

HEALTHCARE'S C-SUITE SOLUTION



HOW SAVVY BUSINESS LEADERS ARE
REFORMING THE U.S. HEALTHCARE SYSTEM
ONE COMPANY AT A TIME

FEATURING

ANTIONE TURNER

WITH OTHER NEXTGEN HEALTHCARE ADVISERS
AND LEADING BUSINESS CONSULTANTS



Using The Value Acceleration Methodology to Rein in Healthcare Costs and Build Enterprise Value

by Antione T. Turner, RFC, CEPA®

TODAY BUSINESSES OPERATE IN a highly volatile environment and face unprecedented challenges related to labor, skyrocketing healthcare costs, inflation and interest rates, supply chain and geopolitical issues, pandemics, and global disputes. This perfect storm puts the profitability and growth potential of all but the most resilient and wisely managed companies at risk. Without proper guidance and know-how to uncover the key business elements and risk lurking in your business, many business owners may experience profit gaps, wealth gaps and value gaps that can have long-term consequences for them, their families, their employees and even their communities.

The COVID-19 pandemic also reminds us that our lives, businesses, teams, clients, and health can change at a moment's notice. The

question for business owners and corporate leaders is: Have you built into your organization (or updated) the mechanisms necessary to protect and build the framework necessary to adapt and grow in the face of future challenges?

To increase business value and minimize risks, I propose that owners use an approach called “The Five Stages of Value Maturity.” Progressing through these five stages (identify, protect, build, harvest, and manage value) equips business owners to position their companies for both annual year-over-year growth and as enterprises which are attractive to prospective buyers.

Through experience as both a business owner and consultant to owners and corporate leaders in a wide variety of industries for more than a decade, I understand the importance of resilience and value growth as we navigate a new business landscape. I’ve leveraged my expertise as a business owner and my experience in the fields of business consulting, benefits strategic planning, insurance risk management, and financial and exit planning to help business owners avoid pitfalls, maximize the value of their businesses, and ensure they are personally and financially prepared for the next chapter of their lives.

The State of Owner Readiness

Let’s begin with a few statistics:

- 80% to 90% of the financial assets of most business owners are tied to their companies.¹
- Small businesses employ almost 50% of American workers and generate 43.5% of America’s GDP.²

1 Exit Planning Institute and BNY Mellon, *The State of Owner Readiness, Benchmarking Lower Middle Market Businesses*, 2017

2 U.S. Chamber of Commerce, *The U.S. Chamber Is a Big Champion for Small Business*, April 27, 2023
<https://www.uschamber.com/small-business/chamber-works-hard-every-day-for-small-business>

- According to many studies, “between 70 and 90 percent of acquisitions fail.”³
- The common element in failed mergers and acquisitions is people: “key people leave, teams don’t get along, or demotivation sets into the company being acquired.”⁴
- Only 34% of respondents to a 2020 survey reported having a “robust, documented, and communicated succession plan in place.”⁵

From these statistics, we know that:

- The value of a business plays a huge role in the financial well-being of owners after they transition their equity to successors.
- Businesses are vitally important to the communities in which they operate and to the economy.
- Transitioning a business to a successor is a high-risk endeavor.
- There’s more to business value and transferability than what we see on a P&L.
- Despite the inevitability, importance to the community, risk, and significance of “intangible assets” (i.e., employees), the majority of owners have not created succession plans.

I cite these statistics to put the review, analysis, and strategic restructuring of one of a company’s largest operating costs—health insurance benefits—into perspective. Benefit strategic planning is one element in 1) building the value of a company’s tangible and intangible assets and 2) preparing companies for a one-day transition that benefits owners, their employees, and their communities.

