On the Brink of Change

How CFOs View Investments in Health and Productivity

Research by the Integrated Benefits Institute

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INTEGRATED BENEFITS INSTITUTE

This research identifies the link that senior financial executives see among workforce health, employee benefits, productivity and the bottom line. Where these linkages are more tenuous, the report identifies the information, metrics and results that would strengthen CFOs' understanding. CFOs also indicate what they expect from their benefits programs. We evaluate the extent to which they concur that employee benefits can be viewed as an investment in human assets.

The study is based on a national survey of 269 CFOs (senior financial executives such as chief financial officers, financial directors, executive and senior vice presidents of finance, and vice presidents of finance) in a wide variety of industries and employer-size classes.

The Integrated Benefits Institute (IBI) and CFO Research Services, a unit of CFO Publishing Corp., collaborated to design the survey and conduct the analysis. CFO Research conducted the survey; IBI published this report. The participation of CFO Research Services was funded by Schering Plough Corporation, a worldwide research-based pharmaceutical company and member of IBI's Board of Directors. In addition, CFO Research conducted 18 telephone interviews with respondents to add insight and context to the survey results. Where relevant, quotes from those interviews are included.

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The **Integrated Benefits Institute** is a national, nonprofit organization supported by employers, insurers, healthcare providers, brokers, third-party administrators, consultants, pharmaceutical companies, behavioral health providers and others having an interest in health and productivity management through integrating employee benefits.

To best serve the needs of employers and employees, IBI identifies and analyzes health and productivity issues as they cut across traditional benefits programs of workers' compensation, group health and non-occupational lost time. IBI's programs include research, assessment of full costs of benefits and an integrated benefits educational forum.

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This is a trying time for employee benefits managers—whether in human resources or risk management. Benefits costs are climbing, the economy is weak and, for many, company workforces are shrinking. Benefits managers can't help but believe that their executives "just don't get it" when these senior financial officers ask health, disability and workers' compensation (WC) administrators to justify their expenses while demanding a decrease in disability and absence payouts and insisting that health cost surges be minimized. This is at a time when layoffs often increase the incidence of disability cases.

Lost in the debate is this fundamental question: Must CFOs view employee health and absence benefits as a cost to an employer that impedes its bottom-line results, or can the company treat benefits as a way to invest in employees' health, satisfaction and effective presence on the job—all of which drive corporate productivity and bottom-line results?

To identify what senior financial executives expect from their benefits programs and to evaluate the extent to which they concur that employee benefits can be viewed as an investment in human assets, we surveyed 269 CFOs (senior financial executives such as chief financial officers, financial directors, executive and senior vice presidents of finance, vice presidents of finance and others). The survey assesses their attitudes about healthcare, absence and disability benefits and their effect on productivity and the corporate bottom line.

We interviewed 269 CFOs to identify what senior executives expect from their benefits programs and to evaluate the extent to which they concur that employee benefits can be viewed as an investment in human assets.

Key findings:

1. **CFOs' concern over healthcare goes well beyond out-of-pocket costs.** CFOs recognize a strong link between health, productivity and corporate financial success.
2. **This strategic understanding doesn't help CFOs crystallize workforce challenges.** They emphasize such traditional issues as attracting, retaining and training employees rather than keeping them healthy, productive and at work.

3 **CFOs link health benefits to the corporate bottom line only with difficulty.** Their benefits program success measures—costs, employee satisfaction and employee retention—are different from financial performance measures (cash flow and growth in revenue and earnings).

4 **CFOs value workforce productivity as a means to financial success.** CFOs would invest to change benefits management if a modest productivity gain would result.

5 **Benefits management strategy emphasizes cost control.** But rather than shift costs to employees as a primary approach, CFOs say their companies choose to attack the drivers of those costs and of program usage.

6 **CFOs show a surprising appreciation that healthcare providers** (health plans, physicians and prescription benefits managers) **can have a positive effect on total costs, not just medical costs.**

7 **They also believe that the offering of a pharmaceutical benefit can play a strong role** in decreasing costs and improving health and productivity.

8 **With the right information—keyed to the way they think—CFOs can be expected to understand and support the need for further investment in effective health-related benefits delivery**.

