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Briefing Paper

THE ROLE OF THE C-SUITE IN EMPLOYEE HEALTH CARE

Optimizing for Cost, Quality, and Outcomes

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Employee health care represents the second-largest investment for most U.S. businesses, trailing only payroll. But this spend—equaling $1.2 trillion for American employers—is plagued by systemic problems from out-of-control costs to lousy member experiences and wasteful administration practices. How can such a critical and costly part of a business be so behind every other part of the enterprise?

The answer is actually quite simple: employers don't have the technology or data to take control of it.

In spite of employers' willingness and increasing attempts to take greater control of their health care spend through self-insurance and other mechanisms—exemplified by the rapid rise of corporate wellness programs, on-site clinics, telemedicine services, and novel clinical models over the past decade—they still rely heavily on a long list of old-fashioned vendors to manage their investment. This reliance includes unique contracts with major health insurance carriers to administer employee health benefit plans, and agreements with data warehousing vendors, health benefit consultants, and medical stop-loss vendors, among others, to help manage the myriad manual tasks required to run a self-insured health plan.

Contrasted with other cost areas of running a business, such as payroll, or sales and marketing, the absence of a modern, technology-driven approach to managing this complex and critical investment stands out. Today the health care industry flounders on the technologies of yesterday, thanks to a foundation built with antiquated systems, most dating back to the 1970s and 1980s. Some of these systems power the "back office," and some are responsible for the fragmented, frustrating experiences that people face when interacting with their own plans.

At Collective Health, we set out to help employers challenge the status quo by applying a modern, technology-driven approach to today's outdated systems and processes that stand in the way of progress. With our **Workforce Health Management System** (WHMS), employers are finally able to administer their plans, take care of their people, and optimize their investment—using one software and service platform.

Our mission is to make it effortless for companies and their people to understand, navigate, and pay for their health care. We're driven by our belief that change in health care starts with companies that demand more from their investment.

ALI DIAB
COFOUNDER, CEO
COLLECTIVE HEALTH

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Since the passage of the Affordable Care Act in 2010, health care has become one of the nation's most urgent political issues. Curiously, however, the one stakeholder that has the longest experience and perhaps the greatest stake in creating viable health care systems in the U.S.—the American employer—has rarely been heard from in this long national discussion.

Employers are, collectively, the largest insurer in America. They provide health benefit plans to 151 million U.S. workers and their families, according to the Kaiser Family Foundation, and together, they spend nearly $1.2 trillion annually on health care, or about the same as the Medicare and Medicaid budgets combined. Since 1999, the average annual premium for covered workers with family coverage has more than tripled for employers of all sizes. FIGURE 1

Just how pivotal a position employers occupy was clarified in January, when three corporate giants, Berkshire Hathaway Inc., Amazon.com Inc., and JPMorgan Chase & Co., made headlines with the announcement of a new joint health care venture to control costs and improve outcomes among their employees. The news prompted a sell-off of insurance and other major health companies' shares.

The proposed collaboration also marked a dramatic turnaround for business in the United States.

Employers have the market power to shape health care. However, they haven't always exercised it. For many decades now, business leaders have largely let government, insurers, and the health care industry fashion a system that serves those entities' needs. The result? Employers have become price takers rather than market makers. Employers today pay roughly 50% more than Medicare on average, and those rising costs are the main reason the U.S. spends more on health care per capita than any other developed country. Essentially, employers have been the piggy bank, financing the runaway costs of our health care system for decades.

Times are changing, however. Fed up with the status quo, the C-suite is starting to think about health care as not simply a cost to be managed, but rather an investment in the company's people. Increasingly, top executives are turning to innovative models that address the cost of employee health care through this lens.

