THE CEO SURVIVAL GUIDE:

How to Make Healthcare **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 cost cutting 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 can't be controlled.

Conventional wisdom holds that cost containment of your health care spend is 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 payroll and benefits 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.**

[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 big enough and repeated often enough, a big lie eventually is accepted unquestionably as truth.

In this case, the Big Lie about health care has been spread in company C-Suites by health care's middlemen, the insurance companies and benefits brokers. Health care's Big Lie goes something like this:

"As a business executive, 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 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, 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 big one, 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 makes more money. The insurance company's financial incentives are misaligned with yours as a company. If you and your company successfully control and lower the cost of health care, you would negatively impact the insurance company'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 10 percent, your broker gets a 10 percent raise. The broker fails to keep your costs down and he get 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 disincentive 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 has cost American business billions of dollars in profits over the past decade. 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]

THE NEED FOR AN 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 only use $600,000 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 that your benefits adviser engage an independent and unbundled Third-Party Administrator (TPA) to manage your plan. If you use an insurance company's Administrative-Services-Only (ASO) arrangement to administer your plan, the insurance company 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 health care…until now.

[2] Historical share price data for Anthem, Cigna, Humana, and Unitedhealth; https://www.macrotrends.net

MANAGING THE HEALTH CARE SUPPLY CHAIN

To maximize their revenue and profits, the insurance companies and brokers had to convince you and your C-Suite colleagues to ignore the benefits 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 techniques to manage health care costs are reducing their company's year-over-year health care spend by 10 to 20 percent or more in the first year alone. Four-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 a $600,000 or even $500,000 annual health care spend 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 adjacent Case Study on Akorbi CEO Azam Mizra, 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 lowering health care costs is not an acceptable strategy for your broker, much of the cost savings and cost control that he has implemented in your health care plan over the past 10 years has simply shifted costs onto your employees. Increasing the employee share of the premium, raising the deductible, requiring higher co-payments, increasing the co-insurance…all shift the cost of health care from the company to the employee.

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

Sadly, deductibles have risen so much that many employees now pay for insurance they can't use except for illnesses and real emergencies where they have no choice, like heart attacks, stroke, cancer 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 a $5,000 health care deductible can be an insurmountable barrier to accessing needed health 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] A joint study from Harvard Medical School and 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."

The result of the C-Suite's managing their health care supply chain? A more affordable and sustainable health care spend for the employer; much better benefits for the employees; and a ROI measurable in easier recruitment, higher retention, and greater productivity.

[4] https://www.bankrate.com/banking/savings/financial-security-january-2020.
[5] Affordable Care Act allowable maximum out-of-pocket limits for group plans, 2020. Internal Revenue Service.
[6] "Illness And Injury As Contributors To Bankruptcy," https://www.healthaffairs.org/doi/full/10.1377/hlthaff.W5.63

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 in concept is no different than how you manage 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.

ACTION STEPS: 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 few to no options to control costs due to the insurance company's misaligned incentives.

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

Want to see how much money you are being overcharged each year by your insurance company?

Obtain a full report on your total annual medical claims costs (the amount your employees actually spent on health care):

- Ask your current broker for a full claims report from your insurance company for your previous plan year. (Note: You are unlikely to get a such a report since the insurance company doesn't want to reveal your overpayment. Expect stalling, delays, and incomplete data.)

- Visit the NextGen Benefits Network and request a benefits adviser contact you about an "Enlighten Analytics Claims Analysis Report" to see how much your are being overcharged by your insurance company.

If you have an alternative funding arrangement for your health care (usually self-funded or a coalition plan):

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 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 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:

O PHARMACY (RX)

