



Health Insurance & Protection

BOARDROOM BRIEFING

THE FUTURE OF CORPORATE HEALTHCARE

- THE IMPACT OF RECESSION AND REFORM
- EMPLOYER ATTITUDES TO HEALTHCARE
- SELF-FUNDING OR INSURED?
- MANAGING THE PROCUREMENT PROCESS



In association with



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KEEPING CORPORATES HEALTHY

Why healthcare will be even more important to businesses in the years to come

Intermediaries and advisers today find themselves operating in a very different corporate healthcare market than in the years before the recession – and the landscape looks set to change further still.

The intense scrutiny that employers are placing on expenditure has seen procurement departments and finance directors take a greater interest in what is being spent on healthcare.

An almost obsessive focus on cost as opposed to value has seen many businesses forget the fundamental reasons why they introduced private healthcare propositions for their staff in the first place. Rather than view healthcare as an essential part of the business process that helps them to reduce their exposure to risk as well as improve productivity, many businesses now simply view it as a “benefit” or a “perk” that, in times of austerity, can simply be removed.

Panellists at this *Health Insurance* Boardroom Briefing – which represent some of the very best consulting firms in the sector – said they remain committed to changing those misconceptions. They stated a commitment, too, to ensuring businesses understand the “dynamic derisking” effect that a properly advised healthcare strategy can have on a business. Not only can healthcare boost productivity and protect and improve the bottom line, it can manage an employer’s exposure to risk too.

Of course, reduced headcounts and lapses in take-up of voluntary schemes are two other challenges facing the health insurance industry.

And in addition to the obvious problems generated by a depressed economy, intermediaries will, most likely, be faced with the challenge of advising clients during a time of unprecedented change in the health service and the welfare system. Proposed reforms to the NHS and changes being implemented to welfare could have huge implications for employers. Should proposed NHS reforms go through, there are fears that the usage of corporate healthcare plans could increase as doctors look to minimise the impact of treatments on their NHS budgets.

The challenge of predicting how this “cost transfer” will impact employers’ claims funds will, of course, test the consulting skills of the intermediary community to the limit.

Meanwhile, medical inflation continues to be a concern, of course, as new and emerging treatments and therapies put extra pressure on both public and private resources.

Again, advisers will need to work closely with their clients and insurer partners to ensure that healthcare remains affordable and sustainable – and specific to employer needs – in the years to come.

The challenges do not end there, however. A rise in insurance premium tax earlier this year – and potential future rises to come – is also putting greater pressure on employers’ budgets, as is the onset of pensions auto-enrolment.

Fortunately for employers, though, the solutions – both self-funded and insured – exist. Advisers and insurers are alive to all of the challenges above and, as you will read, the best in the business are committed to ensuring healthcare continues to play its part in driving UK plc forward.



A stylized, handwritten signature in black ink that reads "D Sawers". The signature is fluid and cursive, with a large initial 'D'.

DAVID SAWERS, EDITOR

If you would like to comment on this, or on any of the issues raised in the magazine, please email david.sawers@informa.com



Kim Strugnell
Xafinity Consulting



Paul Brantingham
i2 Healthcare

Recession and reform

The challenges facing corporate healthcare

A struggling economy, NHS reforms, welfare reform and rising claims – what challenges face employers and how can the health insurance industry help?

The health insurance industry has an opportunity to help employers to address difficult challenges over the coming years as healthcare provision in the UK undergoes dramatic changes, according to some of the leading players in corporate benefits provision.

Participants at this *Health Insurance* Boardroom Briefing agreed that the recession, cuts to public spending as well as reforms to the NHS and the welfare system will all have an impact on the healthcare landscape, while the introduction of pensions auto-enrolment will also impact employers in the years to come. Medical inflation and the rising cost of new and emerging treatments and therapies will also lead to pressure on claims funds.

