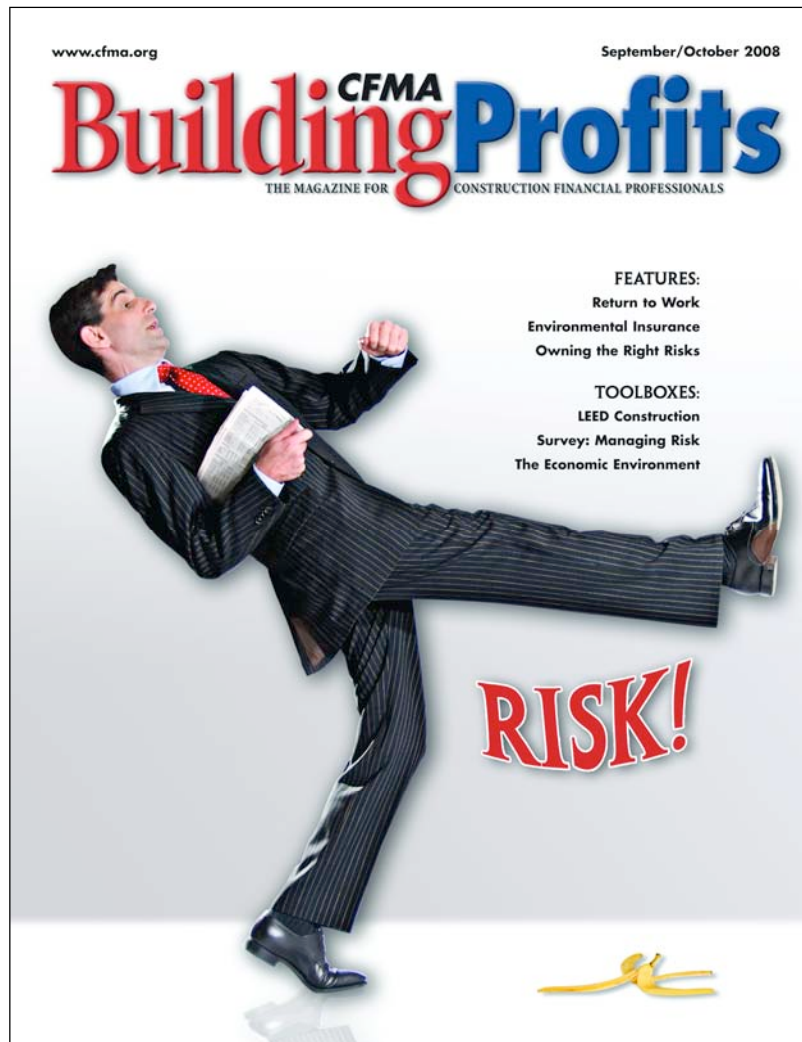


# CFMA Building Profits

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R E P R I N T



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**CONSTRUCTION FINANCIAL MANAGEMENT ASSOCIATION**  
*The Source & Resource for Construction Financial Professionals*

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BY STEVEN J. HEUSSNER

# Risk Management Strategies to Reduce Health Benefit Costs

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Who wants to be responsible for implementing programs and creating incentives designed to change employee behavior in order to lower a company's healthcare liability? Now there's a hot potato!

Today, most people don't believe that "risk management" and "employee health and productivity" belong in the same sentence. Yet, there is a growing consensus in both the business and medical communities that many healthcare claims result from poor lifestyle choices.<sup>1</sup>

The two lifestyle choices that have the greatest impact on claims are poor nutrition and lack of exercise. America pays twice as much per capita for healthcare than any other developed nation because it has twice as many obese people as any other developed nation.

Dee Edington and The University of Michigan Health Management Research Center have been studying the science of employee health and productivity for 30 years. Their research indicates that medical and pharmacy costs are only 25% of a company's total healthcare costs.<sup>2</sup>

Such indirect costs as workers' comp claims, short-term disability (STD), long-term disability (LTD), absenteeism, and "presenteeism" (when an employee goes to work in poor health and/or fitness) account for the remaining 75% of the burden.