Healthcare and Workforce Challenges

Concern with Healthcare Costs

CFOs show understandable concern with healthcare costs, which are projected to increase by more than 15% for employers in 2003—the largest increase in more than a decade.[1]

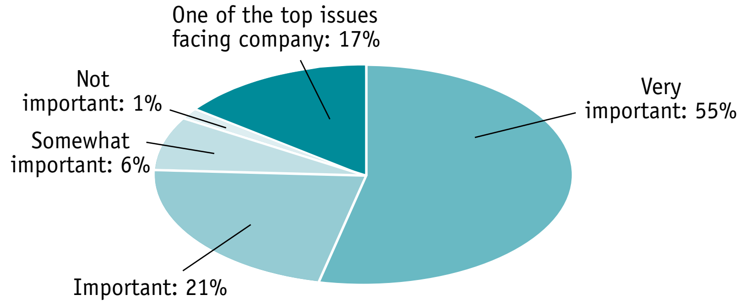
More than nine in 10 rate the rise in healthcare costs as at least an "important" concern, and 17% call it one of their company's top issues. Concern also is widespread—cutting across employer characteristics such as type of business, employer size, benefits-reporting structure, whether the CFO delegates management of benefits programs to others or takes full control, key workforce demographics (age, gender, percentage unionized) and public versus private corporate ownership.

A Clear View—So Far as It Goes...

Depending on CFOs' attitudes about healthcare, however, their responses to cost concerns can take different paths. IBI research has demonstrated that the manner in which healthcare is delivered can have a profound effect on absence and disability.[2] Employer groups now are weighing in on the issue. (See sidebar on page 4.)

IBI's first research found that more-intensive medical care can shorten disability duration. IBI's most recent full-cost study also estimates that the full cost of absence, including lost productivity, is twice out-of-pocket

CFOs' Concern over Rising Healthcare Costs



benefits costs.[3] Thus, when healthcare is recognized as fostering health and minimizing unnecessary absence and disability, it can be viewed as a value-added investment instead of a burdensome cost.

Another IBI case study, with IBI members MEDSTAT and CORE, demonstrates that a reduction by 12% in the excess staffing costs occasioned by unscheduled occupational and non-occupational absences could pay for half the group health costs of the large manufacturing employer studied.[4] Using IBI's full-cost results, a $1 return in direct benefits savings can equal a return of $2 in direct benefits and productivity savings. For an individual employer, savings can often amount to more.

The results of these studies and others add to a growing body of evidence that shows that inappropriate, inadequate or wasteful healthcare can have profound effects on employers' overall benefits costs, productivity and bottom-line results.

"Our healthcare costs last year alone were $4.2 billion. It is a component of our finances that's important to manage to the maximum extent possible so that we can hold postage rate increases to a reasonable level."

—Richard Strasser
EVP and CFO
U.S. Postal Service

[1] "Projected Health Cost Increases Highest in a Decade," *BenefitNews.com CONNECT*, October 4, 2002, citing preliminary data from consulting firm Towers Perrin.

[2] *Return to Productivity*, Integrated Benefits Institute, September 1996.

[3] *IB Inform*, "The Full Costs of Absence, Lost Productivity and Health," Integrated Benefits Institute, July 2002.

[4] *Linking Medical Care to Productivity: Considering a New Employer Healthcare Strategy*, Integrated Benefits Institute, February 2001.

EMPLOYER GROUPS WEIGH IN

Employers Shift Strategies

In June 2002, the Midwest Business Group on Health (MBGH) released *Reducing the Costs of Poor-Quality Health Care Through Responsible Purchasing Leadership,* a report citing the financial damage, including reduced productivity due to absenteeism, that results from overuse, misuse and waste in healthcare. MBGH stated, "Purchasers must re-tool perverse payment policies that discourage quality improvement." MBGH suggested that these policies include medical contracting decisions based on price without examining plan and provider performance, using transaction-based (rather than outcome-based) payment structures and failing to engage consumers (employees and beneficiaries) on quality issues.

