

Wellness Programs and In-House Care

How Hospitals Can Lower Employee Health Coverage Costs

Hospitals should focus on strategies that help address the need for cost reduction while maintaining a healthy and engaged workforce.

Hospitals, under unprecedented pressure to control costs, are taking a hard look at their escalating budgets for employee health care benefits, which have been rising faster than in most other industries.

For a variety of reasons, the industry has not moved as quickly as others to manage health care costs and trends. As a result, many hospitals provide more services and pay a greater share of per-employee cost for benefits than other organizations. And, in a somewhat ironic twist, they also tend to have less healthy workforces, so employee use of health plan services (often at competing facilities) is frequently higher as well.

“Many hospitals have yet to take advantage of all possible cost-reduction avenues.”

Adding to hospitals’ concerns is uncertainty about how health care reform legislation will affect their cost structure as penalties for inefficiencies and overly rich plans take effect over the next few years. With reform likely to lower hospital revenues at the same time it affects costs for employee health care benefits, reducing those costs has become more critical than ever.

There are three core strategies hospitals can use, individually and in tandem, to achieve this goal:

- Increase emphasis on employee health and wellness by designing and promoting wellness and disease management programs tailored to the organization’s unique situation and employee segments.
- Customize employee benefits to require or encourage the use of the hospital’s or system’s facilities, including physicians, pharmacies and other affiliated resources (often referred to as “domestic resources”).
- Revisit the design of current employee benefit plans, and adopt some of the effective tactics other organizations are embracing, including consumer-driven and high-deductible plans, often backed up by health spending accounts.

Implementing wellness programs for a hospital workforce

Given the unique aspects and demands of the hospital environment, a high degree of customization is required for wellness efforts to take hold. Two steps are crucial:

- Define your long-term goals and the metrics required to track when and how the investment in effective wellness programs will be offset over time by a decline in the use of costly specialists and services. Track health improvement results and disease outcomes to make necessary mid-course corrections.
- Recognize the need to tailor programs to the differing needs of multiple tiers of workers — from highly educated and trained clinical staff (who have the

High cost of care in a unique and challenging culture

According to a recent industry study, Thomson Reuters' "Sicker and Costlier: Healthcare Utilization of U.S. Hospital Employees," September 2011, the cost of treating health care workers is at least 10% more than average. Not only are industry workers regularly exposed to illness, as well as long and off-hour work shifts, but they shoulder enormous (and genuinely life-and-death) job stress that can lead to many unhealthy behaviors. Nurses, in particular, take more sick days and disability leave than the average worker as a result of chronic illnesses and stress, which exacerbates talent shortage, stress on other nurses (extra shifts, for example) and overtime costs.

Compounding the problem: Physicians and nurses know more (or think they know more) about health care than anyone can teach them. So they tend to be less open or responsive to wellness education or incentives than employees of other organizations. And the very traits that attracted them to a helping profession often cause them to pay less attention to their own medical needs than to the needs of others.

information, but tend to resist putting it into practice) to less sophisticated populations, such as technicians or food-service workers (who need the information and are more likely to respond to a program and/or incentives). Customize program design, communication and incentives to each group, and consider whether further refinements may be necessary for segments within each group. For instance, some plans have found using specially trained customer service reps on routine calls initiated by clinical workers to be far more effective in delivering wellness information than traditional outreach methods. Other hospitals have developed a two-tiered structure, with separate programs for clinical and nonclinical employees.

With these steps as a foundation, other effective tactics can include:

- Integrating best-in-class *external* providers within internal programs
- Selecting highly credible internal wellness experts, such as respected doctor and nurse peers, to speak on wellness issues at convenient times or accessible online to accommodate varying shifts and long hours
- Providing rewards for the right behaviors (incentives tied to action rather than knowledge) and/or penalties for the wrong behaviors (such as increased premiums for unhealthy behaviors)

- Promoting wellness as an integral part of regular benefit communication, especially focusing on hospital leadership's commitment to wellness
- Tapping into employees' views, through focus groups, surveys and other means, to better understand their needs and issues, and inform design incentives, structure and communication strategies