## A Typical Healthcare Management Setup

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When I approach a company about managing its employee health and productivity risk, the discussion usually goes something like this:

**Query:** What are you doing now to manage the health and productivity of your workforce?

**CEO:** We have many longtime employees. One of the benefits we provide is a rich healthcare plan.

**Query:** Did you know that your company has experienced double-digit increases in your healthcare costs over the past decade?

**CFO:** Yes, but our HR department handles the benefits.

They control the costs by shopping out our stop-loss insurance every year.

**Query:** If you continue to manage your benefits in the same manner, then why would you expect any thing other than double-digit increases in the future?

**HR:** We really have a great benefits program. The employees love it and they don't want it to change. Besides, our risk management department has never shown any interest in employee benefits, so it must not be important.

**Query:** Did you know that the most successful companies recognize that the health and productivity of their employees is a risk that must be managed?

**RM:** We manage the risk of the company, but HR handles the benefits.

So, the hot potato gets tossed around the circle again and again, from the CEO to CFO to HR to RM. Meanwhile, your company's competitors who recognize this problem are managing their risk and steadily chipping away at your market share. Rising healthcare costs have become their competitive advantage because they are doing something about it and your company isn't.

## Excuses Won't Work

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As Neil Young once said, "Rust never sleeps." Unfortunately, neither does the declining health and productivity of your workforce – unless you decide to do something about it. I've heard all types of excuses:

- "We have a record backlog."
- "We've never been busier."
- "Our employees don't like change."

Guess what? Record backlogs won't last forever and no one really likes change. You, as the CFO, must recognize that this risk exists, and that your company can gain a significant competitive advantage by managing it.



Exhibit 1 summarizes five years' worth of responses to the question of anticipated challenges as asked in CFMA's Construction Industry Annual Financial Survey.

## A Company-Wide Wellness Initiative

Even though CFOs and other upper management executives may recognize the risk, they may not be doing anything about it because: 1) it's not their job, or 2) they don't realize that the risk can be proactively managed.

But the truth is, your company can cultivate a climate that encourages better health among its employees, with an added benefit of reducing healthcare costs.

In order to launch and manage your wellness initiative, you must first understand the variables that influence the risk – high cholesterol, high blood pressure, poor nutrition, a lack of exercise, etc. (See Exhibit 2 for a master list of risk factors.)

### Employee Risk Levels

An employee is considered “low risk” if he or she has 0-2 risk factors, “medium risk” with 3-4 risk factors, and “high risk” with 5 or more risk factors. Research shows that employees with a greater number of risk factors have higher medical claims than those with fewer risk factors. (See Exhibit 3.)

*Your goal:* To have 75% of your employees in the low risk category. If health and fitness haven't been actively promoted in your company, then 25% of your employees are probably in the low risk category – a pretty strong explanation of why your company has been absorbing double-digit increases every year.

Understanding your risk and knowing there is much room for improvement also indicates that you can really make a difference in the lives of your employees and your company's bottom line.

### Data Collection

Your company's employee population is unique. So, when developing specific interventions designed to reduce your company's risk, you must be precise.

*Your goal:* To gather employee health and fitness data so that your company-wide health risks can be collectively identified and, eventually, reduced.

