How HR Tries to Contain Health Care Costs:

One Tweak at a Time

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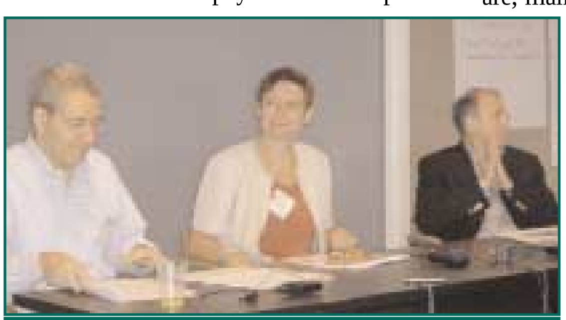
*The following article is based on a panel presentation at the July 30, 2004 meeting of the HR Network at the Marsh headquarters in Manhattan. The network is co-sponsored by Marsh and the Five O'Clock Club, and is a venue for HR professionals to meet informally and hear discussions of important issues of the day. The panelists on July 30th were **Harry Spencer**, VP, Global Benefits and HR Operations for Time Warner; **Harry Glantz**, SVP, Human Resources of Atari, Inc.; **Dave Rahill**, head of the Health Care and Group Benefits practice at Mercer's Northeast Unit; and **Joan Smyth**, EMS Sales Leader at Marsh USA.*

According to Mark Twain, there are two things you never want to watch being made: sausage and legislation. Anyone who has bothered to watch the history of health care legislation in America would say how true—it's not been a pretty picture. The efforts over the years to implement universal health care have been thwarted by a complex mix of politics, protectionism, greed and fear. Insurers, providers and other special interests have been on guard to preserve cash flow and turf, producing a health-care stalemate.

As a result, by default, we still have an *employment-based system:* you and your boss are paying for it. Thus, if you don't have a job, if you don't quality for Medicare or Medicaid—and if you don't have a rich uncle to pay the obscene premiums to self-insure—you don't have health care coverage. This is the reality for than 40 million people in the U.S. today.



Panelists Harry Spencer, Joan Smyth, and Harry Glantz offered tips on containing health care costs.

Companies need to get the biggest bang for the buck—and make sure that employees are protected.

Therefore, American employers shoulder the burden of arranging health care insurance for our citizens: the negotiating, purchasing, and expense—everything. As health care costs have climbed alarmingly, and as hiring managers grapple with the need to remain competitive in attracting new talent, this burden has had an increasing impact on the bottom line. Health care has been taking a bigger and bigger bite out of profitability—and is thus putting pressure on everyone to find ways to keep costs in check. How can we get the biggest bang for the buck—and make sure that employees are protected and well cared for?

If you want to sympathize with your CFO and benefits manager as they struggle with this task, just remember what it's like when you try to cut costs from your family budget—the parallels are striking.

Economizing may sound like a great idea, but a line-by-line analysis of your expenses brings you face-to-face with reality. The rent or the mortgage must be paid, car payments can't be skipped—and, chances are, maintaining the car will cost more this year. All of your insurance premiums come along monthly or quarterly. Can you cut back on groceries? Not likely. Do you really want to ask your kids to give up dance lessons or the Scouts? Maybe you could stop going to the movies—the cost of an evening at the local Cineplex has gone up as much as health care has!

The point is, for either the family or corporate budget, there may be very few options, there are no simple answers and there are frequently hard choices. Especially in the complex world of employer-purchased health care, the variables are enormous, and the lessons learned in large companies may not apply to small companies—even the *kinds of business* being done impact health care choices: for example, the needs and attitudes of engineers differ from those of workers in the media and entertainment industry. Eavesdrop for just a few minutes on a group of benefits specialists brainstorming these issues, and you get the sense that a combined tightrope / juggling act is under way.

However, while there aren't many simple one-size-fits-all solutions, in recent years a few lessons have emerged from the battle to slay the cost dragon. We're not even sure that the dragon can be tamed, but a lot of effort by conscientious CFOs, HR managers and benefits experts does seem to have some payoff.

When benefits specialists brainstorm these issues, they try to walk a tightrope and juggle at the same time.

HR Must Shop Well, Be Tough, Stay Lean—and Monitor Everything

It's advisable to get as many minds as possible working on the menu of benefits and vendor selection. This may mean calling in consultants or, for large companies, relying on a benefits council made up of HR managers from different divisions, as well as key benefits and compensation officers. The more collaboration the better, so that all of the health care options and programs can be put under the microscope. HR must never abandon the consumer mentality: grill the vendor's representatives and be sure that all the fine print is thoroughly explored and vetted. There is no

Harry Spencer, VP, Global Benefits and HR Operations,Time Warner, uses humor to clarify his message.

prize for timidity is this game; get used to a tough negotiating posture. One senior HR officer points out: "I only *start* negotiating at the third meeting. We say, 'Come back with something reasonable. We're not paying for this. What can you do if you want to keep us?'" Even small variations or adjustments that emerge here and there from hard-nosed analysis can save money, especially in large companies with widely dispersed and varying demographics. The benefits council serves as an on-going watch-dog function, since health care programs, costs and options must be subject to continual review.

