Transforming Employee Health Benefits
The Key Role of the Finance Function

How the right health benefits captive can reduce risk and lower costs

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80% of U.S. Senior Finance Executives Expect Greater than Normal Cost Increases

1. Introduction: CFOs under pressure to reduce costs

Cost management has always been a priority for CFOs, but in the U.S. — at least for the foreseeable future — uncovering new sources of savings will likely dominate their agenda. Roughly 80% of U.S. senior finance executives expect greater-than-normal cost increases for months to come, according to Duke University's latest CFO Survey.

Against this backdrop, rising health care costs in America will continue to drain corporate resources and the economy. The U.S. spends more on health care than any other country , and total spend as a percentage of gross domestic product (GDP) is increasing annually. For example, in 2018, health care comprised 17.7% of total GDP. By 2028, health care spending is expected to swell to 20% of total GDP, or $6.19 trillion. For most companies, healthcare benefits are one of their largest expenses, especially due to unpredictable price increases year over year.

In 2021, Industry Dive partnered with ParetoHealth, a provider of employee health benefits solutions, to survey senior finance executives and determine how employee health costs factored into their strategic planning process. Our findings revealed these executives' priorities, when it comes to navigating the complex relationship between employee health costs, employee benefits, and meeting business objectives.

In this white paper, we display those results. We also present the views of CFOs and industry experts on how the finance function can play a leading role in transforming employee health plans in a way that can reduce costs, while maintaining the plan quality essential to achieving business objectives.

[1] https://www.richmondfed.org/research/national_economy/cfo_surveyresearch_and_commentary/2021/20210714_cost_and_price_increases

[2] https://www.commonwealthfund.org/publications/issue-briefs/2020/jan/us-health-care-global-perspective-2019#:~:text=Data%3A%20OECD%20Health%20Statistics%202019.&text=In%202018%2C%20the%20U.S.%20spent,%2C%20Switzerland%2C%20spent%2012.2%20percent

[3] https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected

2. Why CFOs put health care planning as a core agenda item

81.7% of finance executives say health care spend is one of their largest expenses.

As the gatekeepers of a company's resources, it's not surprising that most senior finance executives take a proactive role in crafting the health benefits strategy of their organizations, including reviewing health care plans as part of their annual strategic planning process. **80%** of finance executives in our survey said having a best-in-class health benefits plan was essential to meeting business objectives, and roughly **68%** became involved in planning their health benefits strategy from the very beginning of the process. A majority of executives **(84.7%)** evaluated their plans annually.

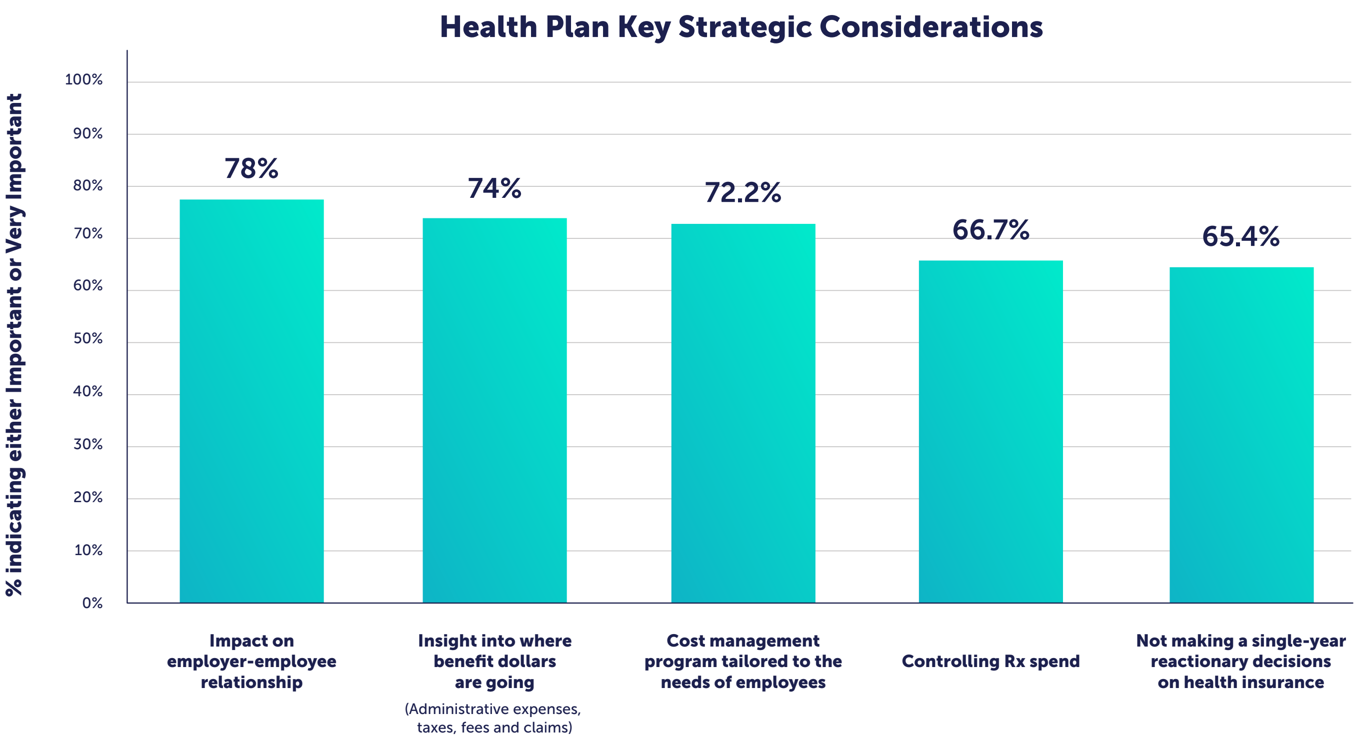
With rising costs and tightening budgets, managing an employee health benefits plan is consistently falling under the purview of the office of the CFO. Take a look at EPI Breads, an Atlanta-based commercial bakery, with 550 employees using a self-insured captive plan. **CFO, Bob Gansel, believes the CFO's role in evaluating health benefits cannot be underestimated.**