Smaller employers also are affected. A September 2002 survey and report by the National Association of Manufacturers (NAM), *Health Care at the Crossroads,* noted that changes in health benefits need to be made without compromising the ability to attract and retain skilled workers. The report also suggested, "For manufacturers already investing in their workers' training, investments in a healthy workforce represent a core feature of the new high-performance benefits strategy. This will require the development of new measures to evaluate the performance of their health-benefit plans." Among the recommendations: Expand employee participation in wellness and disease management. For NAM, this means targeting investments in such programs to where they have the greatest potential returns. The report recognized that disease management "can also be integrated into a firm's total cost strategy, as healthier workers translate into lower costs in disability and absenteeism."

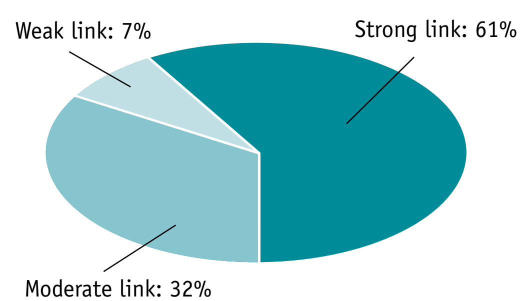
Intuitively Linking Worker Health to the Bottom Line

Knowing that CFOs are concerned about the rising costs of healthcare is not enough to predict what path their reactions might take and how it might affect benefits delivery and availability. For that, we begin by assessing their attitudes about the linkage of healthcare to productivity and, from there, to broader bottom-line issues.

CFOs appreciate that the importance of healthcare goes far beyond out-of-pocket costs: There's a demonstrable link between employee health and workforce productivity, and improved productivity drives bottom-line results.

Six respondents in 10 ascribe a strong linkage of health to productivity to the bottom line (with an additional one-third recognizing a moderate link). The perceived strength of that link is an important clue that CFOs are willing to consider responses to surging benefits costs other than simply cutting those

CFOs: Linking Health, Productivity and the Bottom Line



costs or shifting them to employees—if they are presented with appropriate information.

As we see later, CFOs are used to thinking of productivity as a key determinant of financial performance. Perhaps most surprising is that our analysis shows that the link between health and productivity (a nonfinancial view of the workforce) is only moderately less strong than the link between productivity and the bottom line (an economic view).

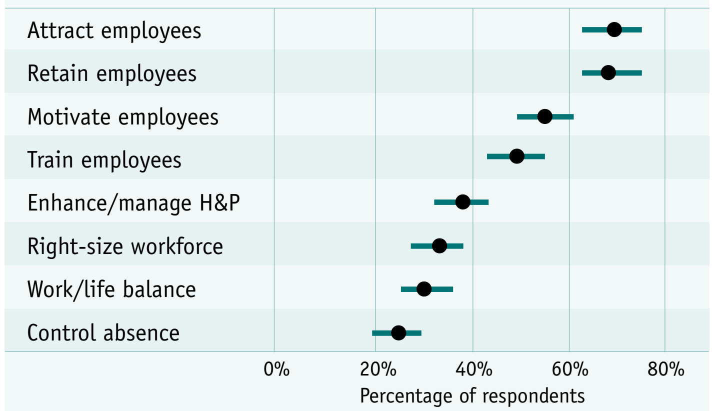
The only measurable difference among CFOs in terms of how they view the strength of this three-way linkage is that those CFOs who share benefits decisions with benefits and risk managers as part of a team effort are more likely to link health, productivity and the bottom line than are CFOs who say they are the ultimate decision maker. Perhaps this shared responsibility—and the sharing of information and discussion that a team approach implies—is a key factor in helping the CFO understand the difference between healthcare as an investment in productivity versus a cost to be managed or reduced.

Workforce Challenges

Unfortunately, CFOs appear to be less likely to bring to bear this intuitive grasp of the linkage between health, productivity and the bottom line on the issues facing them during this dichotomous time of a shrinking economy and a shortage of skilled workers.

CFOs face many challenges in today's economy, but in their view having the right number of experienced and skilled workers available is among the most pressing.

CFOs' Key Workforce Challenges



As shown above, the percentage of CFOs identifying as key various workforce challenges are marked with a dot; CFOs were allowed multiple responses. The horizontal line at each point shows the "confidence interval" around that response rate—that is, when the line for one challenge doesn't overlap with that of another challenge, the difference in answers truly reflects a difference in opinion among respondents and not a statistical anomaly.

