The Management of Healthcare Expenses in Hospitals and Health Systems

Bank of America Merrill Lynch

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Participants Include:

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Chief Financial Officer, IU Health Goshen

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By Molly Gamble

In 2015, the average annual premiums for employer-sponsored health insurance were $6,251 for single coverage and $17,545 for family coverage, an increase of 4 percent from rates in 2014, according to Kaiser Family Foundation. This marks a continued, decade-long period of moderate growth.

Hospitals and health systems, too, are seeing a year-over-year increase in workforce healthcare costs. In a survey of hospital and health system leaders conducted by *Becker's Hospital Review*, nearly 80 percent of respondents said the cost of healthcare benefits at their organizations grew in the past year. The increase comes from both higher premiums and greater care utilization.

To counter premium increases, some organizations have made high-deductible health plans a benefit option for their workforce. To offset or reduce care utilization costs — visits to out of network providers and the hospital emergency room, or inconsistent chronic care management — many employers are also investing more in employees' financial literacy and physical wellness.

This Becker's Healthcare e-book, based on survey responses from financial executives and a roundtable discussion with four hospital and health system CFOs and a healthcare benefits expert, discusses several strategies healthcare organizations are deploying to better manage their healthcare expenses.

The participants included: Bill Fenske, CFO of Rice Memorial Hospital in Willmar, Minn.; Amy Floria, CPA, MBA, CFO of IU Health Goshen (Ind.); Shelly Hunter, FHFMA, CFO of Mercy Health Joplin/Kansas in Joplin, Mo.; Jim Porter, FHFMA, CPA, CFO of St. Bernard Hospital in Chicago; and Jim Huffman, Senior Vice President and Head of U.S. Employee Benefits for Bank of America.

Healthcare costs and evolving benefit options

Like the majority of respondents who said the cost of healthcare

benefits at their organizations grew in the past year, Amy Floria, CFO of IU Health Goshen saw the same. It's part of what she describes as a cyclical trend and, like other CFOs, she links the increased cost to a cluster of higher claims from a pool of colleagues. "We're in a 3- or 4-year cycle, where every third or fourth year we end up with a couple of colleagues who have some high claim years that will be large enough to show a spike," she says.

"Our costs have pretty much been flat the last couple years," says Bill Fenske, CFO of Rice Memorial Hospital. "That's the result of what we've done. We put in two different plans to try to put more decision making and accountability back on the employee."

Mr. Fenske is referring to high-deductible health plans, which have lower premiums and higher deductibles than their traditional counterparts. High Deductible Health Plans (HDHPs) paired with a tax-free health savings account represent a growing percentage of plans across the national health insurance landscape. Proponents of HDHPs claim these benefit plans induce consumers to seek high-value care and grow more mindful of health maintenance and choices. If the plans are improperly structured or poorly communicated, however, enrollees can sometimes forego care to avoid the deductible, which can result in greater long-term costs.

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Bill Fenske
Chief Financial Officer, Rice Memorial Hospital

Despite their growing prevalence, HDHPs are not yet the most common type of health plan. Nationally, 24 percent of covered workers are covered with HDHPs, whereas 52 percent are enrolled in PPOs. Of those hospitals and health systems offering HDHPs, most introduced them in the past 2 to 3 years. The option is less than 5 years old for most organizations, which is in line with the studied uptick in HDHPs. Since 2009, the number of employers offering high-deductible health plans has grown nearly 300 percent, according to PwC.

Roughly one quarter of hospital and health system executives told *Becker's Hospital Review* that HDHPs are the only benefit option extended to employees. While most firms offer only one type of health plan, many large corporations now offer only consumer-driven plans. For instance, at Bank of America Merrill Lynch, employees earning more than $100,000 in cash compensation have the opportunity to select from one of two HDHPs: one attached to a Health Savings Account or the second that coordinates with a Health Reimbursement Arrangement.

"In 2012, we starting offering HDHPs for an income-eligible population within our company. That group has the opportnity to select from two HDHPs," says Jim Huffman, Senior Vice President and Head of U.S. Employee Benefits for Bank of America. "Now that we've had these options in place for a few years, we do see a great level of understanding on how the deductible works, as well as the

pre-tax health accounts."

