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"We've got to have great employees to compete at the highest levels, but healthcare costs were taking their toll."
–Marty Landon, CEO, BioBridge Global

HEALTHY CHOICES

Healthcare costs are eating American business alive—with no end in sight. How three CEOs found a cure. BY RUSS BANHAM

Developed in Partnership with Validation Institute, a provider of independent third-party resources for healthcare purchasers, and Ascend Agency Growth and Leadership Summit.

LIKE MOST CEOS, Marty Landon was fed up with his employees' rising healthcare expenses. Every year, the company's insurance broker would sit down with Landon and inform him that despite the broker's best efforts to contain costs, the annual premium for the health plan would rise another nine or 10 percent.

The conversation was merely the prelude, however. "A few months later, he'd return and say 'Great news! We were able to get the increase down to 8 percent,'" says Landon, CEO of BioBridge Global, a nonprofit company with 750 employees that independently tests and supplies blood and tissue components to hospitals. "Like that was significant progress."

Sharing his experience at a *Chief Executive* panel discussion held in partnership with Validation Institute and the Ascend Agency Growth and Leadership Summit, Landon recounted that while he managed the company's P&L across the rest of the business, with the health plan, he felt like he'd relinquished control to the broker. "It was frustrating for me and, by extension, for employees," he says. "I'd be telling someone they were in line for a 3 percent merit-pay increase next year and then have to inform them their out-of-pocket healthcare costs were going up 8 percent. It was a losing proposition."

It was also eroding the nonprofit company's ability to attract and retain high-quality employees. "We've got to have great employees to compete at the highest levels, but healthcare costs were taking their toll," Landon says. "We just couldn't figure out how to break the mold."

Landon is far from alone in this experience, says RD Whitney, CEO of Validation Institute, whose company provides independent information to employers to help them make their healthcare plans more cost-effective. "CEOs feel powerless about their frustrating inability to alter the status quo of constantly rising healthcare costs," Whitney says. "They control the cost of every line item, but when it comes to healthcare, they're immobilized and don't touch the subject, conditioned to believe they can do nothing about it."

Those costs are substantial. In a survey of nearly 150 companies by the nonprofit National Business Group on Health, large U.S. employers expect their total healthcare costs, including premiums and out-of-pocket costs for employees and their dependents, to jump a median 6 percent in 2020.

> **"It's not that many CEOs are asleep at the switch when it comes to healthcare spend—they're not even in the room with the switch."**

These expenses weigh heavily on large employers, which absorb about 70 percent of annual workforce healthcare costs, running $15,375 per employee, on average. Employees also shoulder their share of the burden, paying nearly $4,500, on average, in deductibles and copayments.

For midsized and smaller businesses, the cost of healthcare is much worse, estimated to be 8 percent to 18 percent higher per employee than what larger companies fork over.

PENNY WISE AND POUND FOOLISH

Politicians on both sides of the aisle blame a variety of factors for why the U.S. pays so much more for healthcare than the rest of the world, from the high cost of physician care, treatments and medications to expensive medical malpractice insurance coverage for doctors and high patient hospital admission rates. Nelson Griswold, president of healthcare advisory firm Bottom Line Solutions, doesn't expect a fix from Washington anytime soon. Nor does he fault the insurance industry for making a buck when it can. Rather, he puts the blame squarely on CEOs for putting their companies in a no-win position. "It's not that many CEOs are asleep at the switch when it comes to healthcare spend," he says, "they're not even in the room with the switch. They've abdicated their fiduciary and management responsibilities."

He provided the example of a CEO at a midsized business generating $20 million per year. "If you asked the CEO if a line manager ran any of the company's million-dollar business units, he'd reply, 'of course not.' But isn't there a line manager in HR who's responsible for the health plan? Shouldn't the spend for the benefit be considered a capital expenditure like any other, requiring oversight from an executive with P&L responsibility? When the CEO hears that, he says, 'of course it should.' But there is no high-level oversight."

The same companies that negotiate the price of paper clips down to one-tenth of a cent allow their employees to get six-figure heart procedures and don't question the quality or the cost, he says. "They pay the bill because they think they have no other choice. But costs will always go up, and quality will go down when you don't pay attention."

CEOs like Marty Landon are paying attention—and learning that there are ways to lower their benefit-plan costs without decreasing the quality of care to employees. BioBridge and other companies are jettisoning traditional health insurance and opting instead for a self-funded health plan. With such plans, the employer absorbs the financial risk of providing specific healthcare benefits to employees.

The idea of self-insuring healthcare costs may sound risky in a world in which a single heart transplant runs close to $1 million. To offset this possibility, midsize and smaller companies buy so-called stop loss insurance, a form of reinsurance absorbing medical expenses beyond the capital limits that are set aside in a special trust fund to pay claims.