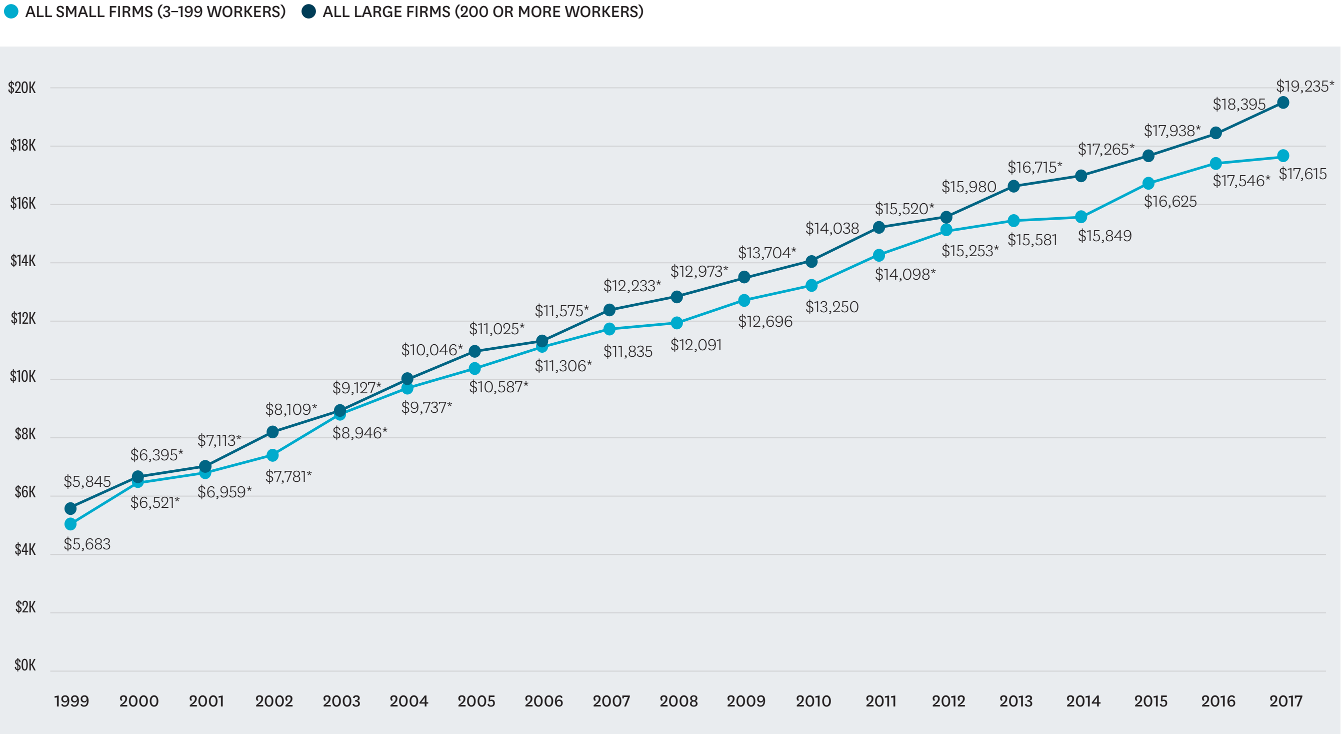
HIGHLIGHTS

- Employers pay roughly 50% more than Medicare on average—the main reason the U.S. outspends other developed countries on health care.
- A workforce health management system (WHMS) can help you understand how your health care investment is performing and what you can do to improve it.
- Companies must manage their investment in employee health, not just the costs. But leaders at every level must take ownership of the outcomes.

FIGURE 1

THE COST OF EMPLOYER-SPONSORED HEALTH CARE IS GOING UP

Average annual premium for covered workers with family coverage has more than tripled in less than 20 years



SOURCE: KAISER/HRET SURVEY OF EMPLOYER-SPONSORED HEALTH BENEFITS, 1999-2017

**Estimate is statistically different from estimate for the previous year shown (p < .05)*

"A cost is something you want to minimize. With an investment, you want to maximize the utility you get out of it," says Bruce Cozadd, cofounder and CEO of Jazz Pharmaceuticals PLC, a 15-year-old biopharma developer. "We spend not because we have to, but because we want to achieve something with it."

Employee health status and functioning, including chronic illnesses and mental health issues, have a direct impact on job performance and productivity, and hence on output quality, customer satisfaction, profitability, and shareholder value. Statistics from the Centers for Disease Control and Prevention put the cost of productivity losses due to absenteeism alone at $225.8 billion, or $1,685 per employee, per year.[1] If executives everywhere aren't paying attention and recognizing the role their health care investment plays in their overall strategy, they're likely to place themselves at a competitive disadvantage.