Kim Strugnell, director of healthcare consulting at Xafinity Consulting, the London-based corporate adviser, said: "It's going to have a dramatic effect on claims experience and the design of [healthcare] plans moving forward."

Speaking about changes being introduced across the NHS, Strugnell said: "Private medical insurance [PMI] is enjoyed today as a supplement for a solid provision in NHS care. It's not going to be the same model moving

"The increased usage on a corporate scheme could actually be an extremely good thing for the employer"

David Free-Pearce, Mercer Human Resource Consulting

forward in 2014. There's going to be more of a mixed economy and more access to private care via the NHS so we're going to see a slightly different engagement."

ON THE AGENDA

- What impact will NHS reforms have on claims funds?
- How will scheme design vary in the new landscape?
- Are employers aware of potential future pressure on claims?
- Could an increase in healthcare usage improve ROI?

According to Strugnell, a "polarisation" effect could emerge which will see some employers move towards providing healthcare cover which simply replicates what the NHS delivers while there will also be instances of a more basic form of cover.

She said: "We could move to a situation where people entirely opt out of NHS provision and we might, perhaps, get tax breaks to achieve that – that's an opportunity for us all."

Paul Brantingham, director of i2 Healthcare, an expert in the large corporate healthcare market, based in Birmingham, agreed that businesses will have to ask themselves some important questions about healthcare provision. Employers and insurers should be braced for an "inevitable" transition of costs from the public sector to the private, he said. Indeed, the effects are already being felt, with "everything" coming

under scrutiny during the procurement process.

“Most companies who offer private medical insurance as a benefit at the moment won’t really want to reduce that benefit for the existing employees,” said Brantingham, winner of the *Health Insurance* Best Group PMI Intermediary Award 2010. He added that it was up to intermediaries and insurers to respond with effective and flexible solutions.

Nick Reynolds, head of intermediary sales at Aviva UK Health, said that the insurer has seen claims rise in certain areas of the market in the last six months, in spite of the extra spending on the NHS by the previous Government.

“It’s across the board,” he said. “It’s easily spotted when you’re dealing with a large corporate, because you get lots of management information.”

Panellists said this trend could very well continue under the current Government’s plans for the NHS. As more responsibility is devolved to GPs, the usage of corporate healthcare plans could increase as doctors look to minimise the impact of treatment on their NHS budgets.

Matthew Judge, director at national intermediary Jelf Employee Benefits, said: “What we’re talking about here is actually legislative changes that are going to actually force people [doctors] to say: ‘Have you got some form of private, independent healthcare? Good, well, that’s the way you go’. Whether it’s self-insured or not, we just can’t really know [the impact] because we don’t know what’s going to fall off the menu.”

Mike Naulls, national sales manager for Aviva UK Health, said: “There will be cost transference and corporate spend will have to balance that paternalistic view with wanting to deliver the best for employees with the potential rising costs coming over the horizon.”

The introduction of auto-enrolment regulations, which means that employers must

automatically enrol employees in work-based pension plans with employer contributions, will also put pressure on companies’ budgets, it was pointed out.

Linda Torr, head of international at Bluefin, the corporate adviser, said: “If you’ve auto-enrolment coming in, the costs for a company for other benefits are going to increase; they’re not necessarily going to have the money to then start paying out more on their corporate PMI.”

Nick Boyton, healthcare development director at Alexander Forbes Healthcare, said intermediaries such as his are having in-depth conversations with clients to make sure they are prepared.

He said: “We’re talking about a couple of renewals’ time when the effect comes through, so we’re teeing up with our clients that they need to start asking themselves if they want to maintain benefits in the same form and shape as they currently do.”

The good news, it seems, is that employers which do take the advice of an experienced corporate healthcare specialist and engage more constructively in their healthcare strategy do stand to reap the benefits.