These results demonstrate a "traditional" view of the workforce among CFOs. Key to almost 70% of respondents is the front-end need to attract and retain employees with the desired skills, even in this time of economic slowdown. A second-tier challenge also reflects the desire to motivate and train employees to perform in the fashion best suited to the company's results.

Productivity Goals Less Understood

Lower ranked are several challenges related to keeping employees healthy, at work and productive. Part of the problem may be that "work/life balance," "enhance/manage health and productivity" and "control absence" are murkier concepts for CFOs. They understand better the concepts of compensation, training and motivation that are inherent in the top challenges. With effective information, however, CFOs can be led to understand that having a worker at work and not off on disability is a better option than hiring and training a new employee (and equal to retaining an existing worker). Today, most CFOs don't see it that way.

> **"We don't want to be in a noncompetitive situation where we're losing people because our benefits aren't as good."**
>
> — Michael Albright
> SVP of Administration
> Centrex (Texas-based construction company)

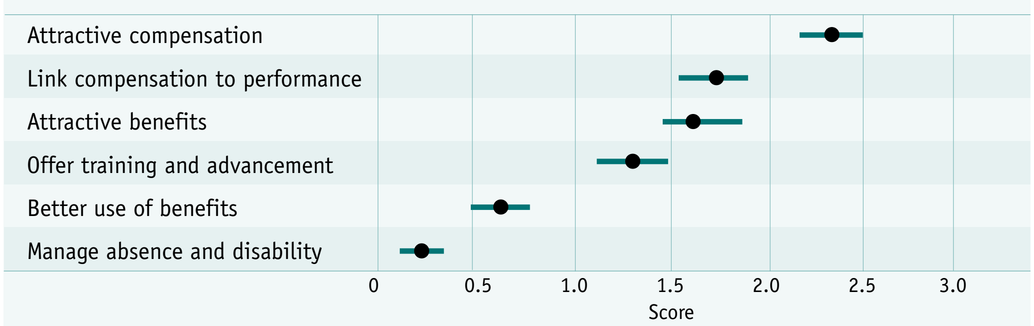
Strategies Match Perceived Challenges

We asked CFOs to rank the top three strategies they use to meet their key workforce challenges. We then created a weighted score showing their relative ranking.

Not surprisingly, the strategies CFOs value highest match their traditional view of workforce challenges. The front-end goals—to attract and retain employees—clearly drive their strategic plans, whereas managing absence and using benefits programs to achieve business goals (as opposed to providing attractive benefits) are at the bottom of the list.

Still, almost two-thirds of the CFOs who identify the top four traditional strategies as important in meeting their perceived workforce needs also see a strong link between health, productivity and the bottom line.

CFOs' Top Workforce Strategies



The Benefits Program Disconnect

Why do CFOs have trouble understanding that managing absence and disability, and using benefits to achieve that goal, can help them meet their workforce needs? By their nature, CFOs respond to the numbers. Perhaps there's a disconnect between the way corporate performance and benefits performance are measured and tracked. If so, it may never have occurred to them that managing absence might be a way to meet their business and workforce goals.

We asked CFOs to rank their top three measures of financial performance. We then determined whether benefits program performance is measured in the same framework.

First, their top financial performance drivers: Although cash flow is the highest-ranked financial performance driver, it is statistically identical to revenue growth in importance to CFOs. In addition, as the overlapping horizontal lines show, there is no statistical difference in importance among revenue growth, earnings growth and growth in net operating profit.

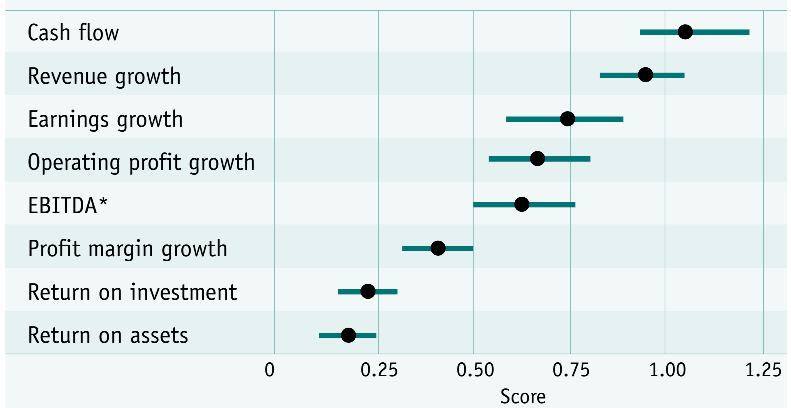
How Do Benefits Program Measures Compare?

