



BEST PRACTICES FOR **PARTNERING WITH HR** FOR SUCCESS

If healthcare costs are “the tapeworm” of American economic competitiveness, as Warren Buffet says, then chief financial officers are the doctors who are perennially trying to find the cure to kill the parasite at their companies. Despite the various remedies that CFOs have tried, from self-insurance to narrow networks to telemedicine, healthcare costs continue to grow by 5% or more annually.

In a CFO webcast, “Best Practices for Partnering with HR for Success,” presenter Steve Barnes, chief financial officer of Accolade, and panelist Nick Hewitt, CFO of the North American glass business of Ardagh Group, discussed a new strategic approach for combating healthcare costs. This approach, an Accolade solution, has substantially lowered costs by reducing the overuse, underuse, and misuse of healthcare services.

The webcast covered seven key areas:

- The impact of rising healthcare costs
- Pros and cons of various approaches companies have tried to reduce healthcare spending
- Attacking overuse, underuse, and misuse in healthcare through a strategic approach
- How the Accolade solution works
- Accolade solution outcomes, by the numbers
- The CFO’s role in managing healthcare costs
- How healthcare cost savings translate to a company’s enterprise value





SPIRALING HEALTHCARE COSTS

Employers expect healthcare costs to rise 6.5% in 2018,¹ which would be consistent with trends of previous years, Barnes says. Much of that increase is due to waste. Overuse, underuse, and misuse accounts for 40% of the more than \$3 trillion spent annually on healthcare in the U.S.² Because healthcare represents as much as 20% of the gross domestic product of the U.S., that translates to healthcare spending waste accounting for 5 to 10% of the gross domestic product.

Companies have tried several strategies to reduce healthcare spending. More than 80% of employers have redesigned their healthcare plans in an attempt to contain costs,³ Barnes says, implementing plans with high deductibles or narrow networks,

for example. These efforts have whittled down the 6% annual increase in healthcare costs by one percentage point.⁴

But one of the root problems is that consumers are making poor healthcare decisions because of complexity, confusion, emotional and financial barriers, and other contextual barriers, Barnes adds. The poor decision-making leads to higher costs for the company, employee dissatisfaction, negative health impacts, and employee retention risks for the company.

Another idea for reducing healthcare spending by companies: Focus on the high-cost claimants among their employees. The average high-cost⁵ claimant costs \$122,000 per year, or nearly 30 times the average member's cost. High-cost claimants make up only 1.2% of the total members, but account for 31% of total spending.⁶

While focusing on high-cost claimants is a good place to start, it leaves nearly 70% of healthcare spending unaddressed, Barnes says. Also, the employees who are high-cost claimants tend to change from year to year. And if the company looks only at claims data, then its strategy is too reactive, focusing on responding after the fact.

Companies can also self-insure to combat rising healthcare costs, and that tactic is becoming possible for smaller and smaller companies, even companies with as few as 100 employees. Of Americans who receive insurance through their employer, 60% are on self-insured plans.⁷

Self-insuring can save a company more than 10% in healthcare expenses over time. But it doesn't address the misuse/overuse/underuse of care problem.

Introducing digital point solutions, such as telemedicine, wellness programs, second opinions, and price transparency, have become a popular cost-reduction tactic over the last few years. The problem with this approach is that point solutions lack the human touch, and data shows that the applications have extremely low rates of employee engagement, so they don't contribute significantly to lowering overall costs.



A STRATEGIC APPROACH

To effectively combat rising healthcare costs, including the waste issue, companies need to take a more strategic approach, Barnes says. Accolade is a single point of entry to personalized health and benefits for employers, health plans, and their members. The Accolade solution focuses on engaging and influencing individuals at every stage of health, often even before they are seeking care, and it uses data analytics and predictive modeling to build a precise understanding of each employee and the issues they're facing.

The Accolade approach also engages each member as a “whole person,” factoring in social, emotional, financial, and other life context, not just clinical conditions, to better guide that person's healthcare journey, Barnes says.



THE ACCOLADE APPROACH

The Accolade solution combines its leading-edge technology platform with compassionate Health Assistants as a human element, along with clinical experts. The Health Assistants are supported not only by the technology platform, but by Accolade Nurses, Doctors, Pharmacists, and specialists. All the elements combined create a strong solution for healthcare consumers and their employers to manage their healthcare experience, Barnes says.