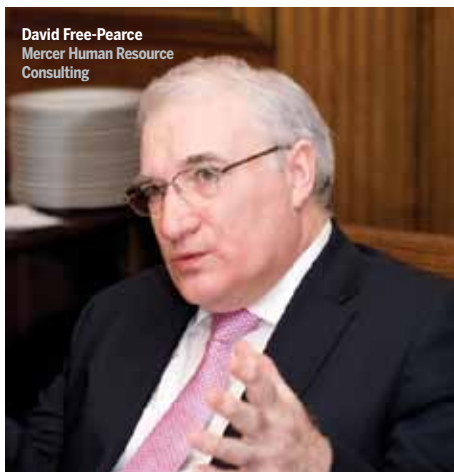
David Free-Pearce, principal at Mercer Human Resource Consulting, said: “The increased usage on a corporate scheme could actually be an extremely good thing for the employer. Because they’re seeing more fast-tracked treatment happening for their employees, they’re getting people back to work more quickly and the overall net effect on a return on investment basis is an extremely positive one. That doesn’t help the insurer, of course, who’s struggling with an issue of increased demand and increased claims costs. I know where you [insurers] are coming from but we need to be very, very careful about writing off [for example] welfare reform as an adverse thing.”

MEDICAL INFLATION TO BLAME AS UK EMPLOYERS FACE HIKE IN COST OF HEALTH BENEFITS

Average change in the per-employee cost of health related benefits from 2009–2010, by country

COUNTRY	AVERAGE CHANGE
All respondents	3.3%
UK	4.9%
Ireland	4.9%
Portugal	4.1%
Netherlands	3.7%
Poland	3.3%
France	2.7%
Italy	2.3%
Spain	2.1%
Czech Republic	1.8%
Germany	1.5%

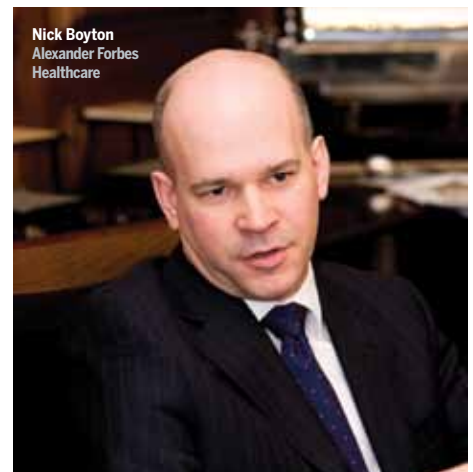
Source: Mercer 2010 pan-European survey on employer health benefits. Survey conducted in 14 European countries with responses from 556 employers. Health benefits include private medical plans and a range of other health-related benefits, including income support, critical illness cover, employee assistance programmes, dental and optical benefits, health screening, gym membership, and “wellness” programmes.



David Free-Pearce
Mercer Human Resource Consulting



Linda Torr
Bluefin



Nick Boyton
Alexander Forbes Healthcare



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Nick Boyton

Healthcare development director
 Alexander Forbes Healthcare

“The derisking element gives an added value that perhaps the board hadn’t considered in the past”



David Free-Pearce

Principal
 Mercer Human Resource Consulting

“The smaller organisation inevitably is going to be thinking more short-term, particularly at the moment, and even the larger organisations tend to be focusing on ‘what can we do now?’ rather than ‘how should we be behaving to develop an influence on costs in the future?’”



Paul Brantingham

Director
 i2 Healthcare

“Most companies who offer private medical insurance as a benefit at the moment won’t really want to reduce that benefit for the existing employees”



David Dolding

Head of consulting
 Lorica Consulting

“There are a number of clients that initially put private medical insurance schemes in to achieve return on investment and they’ve kind of lost sight of that over the years where it’s just become another benefit that’s provided for people”



Mike Nauls

National sales manager
 Aviva UK Health

“There will be cost transference from the NHS and employers will have to balance that paternalistic view with wanting to deliver the best for employees with the potential rising costs coming over the horizon”



