A Healthy Bottom Line

The New Role of Financial Managers in Controlling Employee Health Care Costs

by Scott M. Wood

Healthy employees contribute to a healthy bottom line. This statement has never been more true than today, when employee health costs are the second or third highest expense for most businesses and organizations. Gaining control over this line item can have significant bottom line results. That is why CFOs and HR departments are now working closely together to combine resources to tackle this complex area.

CFOs and other financial managers are becoming more involved in the process of developing a long-term strategy to control employee health costs. Many are beginning to approach this expense item with the same methods used for other operations within the business: setting goals, objectives and budgets; planning for both the short term and long term, and analyzing return on investment.

Setting Goals, Objectives and Budgets

Determining your organization's direction on health programs includes taking a look at your current situation:

- Is your benefit package achieving your goals?
- Does it align management and employees on health care spending and wellness initiatives that will save money for the company, employees and their families, both short- and long-term?
- Do you have a strategy that does not put you at the mercy of the insurance carrier at annual renewal?
- Does your plan mirror your organization's needs and utilization?
- Are you paying for benefits your employees do not want or use?
- Does your plan help employees enhance their health and productivity?
- Does your program provide you with measurable results?
- Are costs consistent with what you budget year to year?

Set goals that are in line with your organization's vision and mission.

- A manufacturing company may set a goal to be the most efficient or the most competitively priced in its market. Efficiency requires healthy employees who have low absenteeism and high productivity.
- A service industry or nonprofit organization may set a goal to have a quality image as a good place to work in order to enhance employee recruiting. Health programs can tie into this by including wellness programs that make the company both a place of employment and a place of self-improvement.

From a financial manager's perspective, employees are one of the components to producing products or delivering service to customers. Assuring that employees' health is being maintained is just as critical to success as managing the regular maintenance of factory or office equipment and machinery.

Establish precise and measurable objectives that are in line with your goals.

After taking into account insurance premium rate increases and benefit changes, determine the true economic change in your benefit costs during the past three years. Then, establish an objective for a reduced annual increase amount for the next three years.

For example, your objective may be to hold annual increases to half or less compared to increases in previous periods. This can be accomplished by implementing a comprehensive health program that includes a consumer-driven health plan, a pre-funded personal health account, Biometric Screenings and Health Risk Assessments, employee health and wellness education and lifestyle management programs (i.e., smoking cessation, weight loss, stress management). A knowledgeable and progressive employee benefits consultant can design these programs as part of a complete package.

In budgeting for employee health and wellness programs, it is important to recognize that a well-planned strategy will not cost your organization more money.

Instead, you may re-allocate dollars to achieve better results. For example, you may increase your health insurance deductible, but fund a portion of the deductible in personal health accounts for your employees. This lowers the insurance premium without increasing employee contributions and aligns your employees' interests with yours in responsibility for spending those health care dollars. Combine that with medical screenings that show employees their health risks, an emphasis on preventive care benefits and health improvement programs, and you can significantly impact your total claims costs.

Planning for the Short Term and Long Term

Most employee benefits brokers provide only annual "band-aids" and short-term fixes, rather than utilizing the same type of strategizing that you use for other large budget categories. Your broker may only be providing you with traditional ideas such as increasing deductibles and co-pays, reducing benefits to lower your premium increase or changing carriers. As a financial manager, you can demand more.

Employers that are achieving success in this area set up a three- to five-year plan, with the first year focusing on implementing a benefit package that engages and empowers employees to spend health care dollars like their own. One of the first-year steps also can be a health assessment process for each employee to help employees focus on their potential health risks. This also will provide a baseline for measuring results and planning for future needs.

After the first year, the emphasis moves to educating and further incentivizing employees to take control of their health care and improve their own health numbers. With annual health assessments, employees can recognize areas for improvement and then see the results of their positive actions. Employee communication on health improvement programs and use of benefit programs can be integrated into the other HR functions to streamline the process and reduce costs.

As the employer's financial manager, you also focus on assuring that employees have access to the cost information they need to make good health care purchasing decisions. This can be through online tools provided by your insurance carrier or other resources that track both cost and effectiveness of various treatments and health care providers in your area.

Analyzing Return on Investment

There are many ways to measure return on your "investment" in health for your employees. You can compare year-over-year changes in:

- Total health insurance premiums
- Health care costs per employee and per member
- Aggregate claims costs
- Employees' out-of-pocket costs
- Improvement in health shown in your annual employee health assessments

A recent study of health care claims representing 1.1 million customers of a national insurance carrier showed savings of $9,700 per employee on average over a five-year period for American workers who participated in consumer driven health plans and health improvement programs. These savings were achieved without reducing benefits or compromising medical care.

The Tip of the Iceberg…

Improving employee health doesn't just reduce health insurance premiums. A study of health and productivity by the University of Michigan and the Integrated Benefits Institute found that medical and pharmacy expenses make up only 30% of the total cost to employers of poor health of employees. The other 70% is health-related productivity loss such as substandard performance on the job and absences due to illness, injury and other factors.

That means healthier employees bring even better news for your bottom line.

The Bottom Line

Many CFOs believe that the rising tide of health care costs is due to economic factors beyond their control. That is simply not true.

Given the size of health costs on most companies' income statements, it is becoming increasingly clear that a successful health care strategy is a competitive differentiator—one that can affect profit margins, productivity and product pricing, which can make the difference in winning or losing in your core business. AZ CPA

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