Any attempt to interest CFOs in the merits of managing health and productivity as a bottom-line strategy would be best expressed in the financial terms they value and are familiar with for their business. Thus, we asked CFOs what outcomes their benefits managers are measuring.

The results may help explain why there isn't very good alignment between workforce challenges and solutions, and the strong link that most CFOs believe exists among health, productivity and the bottom line. It may be that they can't operationalize the link because the measures of benefits program success are so different from the financial measures they use.

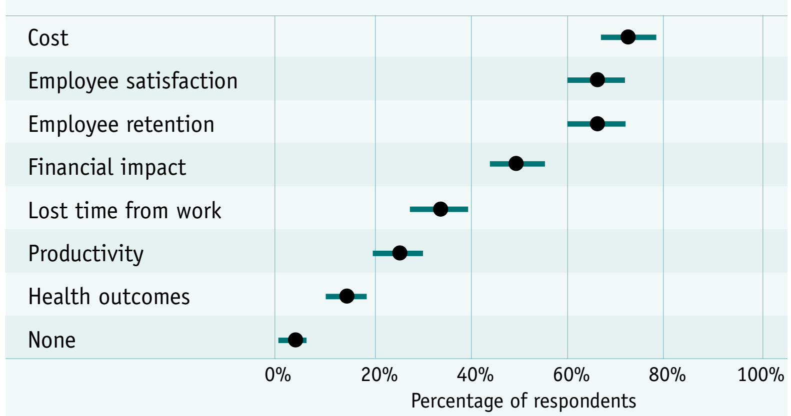
The three measures at the top of the list (program cost, employee satisfaction and employee retention) are statistically

CFOs' Top Financial Performance Drivers



*Earnings before income taxes, depreciation and amortization

Benefits Outcomes Measured



For some, an ROI analysis for health benefits is important:

"We try to do an ROI for everything we do, whether it's a benefit program or buying a new asset. As you implement systems or benefits, or take them away, you can see whether people are in the office more or not, and you can put a dollar amount around that."

—James Arnold
VP of Finance
Atlanta-based
AmeriCold Logistics

identical and say nothing about the effects of benefits on productivity and absence from the job. Half of the respondents measure the financial impact of benefits outcomes on the company, but it is likely these are in terms of only out-of-pocket benefits costs.

To demonstrate to CFOs the true value of the health, productivity and bottom-line linkage, benefits programs need to be evaluated in terms of the full costs that come from absence, sickness and poor health. Instead, only about one-quarter of respondent companies look at the impact of benefits on productivity, and one-third measure time lost from work due to absence or disability. Health outcomes are even less frequently measured.

If productivity and lost-time results are seldom measured as a product of benefits programs, CFOs can't be expected to know how benefits programs affect the cash flow, revenue and earnings issues important to them. The lesson: *Benefits program performance should be measured and expressed in terms that CFOs use for overall financial performance.*

Here too the outcomes measured have nothing to do with how strongly CFOs believe that health, productivity and the bottom line are linked. Despite the fact that the vast majority ascribes a strong link among health, productivity and the bottom line, the benefits program measures that would demonstrate that linkage are among the least used. Perhaps this is another demonstration of a result from IBI's survey of employers' integrated benefits best practices.[5] There we concluded after analyzing the metrics employers use to measure savings, "It seems that employers measure what they *can* to evaluate savings, not necessarily what is *most important* to them."

Benefits Program ROI

CFOs also present an interesting view of the application of a return-on-investment (ROI) analysis to benefits delivery improvements. Not only is ROI low in the CFOs' view of financial drivers overall, two-thirds were unable or unprepared to specify a hurdle rate (minimum required ROI) to investments in employee benefits. When they do, the hurdle rate is 8%, or less for 64% of respondents. Of those that do measure ROI for investments in benefits programs, more than half require results in a year; the remainder use a shorter period.