Nick Reynolds

Head of intermediary sales
Aviva UK Health

“We’re looking at the total end-to-end journey because when we’re focusing on the private medical side we’ve got to look at absence and sickness, we’ve got to look at health and safety in the workplace and we’re starting to engage with employer’s liability”



Matthew Judge

Director
Jelf Employee Benefits

“What we’re talking about here is actually legislative changes that are going to actually force people to say: ‘Have you got some form of private, independent healthcare? Good, well, that’s the way you go’”



Kim Strugnell

Director of healthcare consulting
Xafinity Consulting

“Wellness is a risk issue for organisations, so employers should be looking at measures to derisk the potential cost of that. That would move the agenda on and it would bring the appropriate attention from the senior board”



Iain Laws

Account director
PMI Health Group

“The industry’s failing is that we don’t get our message across at the boardroom level – that’s a challenge for us if we want to move the agenda of the private healthcare proposition forward”



Linda Torr

Head of international
Bluefin

“The amount of money that companies pay on preventative and education versus insurance when something’s gone wrong is a ridiculous differential. Now is the perfect time for them to actually be investing and trying to stop people getting ill in the first place”





Iain Laws
PMI Health Group



Mike Naulls
Aviva UK Health

Looking to the long-term

Changing employer attitudes to healthcare

As budgets are squeezed and businesses struggle, how – and why – should healthcare stay top of the agenda?

Companies which will be the most successful at developing a healthcare strategy that both supports them and grows their bottom line will be the ones which take a less “transactional” approach and deal with the issue in a more sophisticated way, participants at this Boardroom Briefing said.

Panellists stated quite clearly that the health insurance industry must accept some of the blame for failing to re-emphasise the important business reasons why companies should buy healthcare for their staff, as private medical insurance (PMI) and other core healthcare products increasingly become viewed as “benefits” as opposed to “essentials”.

David Dolding of national specialist intermediary Lorica Consulting said: “There are a number of clients with historical medical insurance schemes that initially put the benefit in to achieve return on investment and they’ve kind

of lost sight of that over the years, where it’s just become another benefit that’s provided for people. They’ve lost sight of the original purpose which was to help people stay in the workplace and get back into work quickly if they do become ill. So, it’s

“There is still a great proportion of our market in large corporate terms that is still engaging on a transactional basis – that’s still how they view healthcare”

Mike Naulls, Aviva UK Health

about focusing it back on to the real reasons and not just looking at it as a pure benefit.”

But Iain Laws of national specialist intermediary PMI Health Group warned that in many cases healthcare is of little interest to too many board

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members who do not view it as core to their business strategy.

Laws said: “In the boardroom, if you start talking about health and welfare, the people who run the business just might ask you to just stop. A few companies indicate that. We need to crack that problem and get the board to accept that employee healthcare is an issue that affects the productivity of their business.”

He added: “To me, I think our failing is that [...] we don’t get our message across at the boardroom level and that’s a challenge for us as an industry if we want to drive the agenda of the private healthcare proposition forward.”

At present, discussions between the insurance industry and employers around healthcare have become too “transactional” in many instances, said Mike Naulls, national sales manager at Aviva UK Health. He believes that although more

"sophisticated" purchasers of healthcare benefits do exist, that proportion of the corporate market is still "relatively small".

"There is still a great proportion of our market in large corporate terms that are still engaging on a transactional basis," he said. "That's still how they view healthcare."

Outlook and philosophy differs between companies, often depending on the size of their business, participants agreed.

David Free-Pearce, a principal at Mercer Human Resource Consulting, said: "What's true for the 1,000-plus employer is definitely not going to be true for a 100-plus employer. We all see this all the time, hence the discussion between sophistication and transactional behaviour. The smaller organisation inevitably is going to be thinking more short-term, particularly at the moment, and even the larger organisations tend to be focusing on 'what can we do now' rather than 'how should we be behaving to develop an influence on costs in the future.'"

