’s total medical bill is “shoppable,” and the savings on that portion can be more than a third of the cost. Some companies are going further; they are putting caps on prices, such as $30,000 for a joint replacement.

Badly needing a new model
The four platforms add up to a new U. S. business model for the delivery of care. With health costs crowding out priorities like education, defense, and public safety at every level of society, the nation badly needs a new model that addresses costs, not just access (the focus of Obamacare).

Who better to lead the way to a more efficient model than the leaders of private corporations? First off, their companies can sharply improve their earnings and cash flows through the now-proven innovations. Second, employees become more loyal to employers who invest in the health of their families and who work to keep premiums at reasonable levels. Morale improves sharply with the new model.

It would be an advantage for any company to have an expert of health care economics on its board, just as a board should include one or two directors who know either finance, operations, the company’s technologies, or sales and marketing. At a minimum, the board should receive semi-annual reports from executives on their track record in taming inflation of health costs and improving the overall health of its workforce. It could be considered board malpractice to not do so.

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