

# THE C-SUITE SURVIVAL GUIDE

## How to Make Healthcare A Controllable Cost



## 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. <sup>1</sup>

Confronted with the immediate economic impact of the COVID-19 pandemic and even a possible recession, as a CEO and 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 Non-Interest Expense 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 credit unions...until it becomes an existential issue. Faced with insolvency, both payroll and benefits become fair game.

But, before events force you and your credit union to that point, you should know something about the conventional wisdom that health care is an uncontrollable cost.

The conventional wisdom is **dead wrong**.



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<sup>1</sup> YPO Chief Executive Global Survey on the Business Impact of COVID-19”, <https://ww.wypo.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 credit union C-Suites by health care's middle-men, 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 Non-Interest Expense 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 credit union's largest business units... the health care business unit.

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*"Our premiums today are less than they were in 2017 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."*

**-Tim Smith, CFO  
Workers Credit Union, Fitchburg, MA**

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## 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 credit union. If you and your credit union 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 credit unions 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 gets paid more. You can see why your broker doesn’t want you and your credit union 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 United Healthcare up over 1,000 percent over the past 10 years.<sup>2</sup>

## 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 use 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 credit union except health care...until now.



## 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 credit union'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 credit union 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.

(See Case Study on Workers Credit Union)

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*“The ROI has been outstanding. We have already enjoyed over \$3 million in reduced costs from our employee medical plan.”*

**-Jeff Kennedy, CEO  
Twinstar Credit Union, Olympia, WA**

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## 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 credit union to the employee.



## THE C-SUITE'S GUIDE TO MAKING HEALTH CARE A CONTROLLABLE COST

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<sup>4</sup>, 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.<sup>5</sup> A joint study from Harvard Medical School and Law School found that over half of bankruptcies in this country involve unpaid medical bills.<sup>6</sup> 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, credit unions 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 credit unions to eliminate the deductible and co-insurance. Imagine a credit union'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.



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<sup>4</sup> <https://www.bankrate.com/banking/savings/financial-security-january-2020>.  
<sup>5</sup> Affordable Care Act allowable maximum out-of-pocket limits for group plans, 2020. Internal Revenue Service. <sup>6</sup> "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 computers or office supplies. Although, to be fair, managing health care costs in practice is much more complex than managing the cost of printers or paper clips. But you can call on consultants who specialize in managing the health care supply chain.

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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 credit union.





So let's take a look at the high-impact action steps you can take in your credit union 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 such a report since the insurance company doesn't want to reveal your overpayment. Expect stalling, delays, and incomplete data.)
- Visit the CU Benefits Alliance website 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:

**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.**

## 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 quantify 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<sup>7</sup> by keeping employees from unnecessary visits to the doctor's office, urgent care, or the emergency room.**

## 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.**



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<sup>7</sup> "Can Telemedicine Be Both Cost Efficient and High Quality?" US News & World Report. February 27, 2018.



## 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.<sup>8</sup> 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-quality/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.**

## 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 to the 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 working with C-level executives to make their health care spend a controllable cost.



# Workers Credit Union

## \$1.2 Million Employee Benefit Savings

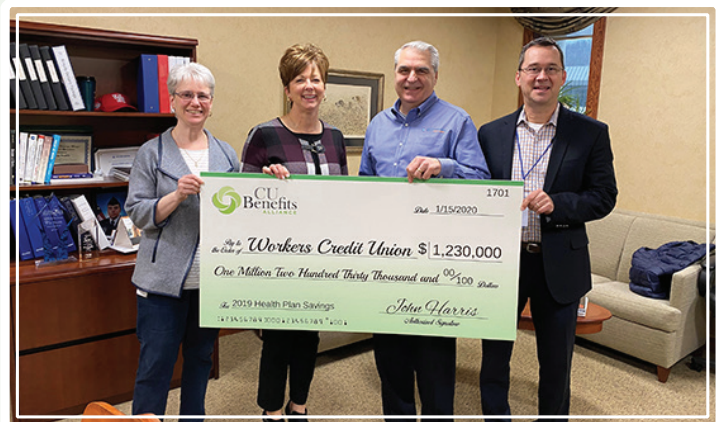
### 29% Cost Reduction

## Workers Credit Union

A Massachusetts credit union with 334 employees wanted to reduce their high cost, employee health insurance without reducing the level of benefits offered.