At present, healthcare feels like a "luxury" to too many employers, said Kim Strugnell, director of healthcare at Xafinity Consulting, the advisory firm.

She said: "Most organisations still have a desire to do what's best for their employees, they just feel that they're challenged and they haven't got the necessary budgets to do some things. So, it's a matter of priority for them."

However, those employers which capitalise on the "dynamic derisking" effects of healthcare will benefit their business in a number of ways, said Strugnell.

According to Strugnell, senior board members who have until now been disengaged from their company's healthcare strategy could, with the right type of advice, in fact be stimulated by the fact that healthcare provision can be used to both protect and improve their bottom line.

She said: "Wellness is a risk issue for organisations, so you [the employer] should be



Nick Reynolds
Aviva UK Health



Matthew Judge
Jelf Employee Benefits

looking at measures to derisk the potential cost of that. That would move the agenda on and it would bring the appropriate attention from the senior board. You [the board member] would look at it in an entirely different way, rather than it being a benefit, because benefits always make it sound discretionary."

While many finance directors and other board members continue to consider healthcare benefits as "optional extras", if they viewed healthcare more in terms of risk, they would feel it is an issue which needs to be addressed, she explained.

David Dolding, head of consulting at Lorica Consulting, a national intermediary, said that for too long healthcare has been viewed by board members as "an employee benefit and not as a business protection process as well".

Dolding said: "If you look at the number of settlements companies end up making to have to pay people off because they're not quite sure if they've followed all the processes, or whether there's a loophole that they can be caught on, particularly around stress and depression, then if you've got a really good, tight health and wellbeing process in place, you can say: 'Take us to court, because we're not going to lose this one.'"


Linda Torr, head of international at Bluefin, another corporate adviser, said: "The amount of money that companies pay on preventative and education versus insurance when something's gone wrong is a ridiculous differential. Now of all times, with all the costs going up, is the perfect time for them [employers] to actually be investing and trying to stop people getting ill in the first place."

Nick Boyton of Alexander Forbes Healthcare, the corporate advisory firm, added: "It's something which may need to be about evidencing greater value than just the wellness of the staff; it's the derisking element as well. It gives it an added value that perhaps the board hadn't considered in the past."

Making that link between health and other business risks and costs is vital – and achievable – participants said. Nick Reynolds, head of intermediary sales at Aviva UK Health, said that the insurer has recently conducted a pilot with one client which sought to make a formal link between an employer's liability costs, its broader healthcare strategy and its approach to health & safety.

"In a way we're looking at the total end-to-end journey," Reynolds said, "because when we're focusing on the private medical side we've got to look at absence and sickness, we've got to look at health and safety in the workplace and employer's liability."

As well as creating the "dynamic derisking" effect outlined by other participants at the briefing, such a strategy could generate other cost savings too, Reynolds said.

"If you [an employer] really get a handle on the hidden costs of absence and sickness, which could run into many more millions than you spend on products, you might not need 1,000 employees," he said. "If you get it properly done, you might only need 900 employees, and look at the saving that could give you. That will wake the finance directors up." 

LEGACY OF RECESSION LEAVES CHALLENGES FOR UK CORPORATE HEALTHCARE MARKET

- **Company-funded policies (covering PMI and self-insured) fell by 4.7% in 2009 to 3,050,000, following a marginal rise of 0.7% a year earlier**
- **Widespread job losses led to a narrowing in coverage and recession-induced business casualties led to a pick-up in lapses**
- **PMI revenue fell marginally by 1.4% in real terms (after taking into account economy inflation [RPI]) during 2009, to reach £3.58bn following strong growth in 2008 (up 3.8%). Corporate PMI revenue and individual PMI revenue fell equally**

BUT THERE REMAINS ROOM FOR OPTIMISM

"The 5% drop during the worst of the recession could optimistically be viewed as a sign of product strength"

Philip Blackburn, senior economist, Laing & Buisson

Source: Laing & Buisson Health & Care Cover – UK Market Report 2010 (www.laingbuisson.co.uk)

Appetites for risk

Trends in self-funding and insurance

Self-funded healthcare isn't right for every company, but in the right circumstances it can deliver savings and be more flexible than insurance



Linda Torr
Bluefin



David Dolding
Lorica Consulting

The continued pressure on employers' budgets, amid an environment of radical reforms to welfare and the NHS, mean that many businesses are looking to make any possible saving they can on their healthcare spend, with some moving to a self-funding arrangement or a corporate healthcare trust, for a variety of reasons.

