



Sourcing Health & Welfare Benefits

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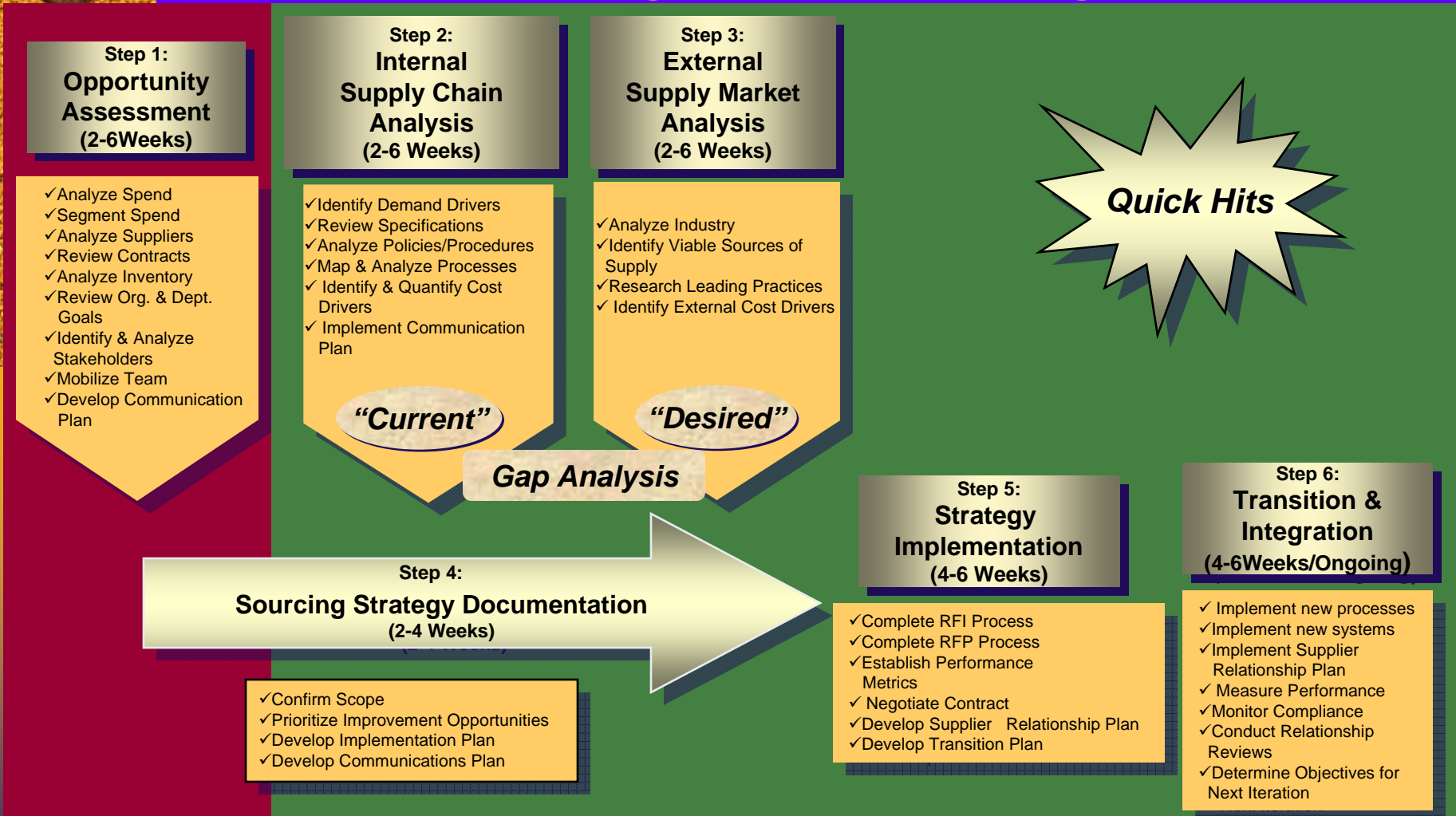
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Why a Sourcing Approach to Benefits?

- Structured holistic process to understand, review and manage cost drivers
- Pro-active measurement of results
- Increase productivity of HR and suppliers
- Pro-actively manage regulatory risks
- Pro-actively manage supplier relationships

The Strategic Sourcing Process





External Supply Chain Analysis: Health and Welfare Market Trends

- Employers costs projected to rise from 8.5% to 7%, depending on employee base; employers targeting 5.2% to 4.6% depending on size
- Per employee benefit cost will rise to over \$10,000 for the first time. Employers fund approximately 78% of that cost.
- New approaches are needed as the traditional approaches of cost-shifting and plan design have limited returns over time.

Timing

- Start now for changes to take place in 2011



Sourcing Team

- Sourcing
- HR : technical and communications
- Broker
- Finance
- Legal
- IT
- Critical Success Factor: Executive commitment



Opportunity Assessment: Spend Data

- Suppliers
 - Brokers
 - Insurers
 - Operations/Administration
 - Insurance Plans
 - Third-party Administrators
 - Outsourcers



Opportunity Assessment: Spend Data, cont'd

- Critical Success Factors
 - Broker Relationships
 - Leading practices
 - Market trends
 - Census/Actuarial analyses
 - Market tests
 - Plan design
 - Cost modeling
 - Report analysis
 - Establishment and monitoring of key performance metrics



Opportunity Assessment: Spend Data, cont'd

- Insurers
 - Operations/Administration
 - Use of technology
 - Report analysis
 - Critical Success Factor
 - Audit of plans for appropriate payments, accurate dependent eligibility requirements, accurate retiree data, etc. (before going out to bid)



Opportunity Assessment: Spend Data, cont'd

- Insurers
 - Plan Design
 - Medical and Prescription Drugs
 - Dental
 - Vision
 - Life Insurance/AD&D
 - Short-term Disability
 - Long-term Disability
 - HSA/FSA
 - EAP



Opportunity Assessment: Spend Data, cont'd

- Plan Design—Medical
 - ABHP (Accountability-Based Health Plans)
 - Incentive-Based Health Plans
 - Consumer-Directed Health Plans
- Plan Design—Prescription Drug
- Contribution Strategy
- Self-Service Strategy
- Employee Education



Opportunity Assessment: Spend Data, cont'd

- “Quick Hits”
 - Test market before going out to bid; renew to lock in favorable rates
 - Renegotiate administrative services fees
 - Evaluate payment timing
 - Pro-active vendor management
 - Linkage across all health-related programs and vendors



Internal Supply Chain Analysis

- In-source or Outsource?



Sources of Data

- “Towers Perrin Health Care Cost Survey Shows Employer-Sponsored Medical Benefit Costs to Rise to Over \$10,000 for First Time”, October 8, 2009
- Mercer Consulting, “Incentive Based Design: A High-Potential Solution for Bending Health Care’s Cost Trend”, September 2009
- Mercer Consulting, “Managing Benefits in Challenging Times: A Mercer Survey on Recession and Reform”, July 2009