The single HDHP option is not yet as prevalent among hospitals and health systems. Approximately 55 percent say the model is one of several available coverage options. Such is the case for Mr. Fenske at Rice Memorial Hospital. The municipally-owned hospital added two HDHP options a couple of years ago and removed a low-deductible PPO from its offerings. Today, Rice Memorial's 900 employees have the choice of two HDHPs and one plan with deductibles similar to that of a PPO.

"We saw an immediate shift in our participation when we offered the HDHPs," says Mr. Fenske. "In 2015 compared to 2016, we had our low deductible health plan decrease by about 25 percent in terms of enrollees. They moved into the HDHPs."

Several CFOs cited inappropriate use of the emergency department and inconsistent management of chronic conditions as factors that drove healthcare cost increases for their hospitals. Deductibles and co-payments are meant to encourage patients to think and act more like consumers when it comes to healthcare. When employees are accountable for a greater portion of the cost for avoidable, deferrable or unnecessary care, employers hope to see behavioral change and responsible healthcare utilization.

Mr. Fenske says the intended effects of HDHPs have come into play at Rice Memorial, which has recorded decreased medical utilization since rolling out plan options with higher deductibles and lower premiums. "It's a matter of the employee is more accountable for their healthcare, and they are incentivized to manage their healthcare appropriately based on what their needs are."

HDHPs' comparably low premiums can draw employee interest. The average individual premium under an HDHP with a savings option was $5,567 in 2015, about $1,000 less than the premium for an individual PPO plan. That dollar difference leaps off the paperwork to many employees as they complete their benefits enrollment applications, which is why Ms. Floria takes great pains to explain the big picture to her 1,600 colleagues at IU Health Goshen (Ind.). The hospital began offering HDHP options 4 to 5 years ago.

"We try to emphasize, 'Don't look at just the premium,'" she says. "Make sure you understand what coverage you're getting for that premium, so we don't have colleagues who go for the cheapest insurance out of every paycheck and then have a claim and not realize that they are out of pocket for that HDHP."

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Amy Floria, CPA, MBA
Chief Financial Officer, IU Health Goshen

Although consumer-driven health plans are a well-studied cost-sharing mechanism, the connection between HDHP enrollment and cost savings for employers varies. Approximately 37 percent of respondents do not see any link between healthcare costs and HDHPs, 22

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percent see a link to an increase in benefit costs, and 16 percent link HDHPs to either a decrease or neutralization in cost.

The National Bureau of Economic Research found in 2015 that employers who offered HDHPs reduced healthcare costs over three years compared to those that did not. But for many hospitals and health systems, the HDHP offering is still too young are has too little enrollment to gauge trends. One executive says her hospital just began offering HDHPs less than 30 days ago, but the jury is still out even at IU Health Goshen, which rolled out consumer-driven plans five years ago. "I don't think we have had enough enrollment in those plans to make a correlation," says Ms. Floria. "We still have a high percentage of our colleagues going in those more traditional plans."

Going forward, nearly half of survey respondents say their organization is considering HDHPs as a long-term benefit or investment option, while nearly 40 percent report that is not a consideration at this time.

Reducing the financial burden for employees

Hospitals and health systems are exercising both traditional methods and more creative strategies to make health insurance more affordable for their workforce. This prerogative is especially critical for some organizations depending on their demographic and market. "We're on the South Side of Chicago in a very economically depressed area," says Jim Porter, CFO of St. Bernard Hospital. "Many of our employees live here, so we actively try to keep costs down for them but we also obviously have to balance that with keeping the costs of the organization down."

In 2015, workers' average annual premium contribution was $1,071 for single coverage and $4,955 for family coverage, which is stable from 2014. Covered workers contribute 18 percent of the premium for single coverage and 29 percent for family coverage, on average. As premiums grow year over year — up 4 percent from 2014 to 2015 — organizations face strategic questions over how to offset the cost to their bottom lines while steadying employee contributions.

HDHPs are often combined with a savings option that allows people to set aside pretax dollars to meet out-of-pocket healthcare expenses. Savings options take several forms, such as tax-free individual health savings accounts and employer sponsored health reimbursement arrangements. Of the organizations offering HDHPs, 65 percent told *Becker's Hospital Review* they offer employees HRAs or HSAs, and 35 percent of respondents from this group say their organizations deposit seed money to supplement HSAs.

Several hospitals and health systems use sliding scales for premiums, making cost sharing a company affair. At Mercy Joplin/Kansas, Sisters of Mercy Health System, employees earning a certain hourly wage are eligible for reduced premiums to offset expenses.