3 Kenny, Graham, *Don’t Make This Common M&A Mistake*, Harvard Business Review, March 16, 2020

<https://hbr.org/2020/03/dont-make-this-common-ma-mistake>

4 Garrison, David, *Most Mergers Fail Because People Aren’t Boxes*, June 24, 2019
<https://www.forbes.com/sites/forbescoachescouncil/2019/06/24/most-mergers-fail-because-people-arent-boxes/?sh=6ace2ed15277>

5 *PwC’s 2023 US Family Business Survey*, <https://www.pwc.com/us/en/services/trust-solutions/private-company-services/library/family-business-survey.html>

The Benefits of Value Acceleration and Benefit Strategic Planning

The events of the past several years have tested company leaders and, if predictions of a possible recession prove correct, they will face challenges and need new approaches to grow company value and control spending. Leaders who use the Value Acceleration and benefit strategic planning methodologies to uncover obfuscation up and down the company's balance sheet and analyze both tangible and intangible factors position themselves to grow despite strong headwinds and provide their companies with a competitive advantage.

One tangible factor (or expense) that must be analyzed is an organization's employee healthcare spend. Leaders who engage in benefit strategic planning challenge accepted assumptions about healthcare employee benefits and use this type of planning to recapture profit gap, protect, preserve, and free up company cashflow to build enterprise value.

Benefit Strategic Planning Defined

Allow me to define the term "benefit strategic planning":

- Integrates an organization's mission and overall objectives with the management of its human capital.
- Involves identifying an organization's human capital issues and objectives and making decisions and resource allocations related to capital and people that are consistent with its defined objectives.
- Is a management-driven, internally focused, and proactive—rather than reactive—process.
- Generates a written plan that an organization can use to guide its allocation of financial resources.

Minimizing expenses obviously contributes to a stronger bottom line, but benefit strategic planning also nourishes an intangible asset that is critical to business value: human capital. Buyers simply pay more for companies with high-performing management teams that are motivated to stick around after an owner leaves.

With available cash flow, owners can:

- Improve the quality of the people they hire by offering hiring bonuses, increasing wages and/or offering new benefits.
- Motivate key people by implementing incentive programs, such as deferred compensation plans.
- Retain key people by installing plans under which they receive significant payments for staying after an owner leaves.
- Support business continuity by purchasing key person insurance.

I devote the rest of this chapter to illustrating how you can use the value acceleration and benefit strategic planning methodologies to address spiraling healthcare costs, and ultimately, increase your company's tangible and intangible value.

Benefit Strategic Planning and EBITDA

Historically, a budget area that too many C-suite leaders accept as a given or simply do not know how to identify and address obfuscation is the second or third largest operating cost after payroll: health insurance benefits. This expense increases year-over-year, typically at a rate that exceeds the rate of growth in gross revenue, profit margin, and EBITDA (earnings before interest, taxes, depreciation, and amortization).⁶ Unchecked, health care expenses erode all three — a situation that can

⁶ According to Investopedia, EBITDA, or earnings before interest, taxes, depreciation, and amortization, is an alternate measure of profitability to net income. By stripping out the non-cash depreciation and amortization expense as well as taxes and debt costs dependent on the capital structure, EBITDA attempts to represent cash profit generated by the company's operations. <https://www.investopedia.com/terms/e/ebitda.asp>

become unsustainable, especially when companies must reduce operating costs.

The importance of reducing operational costs affects not only budgeting but corporate finance and company valuation as well. If EBITDA falls, a company may violate the terms of its financing agreements. For example, if the terms of a loan stipulate a 5.0 Debt-to-EBITDA ratio, and a company fails to meet that requirement, a bank could call the loan. In terms of valuation, healthy EBITDA matters to current and potential investors and, most of all, an owner's profit upon exit.

Healthcare Costs Under the Microscope

In the typical health plan renewal situation, most employers operate in *reactive* mode. They wait for the arrival of the group health insurance renewal, experience “sticker shock,” reluctantly share the financial impact with the senior management team, and once again realize that it's too late to do anything about it.

That scenario is not surprising when one considers that the primary concern of CEOs and C-suite leaders is to increase the value of a company. They logically assume that their company's benefits package will help build value by attracting and retaining talented employees. Unfortunately, this major capital allocation is rarely scrutinized or managed by executives directly responsible for a company's P&L or expected to fulfill any other objective.

