Health Care Ate My 401(k) Contributions

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Health Care Takes Big Bite of Family Budget

A Bigger Bite
Middle-class families’ spending on health care has increased 25% since 2007. Other basic needs, such as clothing and food, have decreased.

Percent change in middle-income households’ spending on basic needs (2007 to 2014)

- Health care: -18.8%
- Food at home: -6.0%
- Housing: -6.3%
- Total: -6.4%
- Transportation: -7.6%
- Total food: -3.6%
- Food away from home: -13.4%
- Clothing: -24.8%

Sources: Brookings Institution analysis of Consumer Expenditure Survey, Labor Department
THE WALL STREET JOURNAL.
Healthcare "Tax" Has Crushed Nest Eggs By $1,000,000 Per Household

Dave Chase  Subscriber ©
Pharma & Healthcare
VC, Speaker, Author, Exec Producer, The Big Heist
LARGEST GENERATION IN HISTORY (MILLennials)
SLATED TO SPEND > HALF OF LIFETIME EARNINGS ON HEALTHCARE

VISIBLE PAYMENTS $ .6M

+ HIDDEN PAYMENTS $ 1.3M

GRAND TOTAL $ 1.9M

TOTAL LIFETIME EARNINGS $ 3.8M

"CEO's Guide to Restoring the American Dream," Dave Chase
Employees are more stressed about health care costs than ever. Here’s how to help.

Financial wellness programs are doing little to help employees with the biggest cause of their financial stress.

By David Vivero | August 07, 2019 at 10:31 AM

Rather than approaching their workforce with a one-size-fits-all benefits package, employers must take a more thoughtful approach to crafting financial wellness programs that align with employees' actual needs. (Photo: Getty)
“It’s a Massive Opportunity if We Can Get in the Way of It (Or Out of the Way of It).”

5 Areas of Focus for Future 401(k) Success: Outcomes 2019 Conference

He then listed five areas of near-term focus going forward for a “really fun next 10-years of opportunity.”

1. The realm of academic and behavioral finance—“It’s fascinating, they’re producing new research each year with these massive teams and apparatuses behind them.”

2. Tech and big data—“For the first time ever, so much of the tools we use now works in

3. Interconnectivity between financial care and health care—You can’t have one without the other. Pena said. “It’s fascinating in how our clients are now managing the infrastructure of each.”

4. The relationship between the employer and employee—40 years ago, the contract was “you work and I pay you.” Now it’s so much more, and slated to continue with Millennials.

5. Consumerism—Employees are more engaged with consumer-driven buying habits and are demanding employers provide it.
Economics of a Healthy Workforce
### Primary Costs of an Unhealthy Workforce

- Absenteeism/Presenteeism
  - Disability leave
  - FML—Continuous and intermittent
- Employee turnover
- Lost productivity
- ADA accommodations
- Premature death
- Recruiting and training replacements
Health Care Cost Attribution

- **23.3¢** Prescription Drugs
- **22.2¢** Doctor Services
- **20.2¢** Office & Clinic Visits
- **16.1¢** Hospital Stays
- **4.7¢** Taxes

- **3.3¢** Other Fees & Business Expenses
- **1.8¢** Customer Engagement
- **1.6¢** Finance, Claims, & Special Investigations
- **1.6¢** Care Management
- **1.6¢** Technology & Analytics
- **0.7¢** Administration
- **0.5¢** Provider Management
- **2.3¢** Net Profit

*Estimated costs above distributed by AHIP. Distribution of spending among administrative categories and items assumed. For data analysis, see AHIP Analysis & Research.*
How Healthy is America’s Workforce?

• Health care $3.3T (17.9% GDP)\(^1\)
• Most employer health costs support chronic health conditions \(^2\)
• Most prevalent jobsite illnesses\(^1\):
  – Hypertension
  – Cardiovascular disease
  – Diabetes
  – Chronic pain

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## Big Ticket Items

<table>
<thead>
<tr>
<th>Condition</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypertension</td>
<td>$84 Billion</td>
</tr>
<tr>
<td>Cardiovascular Disease</td>
<td>$88 Billion</td>
</tr>
<tr>
<td>Diabetes</td>
<td>$102 Billion</td>
</tr>
<tr>
<td>Chronic Pain—Spinal</td>
<td>$87 Billion</td>
</tr>
</tbody>
</table>

Number of Chronic Health Conditions Rises with Employee Age

Employee Lifecycle

- Employee joins company
- Makes life goals
- Thinks about retirement
- Retires
- Lives out retirement years

- Accumulation: Retirement preparation
- Distribution: Retirement execution

- Employee engagement
- Employee education
- Employee transition
Employee Lifecycle

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Employee Lifecycle

1. Employee joins company
2. Employee makes life goals
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4. Employee retires
5. Employee lives out retirement years