Promoting use of domestic resources

More and more hospitals are finding advantages in requiring or encouraging their employees to use their own or affiliated resources for medical care. While it doesn't always result in lower costs, many industry CFOs feel that money spent "inside" is better for their balance sheet and share of the market. Some hospitals with a full range of services have been able to achieve up to 90% employee participation by offering financial incentives (such as waiving copays and deductibles) — as well as providing disincentives for using outside services. Others in competitive markets with limited services or community hospitals have achieved strong employee participation by setting up custom networks that require employees to use their own facilities, except when traveling or in real emergencies. Enhancements, such as onsite employee pharmacies and preferential copayments, can add to the potential savings. Some large hospitals have reduced health plan costs by multimillions by purchasing directly from manufacturers.

As with wellness programs, the starting point here is careful analysis of current costs, potential savings, resource and staffing constraints, community impact and other implications. Look at the organization's entire cost structure and the capabilities for handling employee care to determine the current level of domestic use and the estimated potential. Model scenarios and outcomes with varying percentages of lower reimbursements — say 10% versus 50%. How much better could it be? This is an issue that demands close review from multiple perspectives, notably financial and tax (including the upcoming plan excise tax in 2018 under reform legislation).

Evaluate employees' residential patterns to understand how many workers and their families could efficiently use hospital resources. How many live close enough? What is the need for services not offered? Could these be provided by affiliating with other organizations or by setting up an Accountable Care Organization (ACO) or ACO-like structure for employees? Undertaking a program like this requires careful planning, excellent communication — particularly to reassure employees of the privacy of their medical information — and time. But it can yield significant benefits over time.

Redesigning benefit plans

An array of innovative plan structures has gained popularity across industries in the last few years as employers have tested their efficiency and effectiveness. While the hospital industry has been part of the overall change process, many have yet to take advantage of all possible cost-reduction avenues in this area. Among the options to consider:

- *Implement consumer-directed and high-deductible plans.* They can discourage use of high-cost, low-value physician specialists and services, while protecting preventive services (covered at 100%).
- *Provide incentives for use of medical services with the greatest value to employee health and medical outcomes.*

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- *Require employees to pay more of the cost for low-value, high-cost procedures, such as imaging and (nonemergency) emergency room visits.* Unnecessary care in the emergency room, in particular, can be an opportunity for significant savings if patients are encouraged to seek treatment by doctors who are employees or affiliated with the hospital. (Often, ER doctor groups are not hospital-owned and receive high fees for services performed in the hospital's ER. When the patient is a hospital employee, the high premium paid by the hospital for emergency care leaks right out the door.)
- *Launch differential cost sharing for use of in-house resources, lowering deductibles and copays for employees who use the hospital's own services and facilities.* As noted earlier, this can provide many advantages, including the ability to avoid funding competitors for hospital employee use of their services and facilities.
- *Create an ACO that is limited to or inclusive of hospital employees to improve quality and efficiency, and putting more emphasis on preventive and primary care.*
- *Leverage and promoting hospital programs available to the community to employees and their families.* The programs already exist, so the initial work is already done — and the cost has been paid.

How Towers Watson can help

- We recognize the importance of reducing costs in today's challenging economic environment, yet understand the need for balancing cost reduction with maintaining a healthy and engaged workforce.
- We work with hospitals and systems to analyze and develop a business case for investing in wellness programs, and implementing onsite clinics, pharmacies and joint-purchasing opportunities for employees.
- Our expertise includes wellness and domestic program strategy, implementation, communication and measurement.
- Our Total Rewards Optimization (TRO) methodology enables hospitals to quantify the impact of changes to their reward programs, including health care benefits, on critical employee behaviors and actions (such as retention or engagement). It uses the data to reallocate reward programs and budget in ways that ensure the program delivers the highest potential value to employees for the lowest cost to the company.
- With an in-depth understanding of workforce needs and the health care industry, we can customize a health care strategy for your organization that addresses the health and wellness of your population while containing costs.

For more information

Contact your Towers Watson consultant, or visit towerswatson.com.

About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.