An Initial Self-Assessment

When I begin to work with C-suite executives to describe the value of integrating a company's benefit program into its other strategic objectives, I ask whether they (or any members of the company's executive team or current benefits broker) have considered these elements of health insurance:

- How does the company currently manage its health benefits expenditure given constant changes in governmental regulations, court rulings, and insurance company business practices?⁷
- What is the organization doing to prevent fraudulent claims?⁸
- Can you describe your organization's human capital management priorities?
- What role does the benefits program play in achieving these priorities?
- How does your organization maximize the use of benefits programs to:
 - Attract and retain talented employees?
 - Support business continuity?
 - Support an owner's successful business exit?
 - Increase business value?
- What goals do you expect the benefits program to achieve in the next three to five years?

Executives can readily describe their company's most important business goals, revenue and expense forecasts, major challenges, and contingency plans. It's rare, however, for them to tell me how their benefit strategic plan supports their enterprise strategic or continuity plans, much less the owners' personal exit planning goals and objectives.

7 For example, the Mental Health Parity Act (of 1996) was updated to require plans to conduct and document a comparison of the treatment limitations applicable to benefits for mental health and substance use disorders to the treatment limitations applicable to medical and surgical benefits. The U.S. Department of Labor is conducting audits of plans' Mental Health Parity Analysis.

8 In *The CEO's Guide to Restoring America*, Sean Shantzen observes that "most employers are doing little or nothing to prevent fraud because they typically aren't aware of its extent or that it's even happening. *The Economist* has reported that fraudulent health care claims alone consume \$272 billion of spending each year across both private plans and public programs . . ." (p. 177)

The Purpose of a Benefit Strategic Plan

A well-designed benefit strategic plan achieves several important goals:

- It ensures a strategic, financial approach to a company's health-care spending.
- It can enable an organization to provide better benefits at a lower cost (e.g., 20% to 40% less) than competitors.
- It aligns a company's total compensation philosophy with its strategic business objectives without a major adjustment to policies, processes, or culture.
- It enables companies to offer benefits that attract and retain a workforce.
- It can free up resources to dedicate to a variety of initiatives.

The Characteristics of a Benefit Strategic Plan

Compensation systems are made up of some combination of wages or salary, current incentives (such as current cash bonuses and company stock bonuses), and other benefits such as paid time off. The best ones meet the needs and desires of employees and are consistent with the company's compensation philosophy.

A strategic benefit plan goes beyond these elements because it is designed within the context of a company's broader strategic goals. That's a lot to expect, but we create these plans every day for the benefit of a company's employees, ownership, and bottom line.

A Benefit Strategic Plan: Step by Step

With answers to the assessment questions outlined previously in this article, a skilled benefit strategy consultant can:

- 1) Support the broader strategic goals of the organization.

- 2) Organize an organization's current benefits functional categories of needs or objectives the persons an employer may want to benefit.
- 3) Determine which regulatory requirements and mandatory protections apply to various classes of employees.
- 4) Identify any gaps and/or redundancies in benefits. (Given the number of benefits plans and the lack of coordination among them and absence of careful analysis, gaps and redundancies are common.
- 5) Recommend changes to current benefit and continuity plans to remedy any gaps and/or redundancies.
- 6) Provide estimates of the costs or savings associated with each recommendation.
- 7) Recommend other cost-saving and cost-containment strategies for existing and recommended benefit.
- 8) Help leaders contribute to the ultimate reform of the U.S. healthcare system.

Follow the Money

Why does an insurance carrier quote one renewal rate (especially to organizations that are not self-insured) yet reduce the rate until the sale is made? Simply because insurance carriers make ten times more profit on premiums from fully insured customers than from self-insured customers. Carriers that have a financial incentive to maintain and grow the number of fully insured customers, in turn, offer several types of incentives to brokers and consultants, including early renewals.

When an insurance carrier, via a broker, provides an incentive for early renewal, there's usually an associated no-shop clause. The pitch usually goes like this: "If we renew today, that 10-\ percent rate increase will drop to 5 percent — assuming we remain with the same carrier."

I doubt that you'd buy a car under these terms, so why would you buy health insurance under the same pressure?