However, due to HIPAA privacy restrictions, you will need

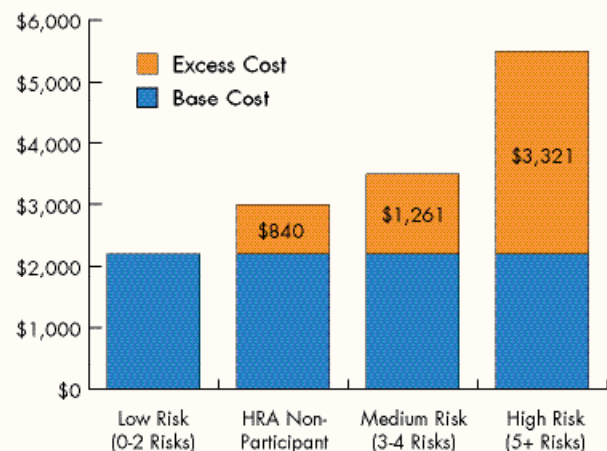
## Exhibit 1: Top Five Challenges

YEAR	#1 CONCERN	#2 CONCERN
2007	Shortage of trained field help (87%)	Healthcare insurance costs (80%)
2006	Shortage of trained field help (85%)	Healthcare insurance costs (80%)
2005	Healthcare insurance costs (71%)	Shortage of trained field help (66%)
2004	Healthcare insurance costs (65%)	Shortage of trained field help (61%)
2003	General liability insurance costs (63%)	Healthcare insurance costs (62%)

## Exhibit 2: Master List of Risk Factors

- ◆ Current tobacco use
- ◆ Reported use of medications
- ◆ Sedentary lifestyle
- ◆ Rate health as poor or fair
- ◆ Absent 5 days or more in the past year
- ◆ Blood pressure 130/85 or higher
- ◆ Cholesterol 220 or higher
- ◆ More than 20% over ideal body weight
- ◆ Report high stress on the health risk appraisal
- ◆ Glucose 110 or higher
- ◆ HDL less than 40 mg/dl
- ◆ LDL higher than 100
- ◆ Triglycerides 150 or higher
- ◆ Family history of heart disease
- ◆ Family history of diabetes
- ◆ High fat intake
- ◆ Current diabetes
- ◆ Alcohol use

## Exhibit 3: Excess Medical Costs Due to Excess Risk



### Exhibit 4: Migration of Risk Factors

RISK FACTOR	2004	2005	2006	2007
Existing Medical Condition	7.0%	7.3%	6.9%	8.0%
Smoking	20.9%	21.0%	20.8%	18.1%
Low Physical Activity	17.7%	14.4%	13.6%	14.9%
Body Weight	50.3%	50.3%	50.4%	49.8%
Blood Pressure	38.0%	34.7%	35.5%	33.1%
Perceived Health	12.4%	11.8%	11.3%	11.2%
Stress	30.2%	26.6%	24.8%	21.4%
Alcohol	7.0%	5.9%	5.1%	3.6%
Cholesterol	15.9%	16.3%	13.4%	12.2%
Low Life Satisfaction	20.9%	17.4%	15.4%	13.3%
Illness Days	5.4%	5.2%	5.1%	4.8%
No Seatbelt Use	41.7%	36.1%	32.5%	26.9%
Health Age Index	10.1%	7.3%	7.2%	5.7%
Medication/Drug for Relaxation	11.1%	11.5%	11.2%	13.1%

### Exhibit 5: Reduction of Risk Levels

NUMBER OF RISKS	2004	2005	2006	2007
0 Risk	7.1%	9.3%	10.9%	12.8%
1 Risk	16.7%	17.9%	19.4%	22.1%
2 Risks	21.4%	22.7%	23.1%	23.5%
3 Risks	18.8%	18.7%	18.3%	17.1%
4 Risks	13.6%	13.6%	12.4%	10.9%
5 Risks	10.2%	8.3%	7.9%	6.7%
5+ Risks	12.2%	9.2%	8.0%	7.0%

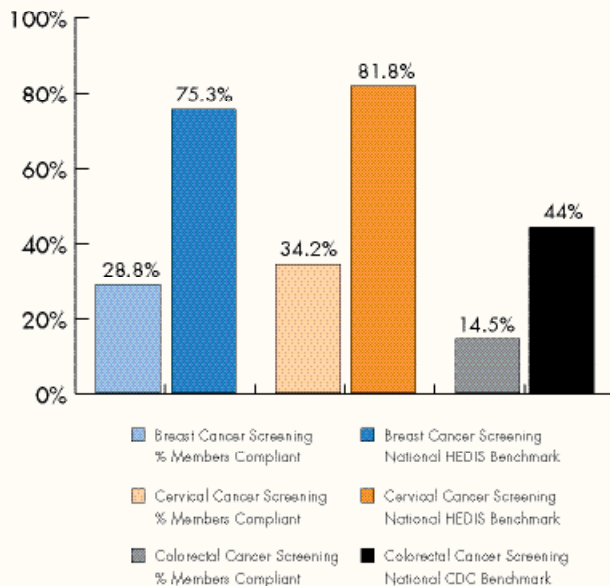
  

RISK LEVELS	2004	2005	2006	2007
Low Risk (0-2 Risks)	45.2%	50.1%	53.4%	58.3%
Medium Risk (3-4 Risks)	32.4%	32.3%	30.7%	28.0%
High Risk (5+ Risks)	22.4%	17.5%	15.9%	13.7%