As Gansel explained, HR is usually concerned about offering the actual packages to employees and educating them on coverage and benefits. But when it comes to cash flow and the total cost of a self-insured plan, all oversight falls to the finance division. "The financial planning of health benefit plans is a very important part of my job as CFO, and it's up to me [to] forecast and mitigate any financial risks to the company," he said.

3. The critical cost-benefit equation

As part of their role, CFOs need to understand the cost-benefit of any investment or budget item. When it comes to evaluating health plans, the cost-benefit equation can be complex. For nearly three-fourths of survey respondents, developing a cost management program tailored to the needs of the employee population was a top priority (See Table 1). Controlling the cost of prescription benefits was also a key concern for almost **67%** of those surveyed, and most executives wanted the ability to reduce volatility and risk **(80%)**.

Too often, "planning" next year's benefits consists of a single annual renewal meeting where a broker presents a spreadsheet comparing an assortment of undesirable options. With renewal deadlines looming, employers are forced to make hasty and uninformed decisions. In the absence of any long-term strategic planning, the process simply repeats year after year. Many executives agreed that refraining from these types of reactionary decisions is crucial **(65%)**. And nearly **85%** said having real time data around pharmacy costs would be valuable when it comes to evaluating alternative health plans.



4. Intangible Benefits: Attracting and retaining employees

While health care benefit plans have always been top-of-mind for employees, the COVID-19 pandemic has highlighted just how critical benefits packages can be both in the hiring process and in building a positive working environment.

More than half of the finance executives surveyed **(61.6%)** agreed that health plans were important in attracting and retaining talent. At the same time, most **(78%)** recognized the potential impact an organization's health benefit plan can have on the employee-employer relationship (See Table 1).

Maureen Becker, chief people officer at ParetoHealth, explains that the COVID-19 pandemic prompted a mass exodus from the workforce across industries. "Having a robust health benefit offering has become absolutely essential to attract and retain top talent," she said. "In the past, candidates focused on compensation when they evaluated job offers and for many, benefits were almost an afterthought. Times have changed. **Now, I find many candidates scrutinize the details of benefits and base employment decisions based on benefits."**

For Marilyn Beach, CFO and benefits coordinator for Holland 1916, a Kansas City-based organization and an industry leader in industrial nameplate production and interface solutions, "...having great benefits makes the attraction part easy, retaining our employees with our current privately-insured plan is actually more important." The primary goal of the plan is to keep employee costs low, she explained. "With a $40 monthly cost, they don't have to focus on health issues or stressful insurance bills. I need my employees to be 100% focused when they're at work, so **the more I can do from a health benefits perspective to reduce stress, the happier and more productive our employees are."**