There Is No “We” in the Purchase of Health Insurance

In its April 2023 decision, the United States Court of Appeals for the First Circuit ruled in favor of Blue Cross Blue Shield of Massachusetts (BCBSMA), which had been sued by the Massachusetts Laborers' Health and Welfare Fund for an alleged breach of fiduciary duty under ERISA while serving as third party administrator (TPA) for its health plan.⁹ The ruling rocked the insurance world because the court found that employee health plan sponsors should not expect an insurance company acting as a TPA to serve as a fiduciary because “fiduciary status . . . could *interfere with [the insurance company's] business model.*”¹⁰ [emphasis added]

With this decision, the court destroyed any assumptions about the alignment between an insurance company's and an employer's objectives. Its message to employers was clear: You cannot delegate fiduciary responsibility for the company's healthcare plan to your insurance carrier or even to your TPA. Neither of these parties is required (due to their business models) to serve (much less consider) your company's financial interest.

Proactively Controlling Costs

We examine at least five issues when working to proactively control an organization's spending on health benefits and exert positive for pressure to counteract spiraling healthcare costs:

1. Medical and pharmacy claims data.

⁹ The ruling in *Massachusetts Laborers' Health and Welfare Fund v. Blue Cross Blue Shield of Massachusetts* clarified that there is no “we” in the purchase or renewal of a health insurance plan. <http://media.ca1.uscourts.gov/pdf/opinions/22-1317P-01A.pdf>

¹⁰ *Ibid.* *Massachusetts Laborers' Health and Welfare v. BCBCMA*

2. The diseases/conditions that are the primary drivers of utilization.
3. The employees/dependents who use the benefits.
4. Interventions that can help manage the disease/conditions of the high utilizers.

Strategies that could reduce the frequency and severity of claims

1. Medical and pharmacy claims data

Too often, brokers and the insurance companies deny employers – the *real* payers who foot the healthcare bills—access to its own medical and pharmacy claims data.

That means that executives who use data to manage every other aspect of operations are blind when it comes to the company's second or third largest operating expense. Even when brokers do provide data executives rarely use it to develop a strategy for addressing and reducing cost drivers in the health plan.

2. Diseases/conditions that drive utilization

Sophisticated data analytics can produce tremendous insights into the conditions and diseases that drive utilization and, therefore, cost. But insights are only valuable if used to produce an effective strategy.

For example, if musculoskeletal surgeries are a major cost driver, we might consider incentivizing employees to use high-quality, independent ambulatory surgery centers and high-quality surgeons that “bundle” service fees (e.g., surgeon, anesthesiologist, and facility fees), and any appliances (e.g., plates, screws, artificial implants) for a cash price that can be 40% to 70% less than a hospital charges for the same procedure.

3. The employees/dependents who use the benefits

Statistics indicate that one percent of a medical plan's participants can account for as much as 40% of healthcare spend and 5% of the participants can drive as much as 80%. Using comprehensive claims data an employer can identify these employees or their dependents and offer alternative strategies that can benefit both the patient (employee/dependent) and the employer.

Data might identify high utilizers as a dependent with hemophilia (currently treated with medication costing \$1 million per year), several employees with severe and unmanaged diabetes, and an employee with Stage III cancer undergoing an extremely expensive infusion therapy. There are usually other appropriate interventions available to help individuals manage diseases or conditions that both improve patients' health and quality of life and reduce plan costs. In some cases, other sources of medication can save a plan 60% to 100% and eliminate the patient's out-of-pocket contribution.

4. Interventions that can help manage the disease/conditions of high utilizers

Among others, diabetic employees can be high utilizers of health-care. Companies can consider management programs take a holistic approach to managing the complex challenges of living with diabetes and other chronic diseases. These programs provide clinically trained health advisors who provide employees with personalized care that improves the quality of life and reduces costly visits to emergency rooms and subsequent hospital admissions.

5. Strategies that could reduce the frequency and severity of claims

Health benefit plan costs fall into two buckets, 1) fixed administrative costs, and 2) variable medical and pharmacy claims costs. Administrative costs average 15% to 20% of the total, so 80% to 85% is allocated to paying claims. The only way to meaningfully reduce the cost of a health benefits plan is to reduce the frequency (number) and severity (cost) of claims. Reduce administrative costs by 10%, and the savings equal no more than two percent. Reduce claims costs by 10%, however, and reap an 8% to 8.5% saving.