"Because of stop-loss insurance, self-funding is no riskier than a fully insured health plan provided by an insurance company," says Griswold. "With the proper stop-loss, the company's risk exposure is no greater than the total of premiums paid previously to the insurance company."

PARTNERING TO CONTAIN COSTS

A self-funded plan is just one arrow in the quiver of CEOs battling rising benefit costs. Companies also are retaining employee-benefits advisers to guide them in pursuing a range of other cost-effective strategies.

They include the use of independent third-party administrators (TPAs) to assess employee medical claims for appropriateness and accuracy; telehealth services providers offering health-related guidance to employees electronically or on the phone; and pharmacies outside the U.S. that ship brand-name and generic medicines at lower costs to an employee's home. "The goal is for employees to get the best care from the right source at the best price," says Griswold.

By redesigning their companies' traditional health plans to become self-funded, the three CEOs profiled in this article are liberated from insurance brokers and carriers that call all the shots. This freedom opens the door to pursuing cost-containment strategies that eluded their control in the past.

With Landon, the turnaround began when another insurance broker, Hays Companies, made a call to BioBridge's CFO and mentioned the idea of a self-funded plan backed by stop-loss insurance. The CFO passed on the particulars to the head of HR. Both executives then met with Landon to discuss their takeaways from the meeting.

In early 2019, the broker laid out the concept to Landon and board members, one of whom was Allison DePaoli, who runs a benefits advisory firm called Altiqe. "Allison was impressed by some of the broker's ideas and asked if she could explore them further," Landon says. "I said that was okay, but I didn't want to foist too many changes on the employees at one time."

In May 2019, the first phase of the company's new healthcare plan, designed by Altiqe, was unveiled. Previously, BioBridge offered employees four separate health insurance options, each with a different set of deductibles, employee co-pay percentages and covered benefits. From an administrative standpoint, managing four plans was unwieldy. Over time, the number of plans was trimmed to two, with both self-funded and backed by stop-loss insurance.

One plan option is a traditional 80/20 coinsurance plan in which the insurer picks up 80 percent of medical costs, and the employee pays the rest, after satisfying the deductible. Most employees opted for this plan at a premium that saved them nearly 25 percent of what they previously paid, with no change in deductible. "When we introduced the plan at a meeting, employees applauded," Landon says.

Frustrated with spiraling healthcare expenses, Akorbi Co-Founder Azam Mirza reduced costs with a group captive insurance mechanism.

By having control over the management of claims, the company was able to introduce a variety of cost-containment features like Nurse Deb, a telehealth services provider. Employees who need to make a doctor's appointment contact a nurse advocate at the firm, a live person who listens to their medical issues and provides a list of physicians and their respective locations, prices and quality ratings. The employee decides which to visit, although the incentive to keep out-of-pocket medical costs down is a factor in the determination. Nurse Deb also helps employees understand the complex insurance jargon and provides guidance on the need for a second medical opinion.

Additional cost savings have been realized in the plan's vision and dental coverages. "We were able to play different providers like United Healthcare and Aetna off each other to get the best coverage and price, whereas in the past we were stuck with the vision and dental plan of the plan insurer," Landon says.

The CEO also hoped to reduce prescription drug costs. A few days into 2020, a study tracking more than 3,500 drugs indicated that prices on 411 medications increased an average of 5 percent, with some drugs like Humira, used to treat autoimmune disease, up more than 7.4 percent

from 2019 prices. These costs are substantially higher than in other countries whose governments negotiate prices with drug manufacturers, whereas drug prices in the U.S. are set by three pharmacy benefit management firms that control an estimated 76 percent of the market.

BioBridge's self-funded and managed health plan freed it to buy prescription medications through ScriptSourcing, an online provider of drugs shipped directly from pharmacies in Canada, the UK, Australia and New Zealand. Landon estimated the savings in the 5 percent range.

"By working with our partners and sharpening our pencils, we've been able to scrutinize what we were paying and what it got us," he says. "And that's just the first phase of our long-term strategy. We'll introduce other cost-saving features in 2021 when we embark on the second phase."

CAPTIVE AUDIENCE

Since self-funding Akorbi's healthcare plan five years ago, Azam Mirza, the company's co-founder and president, has fine-tuned it to great effect, adding cost containment features. Mizra had initially reached out for advice to Dan LaBroad, an employee benefits strategist at Ovation Premier Health. LaBroad put together a quasi-self-funded plan that gradually became a fully self-funded one backstopped by reinsurance.

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Recently, LaBroad encouraged Mirza to self-insure the plan through a group captive insurance mechanism, an insurance company essentially owned by the organizations it insures. At present, Akorbi, a provider of multilingual business process outsourcing contact centers, shares its health plan risks with another two-dozen employers. The group buys reinsurance to spread their catastrophic medical exposures.