"If you're making $10 or $11 an hour, a regular premium is going to take up a significant portion of your check," says CFO Shelly Hunter.

IU Health Goshen implemented a sliding premium scale for all employees 10 years ago. "My coverage for head of household — I pay significantly more versus one of our colleagues in environmental services with the same coverage," says Mr. Floria. Over time, this approach became the norm at the 122-bed hospital and no longer warrants much discussion come enrollment period, she says.

Bank of America Merrill Lynch rolled out sliding premiums 5 years ago. The more an employee earns in compensation, the more they pay of premium dollar, and vice versa. "In financial services, we do see it as a prevalent practice and something our employees understand," says Mr. Huffman. Mr. Huffman, Ms. Floria and Ms. Hunter also underscored the belief that a sliding scale for premiums is simply the right thing to do as an organization.

Investing in financial literacy and wellness for smarter choices

Research has identified gaps in the public understanding of basic health insurance terms and concepts. For example, nearly 7 in 10 of individuals with unaffordable out-of-network medical bills did not know the medical professional was not in their plan's network when they received care, according to a Kaiser Family Foundation survey. Another study in California found most patients were unaware of the fact that their HDHP featured little to no out-of-pocket expenses for preventive screenings and office visits.

In light of these findings, some employers are stepping up to the plate to ensure their employees know enough to make informed choices as they take on greater responsibility for their care.

Most organizations offer employees assistance to better understand benefits and finance, although this effort is hardly widespread: 61 percent of respondents say their organizations offer financial education or literacy programs, while 39 percent do not.

The most common types of financial enrichment opportunities offered at hospitals and health systems include benefit fairs, online enrollment sessions with assistance, and question and answer sessions with human resource professionals. Some hospitals also shift the conversation from one facilitated by HR to one driven by the leadership team as a whole. Their executive teams undergo training to discuss health plan options with their respective departments and help answer colleagues' questions.

Financial literacy efforts should not be reserved to enrollment periods, executives noted. "I think we can still do a better job of providing education throughout the year on health insurance literacy in general," says Ms. Floria. "What type of responsibility do you have as an enrollee to take advantage of all the benefits you're paying for in your coverage?"

Related to financial wellness, hospitals and health systems

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are also hoping to see return on investment by amplifying initiatives to encourage physical wellness and healthy behaviors. Common organizational efforts include health club sponsorships or reimbursement, farmers' markets, health and nutrition coaching, fitness courses and accessible onsite exercise areas and equipment. Organizations also build rewards or incentives into these efforts. Generally, one-third of large companies — 200 employees or more — provide an incentive to complete a health risk assessment and 28 percent incentivize biometric screenings, according to Kaiser Family Foundation.

"We are really attacking the wellness side," says Ms. Hunter of Mercy Joplin/Kansas, Sisters of Mercy Health System. "We're trying to do everything we can to increase wellness and lower utilization." Employees can save $300 annually if they complete their blood work each year, refrain from smoking and engage in other healthy behaviors. The organization offers monthly lunch and learns about nutrition and makes exercise facilities and spaces available to team members, along with a complimentary class for hospital staff at the local YMCA. Ms. Hunter says her team has observed greater participation in these initiatives year over year, and she expects to see organizational healthcare costs go down this year and next.

It was commonly thought that organizations played the long game when investing in wellness initiatives to lower healthcare expenses, but data and analytics are turning that notion on its head. While the ROI may still be years away, it's less obscure. "The traditional approach on these wellness programs has been they don't return as quickly," says Mr. Huffman with Bank of America. "It's actually a longer cycle for a wellness program ROI, but more and more literature is coming out about how companies or third parties have been able to isolate specific situations to identify that impact."

Bank of America has seen the benefits of this approach firsthand. The company rolled out a voluntary wellness program for its U.S. employees 4 years ago, and today more than 85 percent of the workforce has completed the program. It involves a biometric screening, a handful measurements and a health questionnaire, which returns a personalized health report for the individual and points them to the health items they need to first address and connects them with the proper programs to do so.

The program was intended to engage people in healthy behaviors and prevent chronic or complex conditions and decrease healthcare utilization. So far, Mr. Huffman can say it's working: The bank's external healthcare actuary has recognized a positive impact on the healthcare cost trend. "We're very pleased that the voluntary program is having an impact on employee health as well as our cost trend," he says. ■

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