One of the primary factors in expensive claims is medical complications due to physician error or hospital-borne infection. These can lead to additional treatment and, often, hospital readmission, both of which increase a health plan's costs. One strategy we use to mitigate errors and infections is to give employees information on provider outcomes and encourage them to use these providers (physicians and hospitals). In doing so, we can greatly improve the quality of care they receive and greatly reduce the health plan's costs.

Another item that is both common and responsible for a tremendous number of unnecessary surgeries and treatment is medical misdiagnosis. By preventing unnecessary procedures due to misdiagnoses through independent second opinions, we gain an excellent opportunity to 1) reduce the frequency and severity of medical claims, 2) save patient from unnecessary surgery or treatment, and 3) produce a meaningful and measurable reduction in the company's year-over-year healthcare spending.

Options for Healthcare Savings

As we've illustrated, there are immediate and measurable qualitative benefits to both employers and employees when a benefit strategic plan is in place. But what about the financial benefits? How great are they, and how do companies reallocate them?

Statistics and my experience indicate that saving \$2,000 to \$4,000 per employee per year is not unusual. Multiply the per employee savings by the number of employees and the windfall can be significant. The question for management then becomes: How to do use the funds previously allocated to the health benefits plan?

- The answer can be as simple as earmarking it as free cash flow to supplement EBITDA or as creative as funding growth initiatives.
- Efforts to compete for and retain talent through hiring bonuses, wage increases and deferred compensation plans (for key executives).
- Improvements to or acceleration of an owner's retirement plan.
- Key person insurance as part of business continuity planning.

The Ultimate Goal of a Value Acceleration and Benefit Strategic Plan

By creating a well-designed benefit strategic plan, companies take back control of a significant budget line item. In doing so, they put pressure on the healthcare systems to control costs, improve the quality of health care available to their employees and decrease unnecessary health care spending. They can then reallocate funds to growth, cash flow, building a competitive advantage in talent, business continuity, and/or retirement/exit planning.

All of these—consistent growth, healthy cash flow, business continuity arrangements, and strong competitive advantages (especially in the form of a high-performing workforce)—increase the present and future value of a company. A well-designed benefit strategic plan contributes to enterprise value and plays a critical role in an organization's ability to adapt to future challenges quickly and successfully.

There are many, many benefits to a strategic benefits plan, but at the end of the day, increasing the value of a company for the purpose of protecting its employees, owners and their families, and the communities in which these companies operate is the ultimate reward.

If you'd like to know more about the five-stage process (The Value Acceleration Methodology), I use as a Certified Exit Planning Advisor to help owners minimize risk and protect and increase the value of their companies with an eye on creating a company that is not only currently successful but will also be attractive to one-day buyers please visit my website: <https://cirtletowealth.com>.

Antione T. Turner

Founder & CEO The Circle of Wealth Companies



Antione T. Turner, founder & CEO of The Circle of Wealth Companies, believes that business is a force for good, and focusing on people over profits makes our communities better places for all stakeholders. His multidisciplinary team of experts focuses on growing business value and aligning a business owner’s business, personal, and financial goals. They work to identify and fill the profit, value, and personal wealth gaps that most owners experience.

Turner focuses the attention of owners and executive teams on both generating income and boosting enterprise value. “To rapidly grow and unlock business value in today’s business environment,” Turner argues, “owners and executive teams must use new ways of thinking to identify and assess a company’s current readiness and attractiveness, protect, build and harvest its value, and manage harvested wealth for the next chapter of an owner’s life.”

He shows owners how to unlock the intangible capital that drives business value. By deploying a NextGen benefit strategic planning process and de-risking strategies, Turner has successfully clawed back thousands of health-care spending dollars and redirected them to the benefit of owners and their employees.

To learn more about the best-in-class business practices and value-building strategies that build and preserve family wealth for generations, visit <https://circuitowealth.com>.

CONTACT INFORMATION

antione@totalrewardsagency.com
www.totalrewardsagency.com
www.circuitowealth.com

