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Functionality first

New benefit strategy puts employee, not product, at center

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In the employee benefit field, the long-time focus on product is being challenged by a new concept focusing on employees. Benefit experts in some companies are developing integrated programs to help employees stay well, get well if sick or injured, and then return to work. Simultaneously, these experts believe, this new approach can reduce a company's benefit costs and increase its productivity.

Technology available today can rapidly accumulate and analyze the vast amount of information needed to build highly integrated programs. But to use this capability, employers, insurers, and health care providers must be motivated enough to break down some walls, both internal and external. As these walls come down, actuaries and others working with this new trend say, the implications and opportunities for actuaries will be substantial.

In most companies, a worker who becomes ill or is injured on the job is covered by workers' compensation insurance, which is managed by one area of the company and often treated by providers specifically focused on occupational health. A worker whose illness or injury is not job-related — that is, nonoccupational — is covered by medical insurance and is usually treated by a different set of providers. When a worker is seriously incapacitated, he or she is covered first by short-term disability (STD) and then, typically after six months, by long-term disability (LTD) if the employee cannot return to work. Within most companies, the focus of management is not the employee's needs but rather the event and related products — for example, an accident at work (an event) and workers' comp, STD, and LTD insurance (products). Different managers may have responsibility for these programs. Different companies provide the products.

Imagine that, instead, the employee is at the center of all health-related benefit programs. In all health-related situations, the employee works with the same benefits representative, who helps employees stay healthy or manage chronic conditions. The same representative finds the right medical care for the ill or injured employee (or dependent spouse), monitors the employee's progress, and steps in if the employee seems to need different or more care, including better self-care.

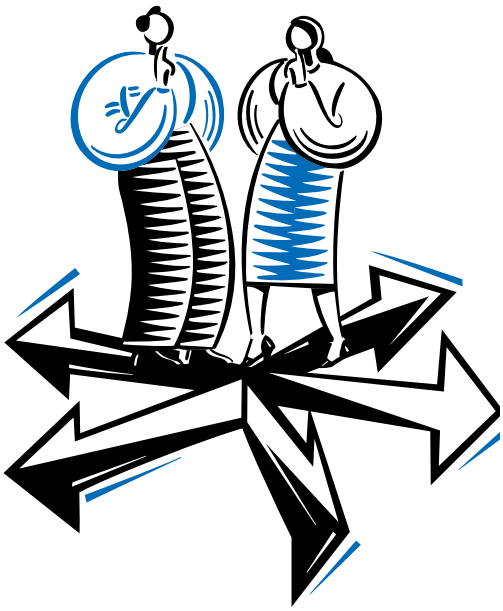
One consulting firm's name for this strategy, total health management (THM), neatly sums up the approach. By adopting products that combine medical, workers' comp, and disability benefits, employers can offer their workforce greater focus on overall health and wellness — with improved productivity the expected payoff for employers.

"The paradigm leap is to understand, it's not just the medical costs, it's the functionality of employees," said Jenny Emery, principal, Towers Perrin, and leader of the firm's THM practice. "Companies are used to thinking of medical, disability, and workers' comp benefits in product 'silos' or cost 'buckets' and managing each individually. But employers are putting new emphasis on several agendas: attracting and keeping good employees, better managing their benefit dollars, and improving the bottom line through productivity. THM can support those initiatives considerably better than the bucket approach can."

How it works

One company that has moved well beyond silos and has a nearly complete THM strategy in place is Hughes Electronics Corporation, a satellite and wireless communications manufacturer headquartered near Los Angeles.

Pamela Hymel, M.D., manages all medical, workers' comp, and retirement



benefits as Hughes' corporate director of medical services and benefits. She has seen the positive effects of one level of integration — workers' comp case management, a consolidated approach to managing some health-related situations by employee rather than by event or product. The success of that program led her to implement a greater level of integration.