Employers' efforts to address this challenge are a logical extension of other organizational commitments to automation and more sophisticated uses of data. Companies have created smarter, more data-driven systems for human resources, compliance and risk management, and customer relationship management in recent years. It's no surprise the C-suite is turning to health benefits.

But to succeed requires a stronger focus on the employee, and particularly on enabling employees to navigate the system easily and effectively. It requires a strategic perspective that's sensitive to the company's ability to attract and retain top-quality employees. Moreover, it requires the ability to gather and break down data to better measure the return on investment (ROI) the company realizes on its health care spend. These responsibilities fall naturally under the wing of three C-suite executives: the CEO, the CFO, and the CHRO.

We spoke to leaders from two publicly traded companies, Cloudera and Jazz Pharmaceuticals, and one private company, Patagonia, to find out how these top executives think about employee health care and what questions they consider in managing their investment.

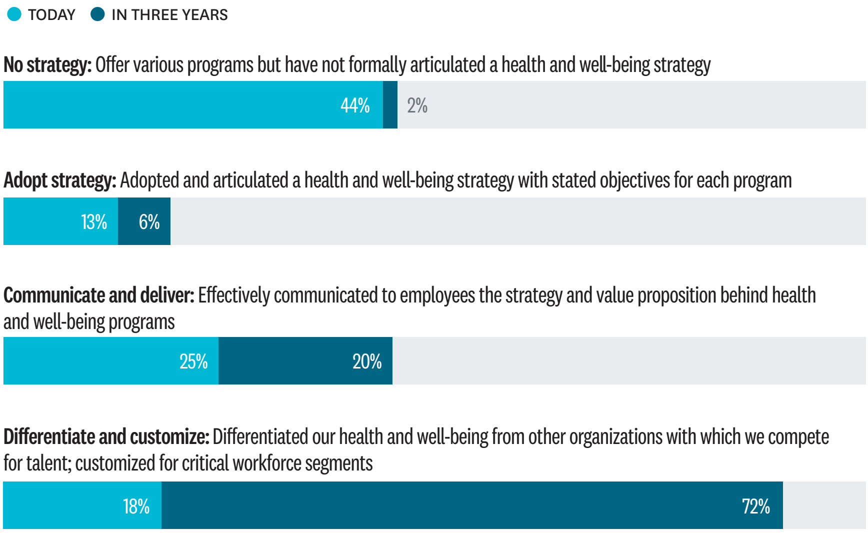
The CEO: Focusing on Strategy

In a 2017 Willis Towers Watson survey, 72% of respondents said their company will be differentiating its health care program from its competitors' by customizing it by key workforce segments over the next three years. In other words, respondents regard a customized health care program as an imperative, if not a competitive, advantage for talent attraction and retention. FIGURE 2

FIGURE 2

A CUSTOMIZED HEALTH CARE PROGRAM IS IMPERATIVE

Customizing the plan by key workforce segments will be a growing trend over the next three years.



Sample: Companies with 1,000-plus employees

SOURCE: 22ND ANNUAL WILLIS TOWERS WATSON BEST PRACTICES IN HEALTH CARE EMPLOYER SURVEY, 2017

"The attitude of the C-suite toward its health care expenses will directly drive a lot of the effort to improve the ROI of health benefits," says Jazz Pharma's Cozadd. But it must also include increasing employee and dependent engagement in health care and decision making, as well as help plan members understand the cost of care at various access points. This requires a clear strategy for creating a "culture of health," which 70% of employers counted as important or very important over the next five years in a recent Mercer survey. Since the CEO is accountable for the company's strategy, including its approach to hiring and retaining top-quality employees, creating a culture of health is also part of the top officer's responsibility. FIGURE 3

A workforce health management system (WHMS)—a platform that simplifies all of the company's health benefits administration and connects all of the disparate pieces for employees—can help companies understand how their health care investment is performing and what they can do to improve it. For years, Cloudera, a Silicon Valley company that provides a software platform for data engineering, analytics, and other uses, purchased health care insurance from a broker as part of a pool. About six years ago, when it only had 300 employees, it began looking for alternatives. Three years ago, now with some 1,600 employees, it self-insured and implemented a WHMS.