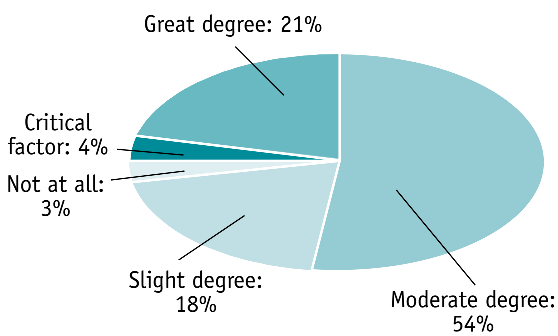
It's surprising that many companies permit huge expenditures in employee benefits with no ROI requirement. This may go more to the lack of data and an economic foundation for determining what the return may be than a conscious choice to ignore an ROI for benefits programs.

[5] *A Survey of Integrated Benefits Best Practices: How Employers Look at Integrating Health and Productivity Management*, Integrated Benefits Institute, January 2002.

How Strongly Do CFOs Link Benefits Programs to Financial Performance?

When we ask CFOs the degree to which employee benefits programs currently play a role in their companies' financial performance goals, there isn't a strong overall link. The results speak to some understanding that a link is likely—though probably not as clearly understood as it would be had CFOs had numbers to back their intuition.

Benefits Programs' Impact on Financial Performance

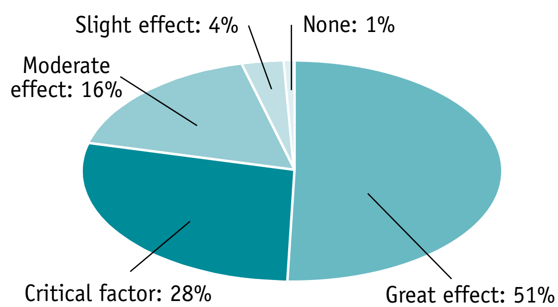


One in four respondents views the link to be a critical or great factor in affecting financial performance, but the majority sees only a moderate link. Still, with 79% seeing at least a moderate link—coupled with the intuitive linkage of health, productivity and the bottom line noted above—there appears to be fertile ground for a better understanding of what's at risk if benefits performance measures start to speak in a language to which CFOs are accustomed.

Linking Productivity to the Bottom Line

Because CFOs have difficulty appreciating any direct connection between benefits programs and the bottom line, are there other links they recognize that can be leveraged to help demonstrate the ultimate connection? We looked at the CFOs' view of the connection between workforce productivity and the financial performance drivers they believe are key. To get at this issue, we asked CFOs about the impact they thought productivity has on their financial performance indicators—metrics aside.

Workforce Productivity's Impact on Financial Performance Drivers

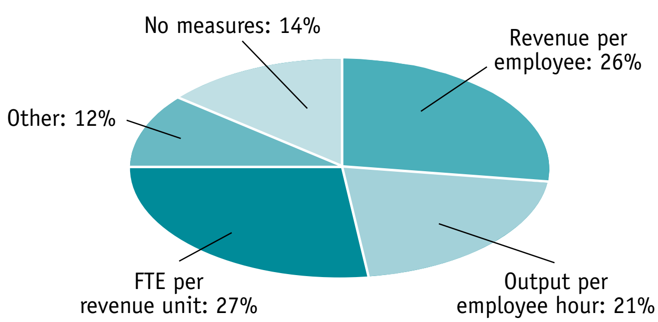


We found that CFOs link productivity to financial performance much more strongly than they link benefits plans to the same financial drivers. That should be no surprise because productivity is traditionally treated as a key element of financial performance—higher productivity means greater output with the same or less input: The result is higher profit. The effect of benefits plans on bottom-line results is only beginning to be understood, though the principle is the same. Employee health, and by extension benefits, is only one component of productivity. CFOs are more likely to credit investments in technology and equipment as productivity enhancements that drive value to the bottom line. Without more education, they are unlikely to think about innovations in benefits management and delivery in the same way as investments in technology and equipment.

When we asked CFOs for the primary metric they use to gauge employee productivity, CFOs show how closely they link productivity measures to key bottom-line measures.