"A captive gives mid-size employers the benefits of being self-funded, with the added protection of working with other like-minded businesses," LaBroad says. "The structure also lowers the cost of stop-loss insurance and offers the possibility down the road of paying dividends to the group participants."

Like other self-funded plan providers, Akorbi has contracted with a TPA, Employee Benefit Management Services (EBMS), that "controls all the pieces," says Mirza. EBMS routes data between the group captive and a range of service providers like ScriptSourcing, the low-cost pharmaceuticals supplier, and a telehealth advocacy organization that ensures claims are being property charged and paid for, a process Ovation oversees.

The providers have chalked up substantial cost reductions. For instance, the use of expensive medications by employees has been nearly eliminated, resulting in a 40 percent decrease in prescription costs. The telehealth service provider contributed to an 18.5 percent reduction in doctor visits, increasing plan savings and member convenience. "Ovation is always looking for ways we can save money and give better care, to be proactive rather than reactive," Mirza says.

He provided a recent example involving the accuracy of a $125,000 medical bill charged by a healthcare provider. "Dan and his team did their due diligence, battled with the provider, and we ended up paying $2,000 for the claim," he says. "They then found a doctor with higher quality ratings to provide care to the employee going forward, at less expense."

Savings have added up over the years. "Our premiums today are less than they were in 2014 when we completely insured the plan," says Mirza. "We expect this to remain the same in 2020, with no cost increases and a reduction in claims."

EYES ON THE PRIZE

CEO Jim Eickhoff also reached a point where he could no longer tolerate the skyrocketing cost of healthcare for his 2,000 employees. "Year after year after year, our expenses kicked upwards," says Eickhoff, CEO of Creative Dining Services, a provider of cafeteria facilities to corporations, colleges, schools and senior living facilities. "Our broker would come in and say rates are going up 18 percent, followed by the usual song and dance explaining the reasons. He'd blame it on one person who needed this kind

of surgery and another who had a chronic condition. Two months later, he'd come back and say he was able to get the premium increase down to 'only 14 percent,' as if this was some sort of victory."

The annual increases took a hammer to Creative Dining's budget, but the impact was minor compared to the effect on morale. "We've got team members here making $15 per hour who have a real passion for what they do," Eickhoff says. "Having to tell them their out-of-pocket healthcare costs are going up 14 percent is a miserable task for a CEO, one that also affects our ability to retain quality people. The time had come for us to manage our health plan like like the rest of the P&L."

Eickhoff tasked the CFO and head of HR to co-lead an initiative to develop a new healthcare plan. The executives reached out to Mike Hill, an expert in self-funded medical plans at Coldbrook Insurance Group, who suggested developing a self-funded health insurance plan and retaining the services of a TPA to assess claims for accuracy, cost and medical need. "I explained that most companies hire an insurance company to manage their health plan, which puts the insurer in the driver's seat in negotiating agreements with hospitals, doctors, pharmacies and so on," Hill says. "The problem is they're negotiating the best deal for them and not the employer."

Creative Dining took Hill's advice, forming a self-funded plan and hiring a TPA (SisCo in Dubuque, Iowa) to evaluate the company's medical claims "with a fine-tooth comb," he says. "Unlike large health insurers that adjudicate more than 90 percent of their claims using a computer, SisCo handles more than 80 percent of claims manually, ensuring a self-funded plan isn't paying for services that are not needed or overpriced."

Eickhoff could now pursue such cost-containment concepts as the use of coupons provided by pharmaceutical manufacturers across the world for certain medications. Telehealth services similar to Nurse Deb, provided by a team of doctors and nurses at AIMM in Columbus, Ohio, offer expert guidance on quality care at different cost points, leaving the decision up to the plan member.

"An employee with a particular medical condition might go online and read that expensive laser surgery is a recommended procedure," says Eickhoff. "AIMM might point out that other procedures with equal or even better outcomes are available and covered by the plan in full, whereas laser surgery requires the payment of a deductible. Either way, the employee makes the decision."

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–Jim Eickoff, CEO, Creative Dining Services

Launched in September 2019, the self-funded plan is on track to save Creative Dining $500,000 this year, Eickhoff says. He pointed to a "partnership model" with Coldbrook Insurance designed to incentivize the firm when the plan achieves specified cost savings above a certain threshold, motivating quality care at lower cost. "We share in the savings," he says.

Finally, he says he can now 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."

As these CEO experiences suggest, there are ways to tackle rising employee healthcare plan costs without affecting the quality of medical services. Griswold cautions, however, that self-funding the healthcare plan alone is just a part of the solution to wringing out high healthcare costs. "Self-funding allows the company to pay only for the healthcare the employees buy and use, but more importantly, it provides full control over the spend to manage the cost and quality of the healthcare," he explains.

Instead of giving this power to large insurance companies that fail to provide transparency into their dealings with healthcare providers and grudgingly accepting brokers' annual "song and dance" rationales for the higher premiums, companies run the show. CE

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