Since they strip out certain costs – insurance premium tax (IPT) and insurance itself for example – trusts can deliver immediate savings, although there are of course potential drawbacks that need to be considered.

"There are obvious potentials for cost savings that aren't there with insurance schemes, that's it in a nutshell," said David Dolding, head of consulting at Lorica Consulting, the national intermediary. "But when people look into it in more detail then it becomes not quite as straightforward as they had initially thought."

While corporate healthcare trusts have been in more employers' thinking for some time now, there have been instances of companies moving back to fully insured arrangements over recent years, according to Nick Reynolds, head of intermediary sales at Aviva UK Health.

"We have seen a lot of enquiries over the past two years to move out of trusts into a fully insured arrangement because clients were looking for more of a fixed budget, plus they didn't want the extra overheads of having to run trustee meetings and sometimes having to 'play God,'" Reynolds said.

"There are obvious potentials for cost savings but it's not quite as straightforward as people think"

David Dolding, Lorica Consulting

Corporate healthcare trusts are said to be more flexible than insured arrangements in some cases, although some employers do not like having to make emotive decisions about treatments and benefit limits. Trusts also place an additional administrative burden on the employer and can potentially expose them to unexpectedly high claims costs.

Reynolds added: "Companies were trying to secure two-year deal arrangements to tie them into fully insured until they could see whether they wanted to go back and do the trust again at some other point. But they wanted that security for a couple of years. We are seeing things flip the other way a bit now, we're getting more enquiries about trusts."

One of the reasons that is happening, participants said, is this year's rise in IPT to 6% and speculation that further increases are imminent. There are fears that the UK Government, keen to generate more revenue to boost dwindling public spending coffers, could bring IPT in line with other countries in Europe – something, participants said, which could generate headaches for employers as well as, of course, the insurance industry.

However, panellists emphasised that while moving to a self-funding arrangement can indeed

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give an employer IPT savings, there are a number of other factors that they need to take into account before doing so.


Paul Brantingham of Birmingham-based advisers i2 Healthcare, said: "I don't think it's one particular factor driving the increased interest in self-funded or quasi self-funded arrangements. It's a combination of insurance rates hardening, insurers becoming more selective and IPT."

Meanwhile, Linda Torr, head of international at Bluefin, another advisory firm, said: "Claims experience has been going up and up over the last few years quite significantly, which is why you end up with more interest in things like self-insured because of the cost containment."

Matthew Judge, a director at national advisory firm Jelf Employee Benefits, said that there are examples, however, of employers which are crudely turning to trusts to take advantage of the IPT exemption as a short-term fix to their budgetary headaches.

Judge said: "Sometimes there's no adaption, there's no thought to the make-up [...] or how you [employers] can utilise the spend better and be more intellectual about it. They [companies] just say to themselves, 'Oh, I can save 6%. I'll just lift these benefits, wrap it in a trust, hey presto, job done' and somehow think it's going to save money."

Judge was not alone, however, when he said that there are many advantages to companies self-funding as opposed to insuring their healthcare benefits. Self-funded corporate healthcare arrangements – if properly set up and administered – can be "remarkably durable" said David Free-Pearce, a principal at Mercer Human Resource Consulting, adding that he has some clients who set up their trusts in the latter half of the 1980s.