AVERAGE RISK	2004	2005	2006	2007
AVERAGE RISK	3.1	2.8	2.6	2.5
AVERAGE WELLNESS SCORE	77.3	80.7	80.9	82.3
AVERAGE AGE	40.1	40	39.8	40.3

### Exhibit 6: Cancer Screening



a third-party vendor to collect and analyze health-related data for your company. This data comes from three possible sources: 1) health risk assessments (HRAs), 2) biometric testing, and 3) medical and pharmaceutical claims.

#### Health Risk Assessments

HRAs are self-reported questionnaires that employees complete either online or on paper. The collected information includes data on their exercise, nutrition and safety habits, disease history, and family history of disease.

Most companies will initially make HRA completion optional. However, the most successful companies make health plan eligibility contingent upon HRA completion.

#### Biometric Testing

This type of evaluation measures your employees' height, weight, and blood pressure, and also requires a blood test. Again, this is usually optional in the first year, and then required in order to participate in the company's health plan in years after.

The most efficient way to do this testing is in a group setting, possibly during a health fair or health and fitness meeting. It's important for your biometric testing vendor to offer onsite coaching so that employees can get immediate feedback about their test results. Coaches are usually registered nurses, exercise physiologists, or nutritionists.

And, since your employees are probably spread across multiple jobsites, it's important to offer alternatives to the group testing session. For example, allow them to take their form to a clinic or their in-network physician to complete the testing.

Through biometric testing, your employees may discover health conditions they hadn't previously known about. As a result, your company's healthcare claims might increase during the first year or two of your new wellness initiative as your employees get a handle on their health and fitness.

However, contractors who commit to developing company-wide cultures of health and fitness – and who stick with it – will have significantly lower healthcare costs in the long term than those who don't.

Exhibit 4 shows the migration of various risk factors in the employee population of one company from 2004-2007.



Note that most major risk categories declined, and that the percentage of low risk employees increased from 45% to 58%. Also, the percentage of high risk employees decreased from 22% to 14%. (See Exhibit 5 on page 83.)

After your employees complete their HRAs and biometric testing, your vendor can generate a personal, confidential health report for each employee that reflects the state of their health and fitness – and that will enable them to track their progress from year to year.

### Medical & Pharmaceutical Claims Data

Whether or not a third-party vendor can access and analyze individual health insurance claims data will depend on if the employer is fully insured, self insured, or partially self insured; limitations on accessing such data also vary from state to state.

*An Important Note:* Due to HIPAA, an employer can *never* learn specific health-related information about any individual employee from its third-party vendor.

When allowed by law, individual health insurance claims data can be “fed” to a stable of external health coaches who have various health-related specialties. Then, these coaches can conduct targeted outreach calls to specific employees. Their goal? To improve your employees’ health and reduce the risk of a high-cost medical event.

For example, an employee with diabetes could get a call from a diabetes specialist; another employee with poor eating habits might hear from a nutritionist; and a third employee, a call from an exercise physiologist.

The best health coaching programs allow unlimited in- and out-bound calls to and from employees. Outbound calls to employees are triggered from the data obtained from each separate source as previously discussed, or from a combination of all three.

For example, an employee’s HRA might reveal an abnormally high family history of heart disease, while biometric testing could reveal dangerously high blood pressure that was previously undetected, and claims data could reveal a visit to the doctor for chest pain.

In each case, the event raises a red flag and triggers an outreach call by your vendor’s health coach. The best systems, however, do not just react to the findings from the three data sources.