Since then, the company has instituted a range of wellness programs, including health club memberships, flu shots for employees and their families, and a telemedicine service—even healthy snacks in offices. Among the crucial functions its WHMS performs is enabling Cloudera to collect and analyze data on its health care costs and patterns of usage, which, in turn, helps it better evaluate its carriers and providers.

At Patagonia Inc., the outdoor clothing and gear designer, leadership prioritizes reduction of "upstream" factors like stress and lack of downtime as critical factors in creating its health culture. "A lot of companies look for ways to shift costs to employees,"

70% OF EMPLOYERS COUNT A "CULTURE OF HEALTH" AS IMPORTANT OR VERY IMPORTANT OVER THE NEXT FIVE YEARS.

observes Dean Carter, head of shared services at Patagonia, whose purview includes HR, finance, and legal and who was formerly CHRO at Sears, Roebuck and Co. “Our founders believe that no employee should have to worry about health care.”

Citing a finding by Jeffrey Pfeffer, professor of organizational behavior at the Stanford Graduate School of Business, job stress costs U.S. employers more than $300 billion a year.[2] Carter argues that companies too often regard employee health as a “P&L item.” They prioritize downstream aspects of health coverage, such as details involving plan design and the number of visits employees make to doctors’ offices and emergency rooms, rather than “upstream” elements of the job and workplace—like stress—over which they have more direct control.

One of the most important benefits of working at Patagonia, Carter says, is child care on-site, plus up to 16 weeks of paid maternity leave and a range of disease management programs for diabetes and other ailments. “It goes back to our belief that work and family and play should be as integrated as possible,” he says. The result is not just declining health care costs but a more efficient workforce. Patagonia reports a turnover rate across the company that’s half the industry average, and nearly 100% of women return to the job after maternity leave, against an industry average of 70%. What’s more, the company’s overall health care costs are regularly below the national average.

Additionally, at its Ventura, California, headquarters, the company instituted a “9-80” work schedule a couple of years ago, which provides employees with 26 three-day weekends a year, affording them more time for their family and personal lives. “That’s had more impact on health and wellness than anything else I’ve seen,” Carter says. A no-meetings-over-lunch rule also helps relieve stress. “I get a lot of calls about ‘wellness programs,’” Carter adds, “but our culture is the wellness program, not something separate we would outsource or gamify.”

Still, not every element of employee health can be dealt with by addressing upstream factors. Technological solutions exist to give employees better access to health care and to better direct them when a problem arises, and a company doesn’t have to be Amazon-size to implement the solutions.

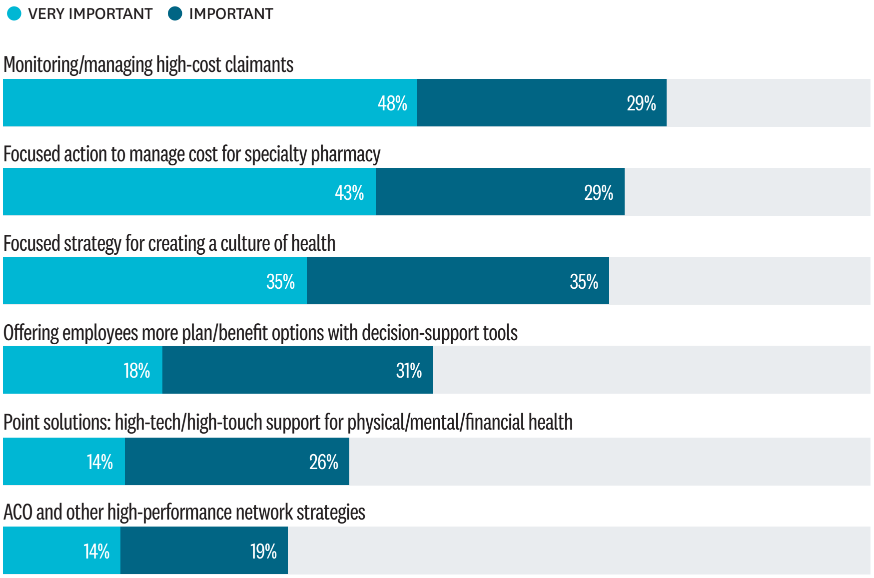
The array of medical services available digitally is constantly expanding through phones, mobile apps, websites, and other virtual hubs, not to mention social networks and wearables that enable employees to track their vital statistics in real time.