HR should keep a few fundamentals in mind:

1. Don't try to be the first kid on the block with the latest new thing in benefits. In many settings, of course, thinking outside the box may be considered a virtue, but with health-care programs, it might be costly if it means experimentation. You want to follow proven trends, not fads, because you want to adopt programs that will be good for the long haul. So watch carefully how innovative ideas and experiments actually play out with the companies that give them a try. You may be glad that you held back. One HR authority states the case forcefully: "We are not looking to be on the cutting edge of any new benefit. We only implement programs that have been proven successful. Then we do everything we can to make them more successful, and as economically as possible."

Key points on containing healthcare costs were discussed by Harry Glantz, SVP of Human Resources, Atari.

2. Leverage size for buying power. If you are in a big corporation, you have more clout with vendors to get the menu of benefits you need and the best deals. Don't be afraid to change vendors—or at least make noise about changing vendors. Actually doing this represents a major challenge (and headache), but companies have hesitated only slightly to do this if the long-range advantages are obvious. If you have far-flung operations, choosing the vendors with wide geographic reach can help to reduce your own costs.

HR wants to follow proven trends, not fads, and adopt programs that will be good for the long haul.

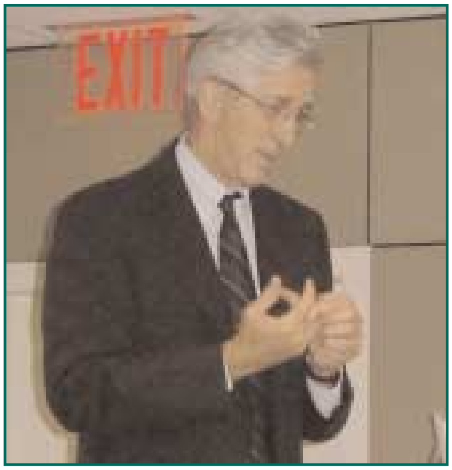
3. Run a tight ship. We live in an age of consultants, outsourcing and web-dispersed information. Accordingly, make a careful analysis of how you can best administer benefits; reducing the in-house headcount can make a difference.

HR grills the vendors, exploring the fine points. No timidity is allowed.

4. Track your benefits costs diligently. There's probably not a department manager alive who hasn't gotten the shock of her life when she found out how much was spent during the previous quarter on this or that widget. And then it takes a lot of research to find out what went wrong and who was to blame.

"Yes, we do have health benefits, but read the fine print. You're only allowed to get sick once every three years."

Health care costs perhaps represent the ultimate headache. Based on prior experience you may be able to make reasonable projections, but your interests are best served by monitoring everything. This includes employee demographics, *e.g.*, age and marital status of new hires, how many have children—and how the overall company profile is changing in this respect. It also includes tracking claims activity. "We watch it daily," one HR officer says. "Are the claims going up? Are they staying where they're supposed to be?" It's also helpful to track benefits costs *per employee*—not just the overall increases per year. This provides a truer, clearly picture of how programs are performing.



Doctor Scorecards from Dave Rahill, Head of the Health Care and Group Benefits Practice, Mercer.

Educate and Communicate: the Need to Innovate

One HR officer is fond of telling employees, "You know more about your car insurance than you do about your health insurance." We all know that nobody reads insurance policies. The big fat envelope of information about benefits and health insurance usually goes to the bottom of the pile, or right into the file—and not on the bedside stand for late-night study.

Positive, upbeat and gregarious employees can help spread the word about new healthcare benefits.

What this means is that the written word—at least in the form of dense benefits manuals—is not an effective communicator. But ignorance can be costly. Management must deal with this reality and be innovative and proactive in communicating information about benefits and health care. The first step in such a campaign is the education of the HR staff as a whole. That is, it's best not to assume that the burden falls on just the benefits personnel alone. You could say it's poor form, from an educational and public relations point of view, for anyone in the HR department to plead ignorance about benefits and insurance. When the entire HR team is trained for benefits enrollment, and can field most questions, one hurdle in the education process has been cleared.

More employers are putting healthcare information on their websites. People can click on boxes that explain each program, and it's easy to access cost information.

It appears to be true that costs are easier to control when people know what things cost—and how much is being paid by whom. "If I were to point to one thing that people tell me they like," one HR officer notes, "it's that we make it clear what we offer and what it costs us and costs them." One company was able to increase 401K enrollment among lower paid employees—18% in one year—by explaining the program clearly. This may sound simple, but it wasn't immediately obvious. HR used focus groups to get to the bottom of the problem: "We found it wasn't so much cost as communication that was impeding enrollment. People didn't understand. So we made it simple and actionable. We held seminars and provided clear information—then word of mouth helped even more."

In fact, word of mouth can be a powerful tool, especially if entrusted to the right people. One HR officer puts special effort into *educating influencers* about new benefits and programs. That is, she chooses the most positive, upbeat and gregarious employees. Once she has them on board, they prove to be powerful evangelists among the rank and file. In fact, any kind of conversation is likely to be productive, such as "Lunch and Learn" seminars launched by one firm.