### Health-Related Predictions

Using HRAs, biometric testing, and claims data, third-party vendors can predict future claims costs based on the incidence of specific health conditions within the employee population pool.

Data from the University of Michigan shows that in any given year, 10% of the population produces 60-75% of claims expenses.<sup>3</sup> (Remember, medical and pharmacy claims are only 25% of your total cost of healthcare.) The people who make up that 10% change every year. Trend management systems can predict with 83% accuracy who that 10% is going to be 36 months in advance.

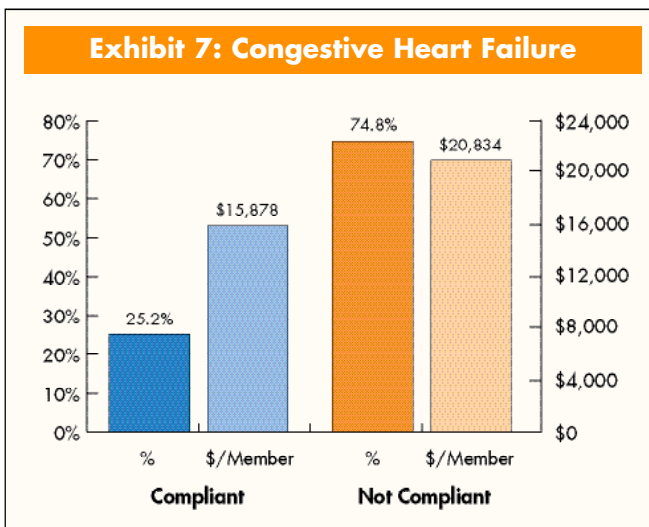
On a corporate level, these predictive modeling systems allow your company to put in place programs that impact the diseases or conditions most prevalent among its employees.

### A Real-Life Example

Our company paid out more than \$3 million in 2007 for cancer treatment. (See Exhibit 6 on page 83 for cancer screening compliance and incidence rates.)

When we looked into the data, we found that relatively few employees were getting their recommended cancer screenings. In the past, we were caught in the old reactive model of throwing claims dollars at the problem.

But by using this data, we developed incentives that encouraged company-wide cancer screenings. We spread the word using our vendor’s health coaching resources, as well as The American Cancer Society.





Similarly, we found that individuals with certain diseases or conditions who followed published treatment guidelines had lower claims costs than those who didn't.

Armed with this information and our vendor's help, we were then able to develop incentives for our employees to participate in and follow our disease management program. (See Exhibit 7 as it relates to Congestive Heart Failure.)

### Your Biggest Challenge

The biggest challenge will be getting your employees to play the game. It will take several years to develop a culture of health and fitness in your company, especially if they are used to seeing vending machines full of chocolate bars, potato chips, and pork rinds.

Like safety, wellness is an ongoing process. The message needs to be delivered every day, and employees need to be rewarded for healthy behavior.

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Before joining ACBG, Steve worked as an insurance agent and executive for 20 years. He has presented at CFMA's 2008 Annual Conference & Exhibition, the IRMI Construction Risk Conference, the IRMI Construction Benefits Conference, and the Business Health Institute's 2008 Risk Management Summit.

He is also the author of *Fit To Succeed* and a previous author for *CFMA Building Profits*.

Steve is a longtime member and past board member of CFMA's Dallas/Ft. Worth Chapter. He is also a member of ABC, AGC of Texas, and the Quoin Chapter of the AGC of America.

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### Conclusion

Developing incentives that drive healthy behavior will be key to your company's success. We've found that immediate gratification (such as gift cards or checks) for completion of a task works better than having to work for it all year long. For example, employees might receive a \$25 gift card for completing their HRA and biometric testing.

The important thing to remember is that everyone wins when you proactively manage the health and productivity of your employees. Do it, and you will gain a significant competitive advantage in your marketplace. **BP**

### Endnotes:

1. *New England Journal of Medicine*, Vol. 49, number 12, October 2007.
2. 2006 Cost Benefit Analysis and Report. University of Michigan Health Management Research Center.
3. *Ibid.*

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