The consumers are presented with one place to go for every healthcare and benefits need—the Health Assistant—whom they can access by phone, the web, or mobile application. As a trusted expert, the Health Assistant builds a relationship with each consumer to influence better decisions as they navigate the healthcare system.



OUTCOMES

How well does the Accolade solution work? The data shows dramatic improvements, Barnes says. Hospital stays are down 10%; surgical hospital stays are down 7%; emergency room visits are down 6%. Re-admissions declined 10%, while preventive office visits were up 2%. Behavioral health utilization increased.

Accolade engages with 85% of families consuming healthcare, representing 70% of all claims spend, and with 90% of high cost claimants. Employees and their families report very favorably on the consumer experience.

Accolade has earned 98% satisfaction ratings and a Net Promoter Score of 73 across its entire book of business, Barnes says.

The numbers add up to substantial cost savings. Large-employer surveys show healthcare spending increasing by about 5% in 2016, after five years of plan changes. Meanwhile, over the same period, the Accolade solution has driven healthcare spending increases 4.5 percentage points lower than the large-employer average, to near zero. Some employer customers are achieving up to 15% healthcare cost savings by year five of using the Accolade solution.

CASE STUDY

A case study clarifies how a chief financial officer might view an effective solution to bringing company healthcare costs in line, Barnes says. For example, take a company that has \$1 billion in revenue, a payroll spend of \$500 million, and healthcare costing an additional 10%, or \$50 million. The example company

would be earning \$120 million net income, trading at a price-to-earnings ratio of 20, and have a market capitalization of \$2.4 billion. If the company can drive a 10% savings on its healthcare spending, that's \$5 million, or \$3 million after tax. That translates to \$60 million of enterprise value, or up to \$5 million that could be spent elsewhere in the company's budget.





PANEL DISCUSSION

During the webcast panel discussion, Barnes spoke about how the Health Assistant in the Accolade solution could help the consumer make smarter decisions: “If an employee can build a trusted relationship with the Health Assistant before making a decision about whether to get an MRI or a CT scan or an operation, the employee will better understand what choices they have. Second opinion opportunities? Lower-cost opportunities? Or better outcome-focused approaches at higher costs.”

“Interestingly, we’ve seen by increasing some kinds of healthcare spend—whether it’s behavioral health, or seeing primary care physicians, or using urgent care rather than emergency room care, or compliance with prescriptions—there are long-term favorable impacts to healthcare,” Barnes says.

Hewitt, the glass business CFO from Ardagh Group, spoke about the CFO’s role in managing healthcare costs. “I think the first step is talking about it and getting it on the agenda of the overall management team, which we started about two years ago,” Hewitt says. “And then,

the next step for us has been working with our HR department to break down the actual overall cost into individual elements and provide meaningful analysis back to the HR department. We then work with our benefits administrator to determine where we’re overspending or not getting value for money.”

Hewitt also spoke about managing self-insurance. “We are self-insured in Ardagh, and we have a stop loss of about \$250,000. What we do regularly as a finance team is work with HR to determine whether, based on our claims’ history, this is the right level or whether we should increase the stop loss and pay a lower premium or decrease it and pay a higher premium.”

“It is important to do the data analysis to make sure that you’re still getting the best value,” Hewitt says. “If you want to take everything completely off your balance sheet and de-risk it, you’re paying a massive premium. With most companies, there’s some benefit to some form of self-insurance. The question is, at what level? That’s probably the biggest discussion with HR. The answer depends on the structure of the organization and how you operate.”

CONCLUSION

CFOs need to employ many tactics in the battle to control healthcare costs. One of their chief concerns should be the overuse, underuse, and misuse of healthcare services—waste that accounts for 40% of all healthcare spending. The Accolade solution offers one possible approach, with a single point of contact that educates, engages, and influences the healthcare consumer before he or she makes a spending decision, combined with data analytics and predictive modeling to help the CFO better understand issues affecting employee healthcare. CFOs need to work closely with HR in developing and employing strategic, proactive approaches to controlling healthcare costs.

NOTES

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