Doctor Scorecards rate doctors the way Zagat's rates restaurants. There are bad doctors as well as good ones, and they can be rated in a variety of ways.

However, with every passing year, the communication medium of choice increasingly will be the computer, which will, in fact, revolutionize benefits education and engagement. It will hasten the era of obsolesce for bulky manuals and paper memos. In a world where grade-schoolers are issued PDAs as standard school equipment, computer reluctance will become a thing of the past in the workplace; managers will no longer wonder if any employees will be left behind. "We changed a few years ago to on-line enrollment," one HR officer points out. "Our people are very used to using the Internet, so this went over very well. Not only was it popular, but it also cut down on administration. We don't do a lot of sending out of materials. Our new hires love it." Spouses gain from online access as well, since they aren't inclined to read manuals either, and can explore the website from home.

One great advantage of computer enrollment is that websites can be made

Interest by HR professionals in containing benefits' costs produced an overflowing meeting.

highly interactive, so that employees become more engaged as they explore benefits and options. As one benefits specialist explains: "The way our website is designed, people have to click on boxes that explain programs, and it's very easy to access cost information: 'Here's what you're paying and here's what the company is paying'—with a calculator popping up to do the math. We've had great response. People say, 'Gee, it costs this much? We should be paying more attention.'"

Developing the Discriminating Medical Customer

To most of us the term "second opinion" means asking for input from another doctor. But unless we face major surgery or a life and death situation, we tend not to go out of our way for the other opinion. And we seldom do even deeper research. Since we all grow up trusting doctors—who can indeed be intimidating authority figures—it seems almost an affront to ask, "Just how good is this doctor? What is his/her track record?" Hence a tradition of non-accountability has grown up in the medical establishment.

Ironically, of course, close scrutiny is standard operating procedure when we shop for almost anything else, such as restaurants (tool: *Zagat's*), hair dryers, lawn mowers, cars, floor wax (tool: *Consumer Reports*), or books (tool: all those Amazon.com book reviews). But there are bad doctors as well as good doctors, bad hospitals and good hospitals—and they call can be rated in a variety of ways.

An occasional magazine article (such as, "The Best Doctors in New York," which appears periodically in *New York Magazine*) or word of mouth ("my sister-in-law works at the hospital") aren't really the tools we need. And it is no surprise that insurance companies are now leading the way in developing doctor score cards to hold the medical professional accountable. On project under way involves many insurance companies pooling data to rate the quality and efficiency of doctors and hospitals. Medical researchers from around the country were enlisted to review 300 separate criteria for measurement; from this, a smaller set emerged that allows assessment based on claims data. The ideal ultimately, of course, is the development of websites that will allow consumers to look up doctors and hospitals, and find out how good they are. In this era of rampant run-away expenses, accountability can play a role in raising quality and reducing costs.

The Five O'Clock Club's Chief Operating Officer, Richard Bayer, and the Club's Head of Administration, Angie Cayo, garnered tips useful to Club members.

We're All in this Together

On the assumption that the Federal government will not take responsibility for universal healthcare anytime soon, all of the traditional players in the complex game that has evolved over the last few decades need to pay more attention—and get better at what they do. Doctor accountability can mean that people will stay healthier, and get better treatment when they're sick. Insurers must come to terms with purchasers who are fanatically devoted to watching the bottom line and want responsible pricing. Employees—the consumers for whom all this effort is expended—can get used to the idea that they need to be much more involved in the process and make informed decisions. As one benefits specialist states the case: "It shouldn't be employers vs. employees vs. health plans. We're not going to have any employment-sponsored health care system if we don't pull together to make everything work." ●

The Job-Search Buddy System

Do you wish you had someone to talk to—fairly often and informally—about the little things? "Here's what I'm planning to do today in my search? What are *you* planning to do? Let's talk tomorrow to make sure we've done it." You and your job-search buddy could keep each other positive and on track, and encourage each other to do what you told the small group you were going to do: Make that call, send out those letters, write that follow-up proposal, focus on the most important things that should be done—rather than (for example) spending endless hours responding to job postings on the Web.

With your buddy, practice your Two-Minute Pitch, get ready for interviews, bounce ideas off each other. Some job-search buddies talk every day. Some talk a few times a week. Most of the conversation is by phone and e-mail.

Sometimes, people match themselves up as buddies. Just pick someone you get along with in your small group. Sometimes, your coach can match you up. However you do it, stay away from negative people who talk about how bad it is out there. They will drag you down.

The small group changes over time: people get jobs; new people come in. If you lose one buddy who got a job, get another buddy.

Your buddy does not have to be in your field or industry. In fact, being in the same field or industry could keep you focused on the industry rather than on the *process*. But you *do* have to get along! The relationship may last only a month or two, or go on for years. Some buddies become friends.

Of course, you should see your Five O'Clock Club career coach *privately* for résumé review, target development, salary negotiation, and job interview follow-up. It's usually best to get professional coaching advice for these areas. ●