- Employee engagement
- Employee education
- Employee transition

- Cruise
- Winnebago
- Outsource chores
- New car
- Pay off mortgage
- Junior moves out
- Less travel
- Assisted living
- Increased health care costs
Employee Lifecycle

1. **Employee Joins Company**
   - Employee Engagement

2. **Makes Life Goals**
   - Employee Education

3. **Thinks About Retirement**

4. **Retires**
   - Employee Transition

5. **Lives Out Retirement Years**
   - Cruise
   - Winnebago
   - Outsource Chores
   - New Car
   - Pay Off Mortgage
   - Junior moves out
   - Less Travel
   - Assisted Living
   - Increased Health Care Costs
Cost of Health Care vs. Saving for Retirement

- Delayed retirement: Cost and consequences to employees and to employers (Formica story)
- Data Analytics—identifying what is driving Health cost
- Better allocate benefits budgets to achieve better results for employees and company
Case Study: Formica Corporation
Formica Corporation

Employee Cost Increases with Age

Workforce Distribution by Age/Cost

- Workforce distribution by age
- Employee Cost by age

Employee Cost Increases with Age

- Workforce distribution by age
- Employee Cost by age
Formica Corporation

Cost of Retirement-Age Employees vs. New Hires

Analysis of employee Data

Marginal Cost of Delayed Retirement

- Average Income
- Average Healthcare costs
- Average Workers Compensation Costs

Average new hire employee  Average retirement age employee

- Wages
- Healthcare
- Workers compensation
- Other
Innovu Analysis of Formica Claims

In general, the farther to the left a client is from the average, the better the performance. In general, the farther to the right a client is from the average, the worse the performance.

Example Medical Allowed Per Member Per Month (PMPM)

- More Likely
  - 25%
  - 50%
  - 25%

- Less Likely
  - $275
  - $300
  - $325
  - $350
  - $375
  - $400
  - $425

Favorable
Unfavorable

National Benchmark $353.56
Regional Benchmark $368.04
Client PMPM $390.00
SmartCohort Average $341.38
## How Do We Shift More Money into Retirement?

### Formica Corporation

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Average Annual Contribution to Family Medical Coverage</td>
<td>$13,903</td>
</tr>
<tr>
<td>Average Annual 401(k) Contribution</td>
<td>$6,096</td>
</tr>
</tbody>
</table>
## Cost of Delayed Retirement

### Formica Corporation

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
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</thead>
<tbody>
<tr>
<td>Delayed retirements</td>
<td>50</td>
<td>78</td>
<td>86</td>
<td>87</td>
<td>95</td>
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<tr>
<td>Expected retirements</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Potential net cost</td>
<td>$524,555</td>
<td>$637,308</td>
<td>$748,093</td>
<td>$992,542</td>
<td>$1,037,673</td>
</tr>
<tr>
<td>Cumulative potential liability</td>
<td>-</td>
<td>$1,161,863</td>
<td>$1,909,956</td>
<td>$2,902,498</td>
<td>$3,940,171</td>
</tr>
</tbody>
</table>

Cumulative present value of net potential liability: $3,940,171
Balanced Scorecard

Formica Corporation
Activities, Preventions and Prescriptive Solutions

EMPLOYER
- RX
- Medical
- Safety
- Workers Comp

HUB
- Data
- Analytics
- Scorecard

PARTICIPANT
- Income
- Coaching
- Wellness
- NQDC

Viability Analysis

Health & Welfare

Qualified Plans

1st Year Projected Savings

Medical
$7.0m x 31% = $2.2m

Rx
$2.0m x 40% = $0.8m = $3.0m

$43m 401(k) Plan

561 Employees
$524,555 Liability

$524,555 Liability = $43m

ER = $0.92m

Expenses = $51,575

EE = $2.5m

Ave. Balance = $76,648

Monthly Income = $255
Retirement Readiness—Increase 401(k) Balances?

• Where does our Benefits Budget go?
• No contest: MEDICAL
• For Formica we know the big number:
• $7.1 Million last year, up slightly from the prior year
• Medical trend keeps going up
• High prevalence of chronic conditions
### What Will Drive Down These Costs?

- **First, look more closely at cost drivers**
- **Data Analytics**—drill down into claims data
- **Medical**
  - Providers
  - Facilities
  - Inefficiency/Waste
  - Lack of decision support tools for employee consumers
- **Pharmacy**
  - Specialty
  - Pre Authorization
- **Retirement plan optimization**
  - Funding analysis
  - Glidepath construction
Understanding Risk Factors

- Chronic disease mechanisms start early
- Signs and symptoms delayed until adulthood
- 10%-20% have an undiagnosed condition
- Risk factor determination
  - Modifiable (environment, behavior)
  - Nonmodifiable (DNA, hereditary mutations)
- Impact of risk factors variable
- Add to Risk factors sedentary lifestyles and obesity

Formica Data—Chronic Disease

Johns Hopkins Healthcare Chronic Disease Management and Behavioral Health Solutions analyzed Formica claims data. Their findings:

- Formica chronic conditions “exponentially higher” than general industry averages
- 298 members (25%) have 3 or more chronic conditions. Diabetes is most costly and pervasive.
- Up to 120 other members could have 1 chronic condition
- Almost 40% of members affected by chronic conditions
- Diabetes alone represent 50% higher claims than those without the disease
- Prevalence of chronic conditions—potential of a 260% claims increase over 5 years
- Additional underlying co-morbidity risk of opioid misuse, musculoskeletal issues, cardiovascular disease, behavioral health issues
Prevalence of chronic conditions

Indicates the potential of over 200% increase in claims cost over a 5 year period.
Pratter Analysis—Some Details

- Level 4 and 5 ER visits = Very serious and expensive.
  - How many result in admit? If not, fraud?
  - Who is looking at this?
- Colonoscopy: Charges vary from $5000-$560 (hospitals at the high end)
- Mammograms: $2500-$250
- These are all In-Network allowed charges
- Pratter identified about $1.2 mil in potential savings out of $5.3 mil medical spend
More Aggressive Approaches May Mean Faster Results

Medical plans:

- Spouse coverage carve-out
- Narrow Networks
- Centers of Excellence with reduced or no out-of-pocket
- Pratter approaches: Money Map; Emphasize high quality and value providers with no out-of-pocket
- Onsite or Near site clinics for plan members (not just employees)—provide primary care with no copay
- Require biometric screen for coverage eligibility
Employees NOT “Retirement Ready”

- Benefits Committee:
  - Are we failing our employees by not helping them become Retirement Ready?
  - What is the effect of delayed retirement on employees? The Company?

- A look at our 401(k) plan:
  - Average balance for participants over 50: $104,650
  - Subtract out the top 10 accounts, and the average balance for the remaining 330 participants: $76,850
  - This includes the pension rollovers
  - How is that going to last for 25 to 30 years in retirement?
Phased Retirement

• 70% OF Baby Boomers say they want to work past age 65, are already working past 65, or do not plan to retire *

• REALITY: 50% of those who retired in 2017 retired < age 62; another 25% between 62 and 64.**

• Only 29% of Boomers say their employers offer any kind of “Transitional” work into retirement.*

• Median Boomer saving rate is 10% of income and median 401(k) account $152,000.

How would a more gradual, but structured, transition into retirement benefit workers and organizations?

* Transamerica Center for Retirement Studies Survey 2017
Phased Retirement

What is it?

- A structured phased retirement plan means that the employee and employer agree to a reduced work schedule (and reduced compensation) for the participating employee for a set period of time (for example 2 years) at the end of which employee formally retires.

<table>
<thead>
<tr>
<th>Employee Pros</th>
<th>Employee Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Able to choose retirement date</td>
<td>Reduced compensation</td>
</tr>
<tr>
<td>More time to save and plan</td>
<td>Reduced opportunity within organization</td>
</tr>
<tr>
<td>Benefits coverage continues</td>
<td>May still not be ready for retirement</td>
</tr>
<tr>
<td>Impact of health concerns on work is reduced</td>
<td></td>
</tr>
<tr>
<td>More time to pass on knowledge</td>
<td></td>
</tr>
<tr>
<td>Clearer picture of how/when career ends</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employer Pros</th>
<th>Employer Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer knows when employee will leave</td>
<td>Added headcount while employee transitions out</td>
</tr>
<tr>
<td>Employee can mentor and train others</td>
<td>Cost of benefits continues</td>
</tr>
<tr>
<td>Reduced &quot;brain drain&quot; due to sudden departures</td>
<td>Need structured plan administered fairly</td>
</tr>
<tr>
<td>Less disruption overall</td>
<td>Careful communication extremely important</td>
</tr>
<tr>
<td>Retention tool for mid-career employees</td>
<td>Must negotiate with unions</td>
</tr>
<tr>
<td>Reduced schedule could improve employee health</td>
<td></td>
</tr>
</tbody>
</table>
Where Do We Start?

- Formica’s approach to improving 401(k) savings:
  - Increase ER Match to 401(k) deferrals to 4%
  - Auto enroll (new hires) and auto re-enroll
  - Add Roth option to 401(k)
  - Improved TDF for QDIA
  - Auto-increase optional

- Medical plan:
  - Changed TPA and PBM for more transparency, greater access to Rx rebates. Project $500,000 Rx savings in 2019
  - Disease management—focus on Diabetes first
  - ROI TBD
Human Capital Risk Strategy

Why Data Matters

Transparency
Quantifiable Savings
Accountability

Collect
Compare
Frame
Measure
Target
Implement
Key Takeaways

- Conduct a diagnostic (determine size of opportunity)
- License a data warehouse and analytics platform
- Identify root causes
- Set KPIs
- Implement interventions and preventions
- Measure, measure and measure