Dr. Hymel launched Hughes' workers' comp case management program in 1993. Nurses soon stood at the center of Hughes employees' medical care. Rather than letting an employee move through workers' comp and STD stages with little monitoring, the nurses kept track of employees all along the way. "We saw a 43% reduction in our workers' comp cost over the next several years," Dr. Hymel said. "By getting employees treated and back to work, we saved significant dollars. Why not extrapolate and apply the same principles to nonoccupational care, which is five to six times greater than occupational?"

So recently, Dr. Hymel incorporated workers' comp, sick leave, STD, and LTD into an integrated management disability program. "Now, if an

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employee gets sick, the same person helps them see the right doctor, manages their disability days, and helps them get back to work quickly. We've begun seeing some significant reductions in our disability days."

Will the market welcome it?

Emery and others strongly believe the THM concept will make inroads. They say that while employers find it difficult to transform their organizational silos, the value of integrated health-related benefits will be great enough to justify the effort.

Those interviewed for this story noted several problems with the current state of corporate benefit management that THM may solve:

- Too many employees become disabled to the point where they can't return to work. "One-fourth as many people will even get to LTD if you manage the first six months," Emery said.
- Companies in high-employment industries must differentiate themselves to attract and keep the best employees. Hiring and replacement are costly. Companies offering a total health program focused on wellness rather than product tell employees that their needs (and their family's needs) will be met.
- There's some confusion of treatment protocols, which might differ for the same condition according to nonoccupational and occupational health care provider guidelines. This can cause confusion for employees and animosity with providers.
- Employers must manage medical, disability, and workers' comp as expenses to be minimized rather than investments that may produce a return. The latter approach increases shareholder value.
- By aggressively managing silos of benefit costs, employers have significantly reduced expenses. Further opportunities for reductions might not appear until benefit programs are integrated.

Health care providers of all types are keeping a close watch on the THM market.

CIGNA launched a special business unit for THM products, CIGNA IntegratedCare, in January 1997. The unit currently offers two THM products — a leading-edge product, MedReturns, combining medical care and lost-time management and disability management through CIGNA's HMO, PPO, and indemnity product structure and AbilityReturns, an integrated disability product.

Said the unit's president, Don Duford, "Risk managers continue to get pressure from management to improve the bottom line, that is, further reduce benefit costs. We don't think this pressure is going away."

Duford said that employers who design health-related benefits from an employee's perspective can eliminate redundant costs, improve consistency in health care treatment, and create a single claims process for doctors, whether they practice primarily in the occupational or nonoccupational fields. "The result will be a more satisfied employee, a more efficient process for doctors, and, we believe, a 5-10% reduction in total dollars spent per employee on health-related programs," Duford said.

Duford sees growing interest in THM by employers and vendors, but he also sees a number of barriers. "I believe the integrated care concept will become more dominant in the way employers think than in the market," he said. "In large part, this stems from employers' need to integrate their benefit designs and their reliance on brokers and medical care suppliers, neither of which is integrated. So employers will want THM at a much faster pace than the market can supply it." Because of those and other barriers, Duford said, "We believe integrated

Can you speak THM?

Actuaries and others involved in total health management (see accompanying story) will encounter several concepts that are vital to the understanding of the THM approach. The following definitions were provided by Towers Perrin.

Total health management (or integrated care): an integrated approach to managing the delivery of health-related services for employees — prevention, medical, and absence on or off the job — to increase productivity, decrease cost, and improve employee satisfaction. It includes all elements of what we currently think of as group medical, workers' compensation, disability management, and disease management.

Managed disability products and services: nonoccupational disability services such as short-term disability and long-term disability.

Integrated disability management products and services: workers' compensation integrated with nonoccupational disability such as short-term disability and long-term disability.

24-hour health care products and services: workers' compensation medical coverage integrated with group medical.

Managed workers' compensation products and services: a workers' compensation system designed to ensure that employees receive high-quality health care and salary replacement benefits at the most appropriate level.

Disease management products and services: proactive treatment of diseases that impact employee health and, in turn, employee productivity. This could include physical ailments as well as those related to stress or other mental health issues.

care will become a healthy subset of the market, not a major portion of it."