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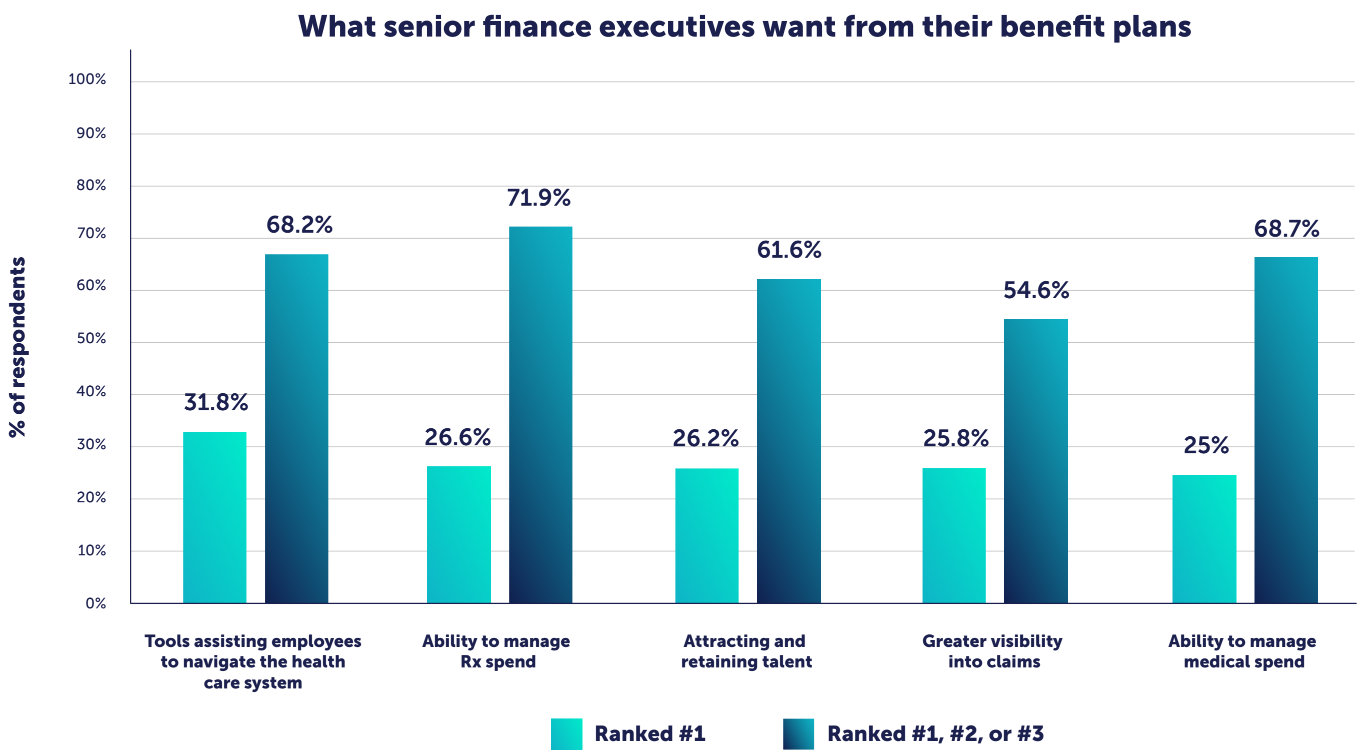
5. What CFOs want from a benefit plan

On a scale of one to six, with one being the most helpful and six being the least helpful, the chart below shows the value senior finance executives place on a health benefit plan that goes above and beyond health cost coverage. Almost one-third of executives placed the highest value on plans that provided tools to assist employees to navigate the healthcare system. However, the ability to manage Rx spend was consistently ranked between one and three by most executives in our survey, followed by the ability to manage medical spend. For most (82.9%), it was also important to have a health benefit plan that could identify risk in real time and provide solutions.



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1,900+
Active Captive Members

650,000+
Approximate Number of Lives Covered

$850M+
Stop-Loss Premium Under Management

6. Why CFOs are exploring self-insurance

Over 85% of finance executives say having a health benefit plan that offers best-in-class coverage while minimizing risks, reducing costs, and removing their administrative burden is essential to meeting business objectives.

Self-insured employers pay for each out-of-pocket claim as they are incurred instead of paying a fixed premium to an insurance carrier under a fully-insured plan. Self-insured employers also typically set up a fund of both corporate and employee contributions earmarked to pay health care claims. The objective of a health benefits captive is to bring together employer members with the aim of reducing health care cost and risk, while maintaining quality in their employee health programs.