Although Free-Pearce said he detected no wholesale move towards self-funding and away from insurance, he explained: "What they can get from medical insurers in the market is good but has a particular sort of branded approach, and if they want to go beyond that and they want to start including things that aren't ordinarily included in the medical insurance, or excluding them, they need much more hands-on control." 

Working together

Making the most of procurement

Finance directors and procurement departments are now at the centre of employers' decisions around healthcare – how can corporate advisers work effectively with them?

The transactional approach many employers take when it comes to healthcare remains commonplace as procurement departments and finance directors take on more of the brief previously held by human resources.

Briefing panellists said that the move has seen employers focus more on how much they are spending on healthcare as opposed to what they are spending it on and why they are spending it in that way.

David Dolding, head of consulting at national intermediary Lorica Consulting, said that while many areas of the economy continue to struggle, profits within a lot of big companies "aren't too bad".

"They're better, but I think they [employers] have got the appetite for using procurement across a far wider range of products and services than they have done before, and that's not going to stop," he said. "So, it's about getting procurement to understand what it is that they're actually acquiring."

Corporate advisers should not be discouraged from continuing to discuss healthcare in a consultative, as opposed to transactional, way, said Kim Strugnell, director of healthcare at Xafinity Consulting, the advisory firm.

"Quite often they [procurement] can be an advocate for change if you use them in the right

way and give them the appropriate information," said Strugnell. "It's a lack of information that causes them to pull back on their sword [...] so it's incumbent upon us to give them that level of expertise to help them do their job."

David Free-Pearce, a principal at Mercer Human Resource Consulting, said it was important to remember that, in many ways, corporate healthcare advisers and intermediaries are procurement specialists themselves.

"Procurement can be an advocate for change if you use them in the right way and give them the appropriate information"

Kim Strugnell, Xafinity Consulting


"There are two types of procurement," said Free-Pearce. "One is an external articles procurement process which comes from the people in this room [advisers]. We're external procurement resources to a company. Then you've got your internal procurement and it works very well if those two can actually successfully team together and they don't see each other in competition."

Paul Brantingham, director of i2 Healthcare, a corporate advisory firm based in Birmingham,

emphasised that advisers have a role to play in helping procurement departments understand the difference between "cost" and "value".

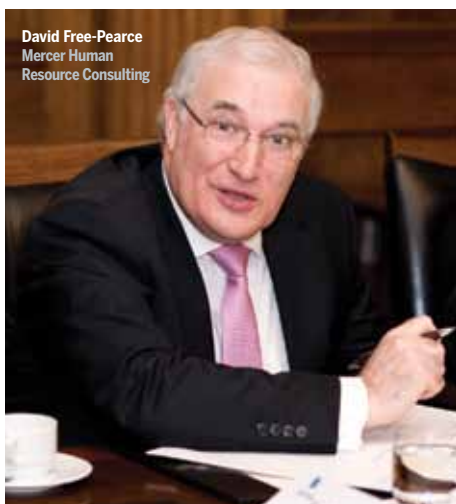
He said: "One of the key things is to change procurement managers' focus from cost to value and get them to understand that two different insurers at the same price aren't the same, they're not just different colours, and to help them understand the nuances, details and the indefinables in terms of patient experience and so forth. The key to it is getting them on your side, so to speak, so they don't view you in a semi-antagonistic way."

While Nick Reynolds, head of intermediary sales at Aviva UK Health, also expressed concern that many employers view healthcare in purely transactional – as opposed to strategic – terms, like other panellists he was equally in favour of developing a partnership approach between the insurance industry and procurement departments.

"In some industries it might be seen as a sledgehammer to crack a nut, but you are having a different dialogue now, because you have to, you have to learn how they [procurement departments] want information presented, what kind of conversation you have to have with them. So, you've got to talk in their language." 

ON THE AGENDA

- Have procurement departments become more involved in corporate healthcare?
- Are procurement departments focused too much on "cost" as opposed to "value"?
- How can corporate advisers and insurers work constructively with procurement departments?



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