Meanwhile, machine learning can harness electronic health records and claims information, among other data, to give recommendations to patients as to which drugs, procedures, and doctors best fit their needs. This could lower readmissions and unnecessary testing, improving the patient experience and lowering costs. Amazon-Berkshire-Chase—an online mega retailer, an insurer, and a banking and financial services company—reportedly saw their possession of enormous troves of data

FIGURE 3

CREATING A CULTURE OF HEALTH

Percentage ranking key strategy for large employers over the next five years



SOURCE: MERCER 2017 NATIONAL SURVEY OF EMPLOYER-SPONSORED HEALTH PLANS on how consumers make decisions as the key to simplifying care. The initial objective of the joint venture will be to use "technology solutions" to provide employees and their families with "simplified, high-quality and transparent health care at a reasonable cost," the three companies stated when announcing the venture.

The four main questions for a CEO to consider are:

- Am I applying the same strategic rigor to my health care strategy as I do to other parts of the business?
- Am I building and promoting a culture of health?
- Does my health care strategy address upstream as well as downstream factors?
- Is my health care investment a stated C-suite priority?

"We're also **competing against** some very attractive, well-regarded companies. We balance that by delivering a very **competitive benefit structure**," says Cloudera CFO Jim Frankola.

The CFO: Focusing on Data

Reliable data and the ability to analyze it enable the company to better measure the ROI of its health care investment. This is the domain of the CFO.

"We're fighting a rising tide of health care costs every year," says Cloudera CFO Jim Frankola. "We're also competing against some very attractive, well-regarded companies. We balance that by delivering a very competitive benefit structure." This is what makes actionable data an imperative at Cloudera.

"From the beginning, we wanted a data-driven approach," says Frankola, "because for a company our size to do this ourselves, we needed our partners to get their heads around the information." Cloudera's quantitative approach was shaped to some extent by the observations of other companies, which were able to identify a handful of conditions—obesity and smoking, for example—that account for the bulk of their health care costs.

"Data is critical for understanding and managing health care costs at Cloudera," says Frankola. "For example, we noticed a negative trend related to prescription adherence for maintenance medications. As a result, we implemented a program that allows more flexibility for employees to get their maintenance medications—they can have them delivered to their home or pick them up at a local pharmacy."

Once it began applying more detail-oriented metrics to its programs, Cloudera discovered that employees' families were spending at a much higher rate on health care than the employees themselves. The company is now trying to better understand this dynamic to improve the health of dependents and manage those costs.

Jazz Pharma shifted to self-insurance three years ago after it had expanded into a global company with some 1,200 employees. One motivator was to get a more accurate picture of the cost and effectiveness of its health care benefit offerings. "Now our costs are driven by the actual trends in data, not by an insurer coming in and telling us what our rates will be," says Cozadd. "That gives us a way to think about the problems we're trying to solve." Better data helps Jazz Pharma pick wellness programs that address health conditions that are specific to its employee population.

Metrics like HR-to-employee/worker ratio, HR expense-to-operating expense ratio, and health care spend rate, as well as looking at the annual change in benefits spend and illness-related absences, allow the company to understand the cost of the total resources it devotes to health benefit-related activities. "I'm a hawk on per employee per month [PEPM] costs," says Patagonia's Carter. "That's our key metric."

PEPM includes the entire cost of health care for the employee, including medical claims and prescriptions. Patagonia also tracks participation level, dropout rates and who's dropping out of the plan, and how much people are saving in their health savings accounts (HSAs). The company has been deriving important information on employee satisfaction in every part of its operations for the past three years by participating in the Great Place to Work (GPTW) survey, Carter says. Patagonia indexes significantly higher than the top 100 "best of the best" GPTW companies on such statements as "We have special and unique benefits here," "People are encouraged to balance their work life and their personal life," and "This is a psychologically and emotionally healthy place to work."

"I'm knee-deep in data," Carter says, "but it's more about employees getting what they expected from the plan."