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"A captive is a group of employers who share the same business goal of reducing costs, but not the quality of their employee health programs. As a captive member an employer has better purchasing power. So instead of being an employer that has a hundred employees, as a captive member, you're now an employer that has 5,000 employees. As a result, you can get better health benefit programs for your dollar," explained Andrew Cavenagh, CEO of ParetoHealth.

ParetoHealth is the largest health benefits captive manager in the U.S., serving more than **1,900 businesses** and providing health insurance to more than **650,000 people**. As Rich Carroll, CFO of ParetoHealth explains, the self-insurance captive addresses most CFO concerns around health benefits management. "We have two aspects of our solution that CFOs really find helpful in health care planning and managing their overall health care costs," she said. "The first is risk financing through stop-loss insurance, and the second is cost management."

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Holland 1916, Inc, for example, switched to ParetoHealth from a fully-insured plan in 2016. According to CFO Marilyn Beach, the primary reason was because of cost volatility — constantly rising prices from traditional fully-insured companies. "We needed a way to be able to reduce those risks, take more ownership of our plan, and write our own destiny," she said. "After joining ParetoHealth, we were able to keep a steady level of payments going into our claims account every year. At the end of a year, we›d have so much money left over, we had to take it back, effectively reducing our healthcare costs."

BETWEEN

$150k & $180k

WAS SAVED IN YEARS 2 & 3

After years two and three, Beach noted the company saved between $150,000 and $180,000 in health costs across 125 individuals on the plan. According to her, one of the many benefits of the captive plan is that risk is spread over all members of the captive. "Our healthcare costs are a little bit high this year, but being part of a captive, I know I'm not going to get hit with higher costs next year due to a change in the premium, like a fully-insured carrier might have charged."

For Shelly Bragg, CFO of The Patten Seed Company, a Georgia-based seed and sod company with 470 employees, doing the math on self-insured versus fully-insured plans revealed just how cost-effective joining the insurance captive could be. After switching from a fully-insured plan and joining ParetoHealth in 2016, employee costs per month had only increased by around **6.5% and stayed that way through 2020. "Over the same four to five years, even if you estimate conservatively, a fully insured premium would have easily increased at least 15% per year," she noted.**

In a self-insured plan, the central role of the finance function becomes even clearer, said Bragg. "The role of the CFO changes dramatically when you go from a traditional health plan to a captive because you have more data to work with and a better opportunity to actively control costs," she said. "In addition, with the captive, we have the benefit of health and cost information from across members, with benchmarks and dashboards to help us make better decisions."

Top ten benefits of a captive:

1. Decrease risk and healthcare spend by paying claims as they are incurred instead of a fixed, fully-insured rate, that rises year over year.
2. Greater transparency and improved data on actual claims cost and utilization.
3. No new lasers for members.
4. Unparalleled protection with renewals consistently below industry averages.
5. Increased flexibility with plan designs, administration, and offered services, so employers can better support employees and spend wisely.
6. Stronger stop-loss protection.
7. Access to and assistance with an integrated cost management platform.
8. Members rewarded with good experience.
9. Seamless transition from a fully-insured model to a captive model for employees, with human resources and finance departments managing administrative changes on the backend.
10. Elimination of the surprise of premium increases—helps CFOs smooth forecasting and plan budgets.

7. Conclusion

Against the backdrop of rising operating costs and as gatekeepers of company resources, the finance function has a central role to play in planning and managing company health care benefit plans.

This latest research conducted by ParetoHealth and Industry Dive tells us that the cost-benefit equation that underlies the analysis of health care benefit plans is complex. Finance executives are increasingly looking for greater value in their health benefits plans — value that includes reduced risk, lower costs, and increased predictability—all factors critical in strategic planning, estimating cash flow, and accurate budgeting and forecasting.

At a time when attracting and retaining talent has become increasingly difficult, offering a competitive and comprehensive health benefits package to employees is top-of-mind for many organizations, and it can make or break the employee-employer relationship.

Self-insurance captives can provide greater clarity around potential health care expenses and the potential to lower risk and reduce cost, all while ensuring employees receive best-in-class health care—completely transforming employee health benefits.

About ParetoHealth

Established in 2011, ParetoHealth is a leading employee benefit group captive manager that helps mid-sized businesses self-fund and access high-quality health benefits with greater savings and lower volatility. With over $850M in stop-loss premium under management, 650,000 lives covered, nearly 2,000 active employers, and a 97% retention rate, Pareto is uniquely positioned to help a large swath of the market adopt smart, sustainable, multi-year strategies to optimize healthcare delivery.

Become a preferred partner today. | learnmore@paretohealth.com

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