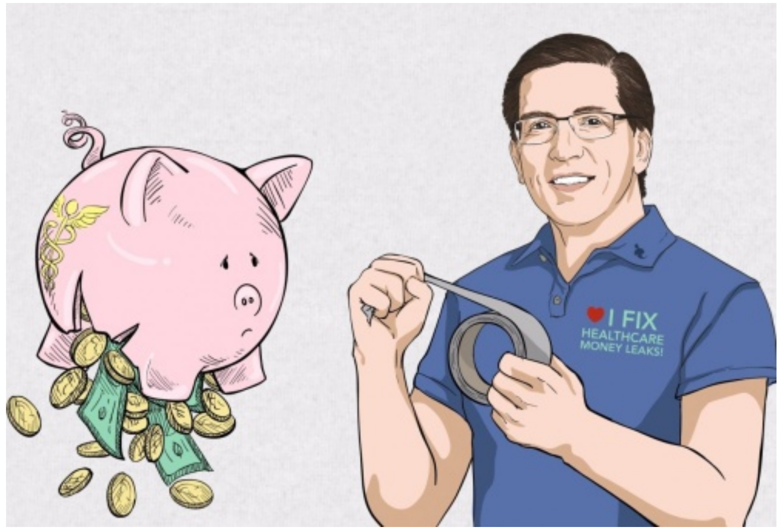
How CFOs Can Claw Back Lost Profits When Investing in Healthcare



You've heard the mantra before: With great power comes great responsibility. Leaders don't have to wear a cape and a mask yet they're still in the position of superhero, intent on and expected to save their employees from the evils of a bad health care plan.

Injustice can take place on the small or large scale—everything from getting shortchanged by a cashier at the grocery store or losing your life savings to an uninformed Bernie Madoff-type investment. To avoid intersecting with any point along the injustice continuum, it's important for chief financial officers (CFOs) to know how to manage their healthcare investment and, more importantly, understand the glaring flaws in how healthcare is administered and delivered.

First, some background. The Employee Retirement Income Security Act of 1974 (ERISA) was designed to protect employee benefits, including health plans. The person exercising authority over a health plan is a "fiduciary" and legally bound to act in the best interests of the participants. Unfortunately, some CFOs' hero suits have been tarnished; a recent article notes that some CFOs are facing millions of dollars in personal liability suits due to a lack of "fiduciary oversight."

Whether the cause is negligence, omission, or imprudent management, the result isn't good: a potential lawsuit for the company and/or executive, mishandled or wasted money, and shortchanged employees. Throw the Department of Labor into the mix (they've been keeping a close eye on 401k plan fiduciaries in recent years), and the message is clear: most companies need to step up their game. Designing, purchasing, and managing a health plan is an epic undertaking. Here are the five biggest blunders CFOs can make when they're attempting such an endeavor.

1. Rolling the dice.

If you want to gamble, go to Vegas. CFOs of middle-market companies are gambling with the organization's healthcare by taking 19 to 125 times more risk than they should. Why would any organization risk $500,000 or $1 million when they can reduce their exposure to less than $8,000?

It's even more shocking at large companies when the bottom line is exposed to unnecessary health care overspending. Healthcare managers wager millions of dollars by ignoring reducible risk and the mistakes hurt the bottom line. C-suite executives are surprised when I explain why "best practices" don't work—until I show how many millions of dollars are literally trapped inside their healthcare budget.

2. Letting unlicensed drivers take the wheel.

I always ask CFOs one simple question: "By a show of hands, who would hire a HR-level executive to lead a $100 million division of your company?" No CFO has ever raised their hand.

Yet, the company's healthcare investment is often treated as an operating expense that's delegated to unqualified departments and operations (read non-profit and loss) managers who don't have the time or expertise to make the best-informed decisions. Too often, these decisions end up in the hands of consultants who, most often, will take a boilerplate path of least resistance by recommending 'best practices' that only major in minor outcomes.

3. Failing to define and leverage economies up front wherever possible.

For many, health-plan management falls outside standard business supply chain cost control strategies. So, shift perspectives: negotiate the highest utility for every dollar invested in the healthcare supply chain. Hospitals, outpatient surgery centers, physicians and pharmacy account for over 90 percent of claims, and all can be negotiated. Successful cost reductions must focus on four areas: wasteful spending, excessive fees, poor quality, and non-transparent pricing.

Who in their right mind would shop at Target or Walmart (or anywhere for that matter) and fill up two carts, then leave knowing they'll receive a bill 30 days later–and only when the bill comes be told how much everything costs? Well, that's how most healthcare works.

4. Failing to have senior executives constantly tend their financial gardens.

I always ask CFOs: "Which two 'best practices' are most effective in reducing the frequency and severity of your claims this year?" The CFO soon realizes that despite following a legacy of best practices, this path has resulted in negligible outcomes and left millions on the table.

The CFO must be directly involved and recognize that healthcare investment is a capital allocation strategy—it requires the supervision of an executive with P&L responsibility.

5. Failing to understand the actual retail price.

There's "sticker price," "manufacturer's suggested retail price, "wholesale price," "sales price" and likely a lot more euphemisms that sellers use to obscure the true price of something. Most CFOs don't know whether their company's medical plan pays retail, wholesale or institutional charges. Like with a 401k, it's a CFO's fiduciary responsibility to know their healthcare broker's and consultant's total compensation.

It's imperative to ask the right questions to uncover where your dollars are going. Familiarize yourself with fees, commissions, bonuses, overrides, incentives, profit sharing, contingent fees, expense reimbursement allowances, or performance-based compensation—because they all add up.

Being uninformed can cost your company a lot of money, or worse. When explaining in court that you consistently supervised and overpaid by as much as 10x for a poor-performing, low-quality medical plan, ignorance is no defense.

Look, even Superman needed help from the rest of the Justice League in defeating the latest alien menace. Ineffective and too-expensive healthcare is one of the worst man-made villains imaginable, so don't let it attack your company's bottom line. Take ownership, talk to an expert, and educate yourself on sourcing the best solution for your company. In doing so, you'll avoid these five common pitfalls and then some