One THM champion at Aetna U.S. Healthcare, Senior Vice President Frolly Boyd, said she and others there became interested in THM about three years ago, when they began exploring ways to market their programs with other Aetna products. "What we heard from our clients was, 'How could Aetna weave their health care programs into our disability programs?,'" Boyd said.

"We began by adapting clinical protocols for use in managing disabilities," she said. "Through focused application of clinical tools and resources, we began to see very powerful outcomes, with significant, quantifiable savings at companies that were committed to getting employees back to work earlier." Aetna U.S. Healthcare is analyzing member-level data on health and disability events to explore even tighter links between health care and disability management, asking questions such as, what types of populations are most likely to incur a specific disability and how can this disability be prevented or minimized through earlier intervention in the health care system? The company expects to begin marketing a product based on its analyses in spring 2000.

But like Duford at CIGNA, Boyd sees challenges ahead from the employer's perspective. "Productivity isn't easily measured, and softer costs (such as those related to morale and filling jobs) are difficult to track. Medical costs are measured in hard dollars," she pointed out. Medical inflation, which has been low for six years, is beginning to rise, possibly resulting in "a much slower evolution of the THM concept because total savings are harder to measure." However, she said, "I believe that if employers are willing to manage through the complexity of benefit integration, companies could be much more able to control costs in the long run."

What actuaries see

Towers Perrin actuaries Jerry Winkelstein and Tim Quinn spent years viewing the health care world from different silos. Winkelstein works primarily on projects related to medical benefits, the nonoccupational medicine side, and is a health actuary. Quinn's projects lie in the workers' comp area, which is occupational medicine's territory and firmly planted in the property and casualty (P&C) camp.

THM has forced them to learn more about one another's turf because THM-related products combine workers' comp and medical benefits. "Workers' comp rates are based on medical costs and disability income, and they have been set as a percent of payroll within an industry index. This works very well for disability income, but it may not be the best way to predict medical payments," said Winkelstein. "Even though there may be a better set of predictive variables for medical payments, such as age and gender, they might be ignored because the P&C people say, 'We've always done it this way.'"

P&C actuary Quinn says terminology is one of the key barriers. "I have to learn enough health to know where my health counterparts are coming from and vice versa," he observed. This isn't limited to actuaries. Quinn recently educated an HMO's management, primarily medical doctors, on workers' comp issues and concepts as the management team sought alliances with P&C insurers. "They had not paid attention to concepts beyond the scope of what they needed to know, and now they had to learn the dynamics of the workers' comp market," he said.

Winkelstein notes that as health and P&C actuaries combine their knowledge, "ratings variables on nonoccupational and occupational could become very similar. Both sides will learn. THM will encourage both to become more accurate, and we will end up with a better actuarial rating model."

Emery, Towers Perrin's THM leader, agrees. "Building THM approaches, products, and services means that you have to get a health actuary, workers' comp actuary, disability actuary, an operations person, a clinician, and someone who thinks 'out of the box' into a room together. Great things can happen.

"Clearly, a lot of the way we do things is an accident of history. What we do is designed around the products that have been developed rather than optimizing the risk outcomes."

Emery sees three implications of THM for actuaries:

- "You can't look in the rear view mirror to see how much you'll save."
- Modeling is central to THM work.
- Using workers' comp data to create measures for nonoccupational and disability situations "is a great starting point" because of the extensive data captured over the years.

Winkelstein and Quinn agree. "One thing that's difficult for actuaries to do is to deal with suppositions rather than data," Winkelstein pointed out. This was a hallmark of his most recent THM project, working with a reinsurer whose client, an employer, asked the reinsurer to add integrated disability to the occupational and nonoccupational medical benefits it was covering. "There was no data blueprint for the impact of adding the integrated disability. I had to make assumptions and go with them," Winkelstein said. "I'm very comfortable in those situations, but others freeze up."

Like Winkelstein, Quinn enjoys the multidisciplinary work. "It's not difficult to make the switch between THM and more traditional approaches," he said. "The first time, you have to get over a learning curve, but once you've done that, the challenges are fascinating."

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