Detailed, reliable metrics, in turn, help make the C-suite more sensitive to the impact of a less efficient health benefits system on productivity. For example, collecting data on the amount of time your HR team spends on the phone with insurance companies is vital. Executives need to attend to the problems created by a still largely manual system when errors are input, and they should be cognizant of the time absorbed when the finance function and employee-claimants themselves have to respond.

But if they are going to help corporate leaders alleviate these problems, the metrics a company uses should be closely tied to the objectives of

"We use technology to **improve the employee experience**, to make sure you understand what your options are, and to have a single point of control to **move through the maze of information** easily," says Cozadd.

its strategic plan. For instance, if performance depends a great deal on employees' cognitive skills, mental health and stress measures may be critical.

Whatever the combination, all metrics must be applied consistently and reliably throughout the company over time. Pay attention to the components. It's important that a measure of total medical treatment spending combine routine office visits, screenings, and preventive care with effective and ineffective treatments for illnesses and injuries of varying severity, or else the employer may miss some important contributors to rising costs—and miss out on detecting opportunities to bring them down.

"Seeing these conditions in our data helps us to understand and target the broad health trends among our employees," says Cozadd, who goes on to note that, by leveraging data it collects on employee use and satisfaction with programs that address these trends, Jazz Pharma hopes to persuade more of its workforce to sign up.

The four main questions for a CFO to consider are:

- Am I tracking metrics to inform and improve our health care strategy?
- Are my metrics tied to corporate objectives?
- Am I applying those metrics consistently and reliably across the organization?
- Am I examining new strategies and approaches to help synthesize the data available to me?

The CHRO: Helping Employees Navigate the System

Human resources and the CHRO have direct control of the company's health plan and, therefore, are responsible for how employees use it. Question is, are they using the elements of the plan effectively?

Both Jazz Pharma and Cloudera have invested in a WHMS, considering it especially important that employees be able to use the system as effectively and with as little stress as possible.

"Navigation is very central for me," says Cozadd. "We use technology to improve the employee experience, to make sure you understand what your options are, and to have a single point of control to move through the maze of information easily." Jazz Pharma began using a WHMS two years ago to help employees navigate all of their health benefits, from finding a doctor to getting a second opinion to looking up a claim. The emphasis is on getting care for employees efficiently, rather than minimizing their use of the health care system or the costs associated with it.

"It's how we provide value to you as the employee: getting care as quickly and painlessly as possible," says Cozadd. "Otherwise, we have employees complaining that they couldn't get a lifesaving treatment for their daughter, even though it's covered, and about how much work time they wasted trying to get care."

Guiding the employee efficiently through the often-tangled web of providers and gatekeepers can improve the quality of care itself, notes Joshua Freund, senior manager of health and well-being at Jazz Pharma. "Just the process of scheduling an appointment can introduce a delay that has a health care consequence," he says.

Telemedicine can be a great way not just to lower the cost of care but to streamline navigation, he says, because many minor conditions can be addressed via a phone call or electronic messaging without a doctor's visit. At the same time, by making contact with the provider less complicated, telemedicine encourages the employee to get in touch earlier, shifting the center of gravity to early or preventive measures rather than late response.

Cloudera is still in the early stages of this evolution, collecting data to measure total health care spending, the number of procedures carried out by class, and consumption of prescription medication while also establishing internal benchmarks. "But we've started to execute the vision," says Frankola. "The vision is to improve the health of our employees and their families. It's a win-win. It's good for our employees and it's good for Cloudera."

Transparency of costs is critical in this whole scenario, because breaking down cost data and making it more available to employees could help them be better consumers—and save money both for them and the company. However, "costs are not transparent at all and are incredibly complex to understand," says Carter. "How can your employees be good consumers if they don't know the price of what you're providing? But this isn't something providers are interested in, and we haven't seen big interest from the health care system itself."

Says Frankola: "We have an enormous segment of the economy where people are making purchasing decisions flying blind. How do you free information trapped in data silos that can help me, Cloudera employees, and our principals make better decisions? That's the challenge."

The answer will have to come largely from the health care industry, rather than from employers, but Carter is hopeful. "I think the industry is on the cusp of some better tools for transparency," he says, "but we still have a long way to go. Health care needs to address this."