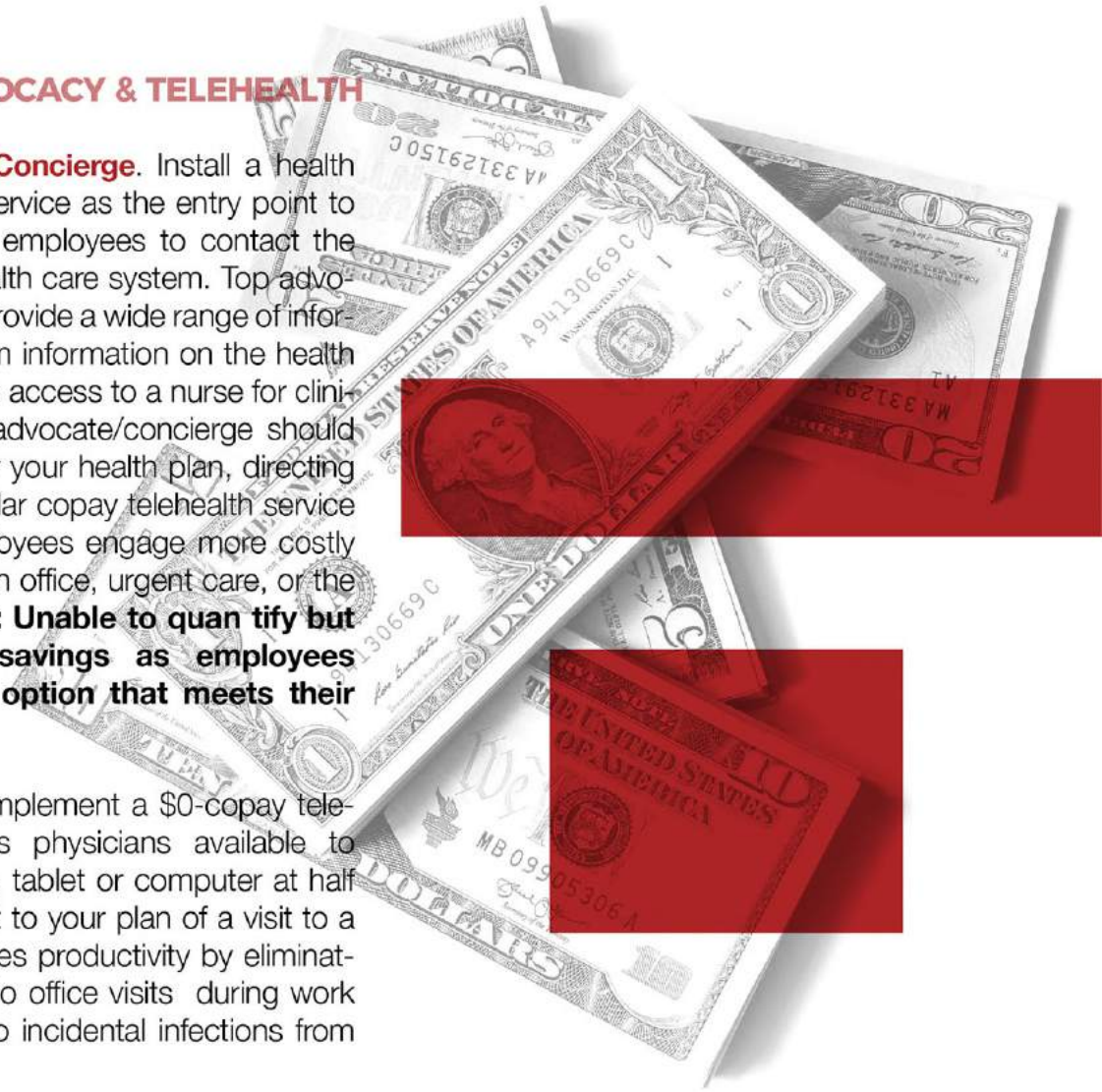
Pharmacy represents some of the lowest hanging fruit for cost containment. There is much waste and abuse (and even fraud) in your pharmacy spend.

- **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 per cent for employees on specialty drugs.**

O 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 a wide range of information and assistance, from information on the health plan, health questions, even access to a nurse for clinical questions. The health advocate/concierge should serve as the gatekeeper for your health plan, directing employees to your zero-dollar copay telehealth service as a first step before employees engage more costly options, such as a physician office, urgent care, or the emergency room. **Savings: Unable to quan tify but will generate definite savings as employees access the lowest-cost option that meets their healthcare needs.**

• **$0-Copay Telehealth**. Implement a $0-copay telehealth 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. Also improves productivity by eliminating time absenteeism due to office visits during work hours and sick days due to incidental infections from exposure to other patients.

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

O 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 800 percent above the price allowed by Medicare, which the government sets at cost plus a reasonable profit. **Savings: 30-80+ percent.**

• **Medical Claims Review**. Implement a medical claims review by an 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. Three-year look back allowed in most states. **Savings: Seven percent of annual spend.**

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

O 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 uses 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 provide employees with high-value (high outcomes/low cost) providers for their health care needs. **Savings: 50-70+ percent on each procedure when the employee follows the recommendation.**

• **Bundled Price Surgery**. Implement a bundled-price surgery option to make these high-quali ty/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 and 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 above.**

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

O BEHAVIORAL HEALTH

• **Employee Assistance Program**. Implement an Employee Assistance Program (EAP), which provides employees with counseling sessions with a professional therapist at no cost to the employee or your plan (three to five sessions, depending on the program). These counseling sessions are available over the phone, as well as in person with a local counselor. **Savings: Employees needing counseling always should be directed tothe 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.**

As an executive, to implement these Action Steps you 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 network 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 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 companies across the U.S.

CASE STUDY: A CEO'S EXPERIENCE 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 Mizra and his consultant, LaBroad, total control over the company's health care spend and health plan. Taking advantage, Mirza had LaBroad engaged 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 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.

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 just $1,888 for the 2019-20 plan year from last year's PEPY of $6,512. (Note: These numbers represent the PEPY cost of medical 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 lowering 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 Azam 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 Mizra. "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 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.

Explore **nextgenbenefits.network** for more info.

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