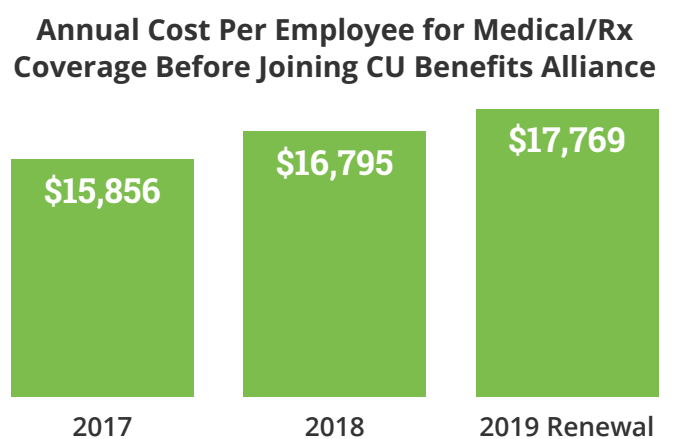
### Challenges

In 2018, the credit union paid \$16,795 per employee for group medical insurance. They received a 2019 renewal increase of 5.4%, or a new annual cost of \$17,769 per employee. The cost had increased every year for the past several plan years. The executive team was at a crossroad; they needed to begin cutting benefits or find a way to reduce their third largest expense. In an effort to cut cost and enhance cash flow to the credit union, the management team decided to hire CU Benefits Alliance as their employee benefits consultant. The credit union wanted to use their existing insurance provider network and minimize any impact to human resources and its employees. As a result, solutions needed to consider the impact on existing carrier relationships, employee processes, and acknowledge that the human resources department had a number of program initiatives underway. The credit union's goal was to reduce their 2019 annual renewal quoted cost by at least 10%, or \$400,000.



## \$5,335 SAVED

### PER EMPLOYEE PER YEAR



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## Process

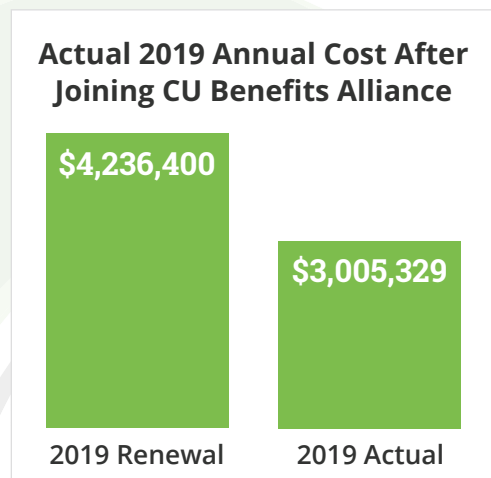
CU Benefits Alliance conducted a high-level feasibility study to determine if the objectives could be met. Working closely with the CFO and human resource team, CU Benefits Alliance built a benefits program that allowed the credit union to remove much of the overspending that happens in health plans. Most employers pay for healthcare in advance (in the form of insurance premiums), meaning they often pay for insurance and healthcare they do not use. The new CU Benefits Alliance strategy allowed the credit union to only pay for the healthcare their employees use.

## CU Benefits Alliance Solution

After determining the credit union needed to change how they funded their group healthcare coverage, CU Benefits Alliance implemented their CU Healthcare Coalition program which enables a credit union to take advantage of next generation benefit strategies, in collaboration with other credit unions nationally. The CU Healthcare Coalition model has reduced healthcare cost by over \$10 million, cumulatively, in the past five years for dozens of credit unions. Additionally, CU Benefits Alliance negotiated program savings that could be passed on to employees, meaning less money coming out of their check each month to cover their family.

## Results

The resulting savings were over \$1.2 million in 2019. CU Benefits Alliance was able to reduce the annual cost per employee from \$17,769 to \$12,434...a 29% decrease! The credit union has been able to maintain the same operational and claims processes for human resources and employees, but with improved funding and information flow resulting from the newly introduced CU Healthcare Coalition strategy.



**“After many years of double digit increases on our employee medical plan, CU Benefits Alliance delivered a 29% drop in the first year. They far exceeded our expectation and completely changed our mindset about the cost dynamics of this important benefit for our employees.”**

*Timothy Smith, CFO*  
Workers Credit Union

The background of the entire page is a collage of various US dollar bills, including \$100 and \$20 bills, scattered and overlapping. The bills are shown in grayscale, with some text and numbers visible, such as 'KB 2931766', 'KJ 517989', and 'HK 12029434 D'.

## ABOUT CU Benefits Alliance

CU Benefits Alliance's mission is to reduce cost and improve credit union employee healthcare. Credit Union leaders need a seamless, transparent platform where employees can access the best healthcare at an affordable cost. The CU Benefits Alliance strategies help further their commitment to the financial well-being and success of credit unions. For more information, visit [www.cuBenefitsAlliance.com](http://www.cuBenefitsAlliance.com).