The four main questions for a CHRO to consider are:

- Have I embraced workforce health as a core aspect of my human capital strategy?
- Are my employee health benefit processes geared to getting employees healthy—not just reducing costs?
- Am I implementing technology solutions to help my employees better navigate the system and get care quickly and with minimal hassle?
- Am I holding our program accountable to metrics my business counterparts understand?

An Enterprise-wide Project

Treating health care as an investment rather than a cost need not raise the medical bill for employers. Since Cloudera began implementing its WHMS and other changes to its health care benefits delivery system three years ago, "we have managed down the rate of increase in costs," says Frankola. "We attribute this to a couple of factors, including better tools and resources to help employees make smarter health care decisions and better management of chronic conditions."

However, any comprehensive approach that addresses multiple risk factors and health conditions at once will affect multiple levels of the organization. Therefore, improving health benefits must be an enterprise-wide project. Every business leader needs to offer his or her input and must be accountable for his or her share of the company's health care investment.

It's then up to the C-suite to design and implement the strategy itself. The first step is setting business goals that incorporate your employee health care goals. Here leadership must make sure the company addresses all the factors that influence employee health.

The company then must identify technological and organizational barriers to achieving business goals, which involves checking that all levels

TREATING HEALTH CARE AS AN INVESTMENT RATHER THAN A COST NEED NOT RAISE THE MEDICAL BILL FOR EMPLOYERS.

EVERY ORGANIZATION SHOULD BE CONCERNED ABOUT THE CONSEQUENCES OF UNDERESTIMATING THE ROLE ITS HEALTH CARE PLANNING PLAYS IN ITS OVERALL STRATEGY.

of leadership are involved, including the C-suite. The CFO is a key player in this process. Frankola at Cloudera and Carter are point people at their respective companies, but other corporations have hired executives specifically to manage their health care effort as an investment—as Jazz Pharma did when it hired Freund six years ago. "One way to get the C-suite more involved is to hire someone like Josh, who is focused on this goal," says Cozadd.

Whoever is manning the controls, what's vital is to look for approaches and solutions that enable the company to meet its business goals when it comes to its health care strategy. Keep in mind that every corporate culture is different; what works well in one industry may be seen as coercive in another. "In technology, you don't force people to give up their bad habits," says Frankola. "You try not to be Big Brother. You incent them to switch to good behaviors."

The same belief holds at Patagonia. "We have faith in emerging tools that can help our employees to make better decisions—but in an easy way," says Carter. "We're not using Fitbit, and we're not requiring people to fill out health questionnaires. At Patagonia, that would never fly. People here are more engaged if they're managing their own health rather than the company managing it."

Moreover, if a company is going to use metrics, then it has to be accountable to them. Incorporating employee health goals into a company's business plan raises their profile and urgency within the organization. But this emphasis also makes it imperative to be able to rigorously assess outcomes.

The success of a company's health care strategy will depend on how well the program is designed, implemented, and evaluated, and how fully the C-suite embraces and champions it at each of these stages.

Getting Strategic

Employers need to realize that while they've long paid the bills, the health care system has long played them. It's time to reverse that dynamic.

The company must manage its investment in employee health, not just the costs. But that works only if leaders at every level take ownership of the outcomes.

The benefits team is a stakeholder, but not the sole owner. A corporation's CHRO must embrace workforce health as a core aspect of human capital strategy. The CFO must be held accountable for the effectiveness of the company's massive investment in health care, and must understand that burden, just as the CEO needs to comprehend how the rigor applied to health care strategy can contribute as much to earnings per share as any other corporate initiative.

Many of the nation's most innovative employers have awakened to this reality. According to Willis Towers Watson, 96% of companies plan to enhance their employees' experience with their health and well-being program over the next three years.

But this only highlights the need to take a strategic approach, and any game plan here means treating employee health as an indicator of future business performance, not just a cost driver. Given the cost in productivity, every organization should be concerned about the consequences of underestimating the role its health care planning plays in its overall strategy.

1 Centers for Disease Control and Prevention. businesspulse, January 2015. https://www.cdcfoundation.org/businesspulse/healthy-workforce.

2 Jeffrey Pfeffer, *Dying for a Paycheck: How Modern Management Harms Employee Health and Company Performance—and What We Can Do About It* (New York: HarperCollins, 2018).

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