The metrics used to gauge employee productivity have a close relationship to the key financial performance measures that CFOs identify: cash flow, revenue growth and earnings growth.

CFOs' Primary Metric to Gauge Productivity



Refocusing Benefits Programs

We've noted that most CFOs don't see a particularly strong link between benefits programs and financial performance drivers. We did find a much stronger connection between productivity and financial performance drivers. We concluded that CFOs may have an intuitive understanding of the link between health and the bottom line, but what really gets their attention are the kinds of financial measures they are used to seeing.

There is one more link to explore, and that involves the impact CFOs see from the *design and management* of employee health and disability benefits on the health and productivity of their workforce.

Below we compare this connection—where 44% of respondents suggest a great or critical impact—to the weaker connection we see when we asked about the impact of benefits programs on financial performance, where only 25% of respondents ascribed a great or critical impact.

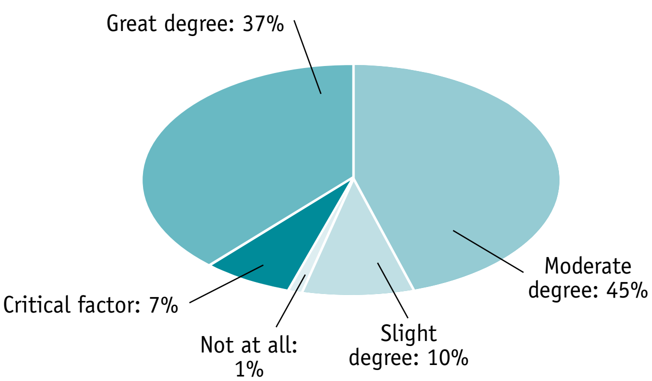
This brings us full circle. CFOs believe that there's a strong link between productivity and financial performance. They also understand the connection between benefits design and management and the health and productivity of their workers.

In discussing the definite linkage he sees between employee health and his company's productivity:

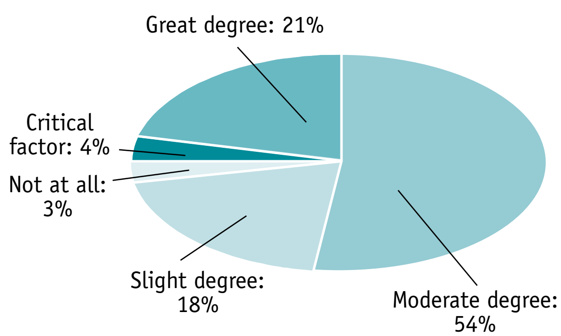
"What is hard to quantify is *What productivity gains do you derive from dollars spent?* I don't think the science is there to really determine that."

—Joseph Gentile
Chief Financial Officer
Bank of America
Private Bank

Benefits Design and Management's Impact on Health and Productivity



Benefits Programs' Impact on Financial Performance

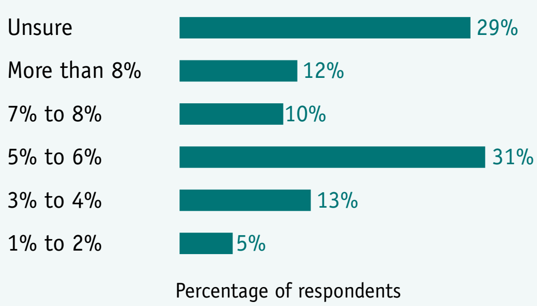


> **"We're a supply chain operation, so productivity is everything. Our number one key indicator is labor, so we tracked productivity and absenteeism very closely."**
>
> —James Arnold
> VP of Finance
> Atlanta-based
> AmeriCold Logistics

What Would Motivate Change?

If CFOs acknowledge that benefits programs can have a profound effect on health and productivity, one way to put these issues into terms to which a CFO is likely to resonate is to show how changes in benefits delivery can affect productivity. We probed to find out how much of an improvement in CFOs' measures of productivity it would take to prompt a change in the way the company manages benefits.

Productivity Improvement Required to Change Benefits Program



It is surprising that given the importance of productivity to financial success, three in 10 CFO respondents were unable to specify the magnitude of change in productivity that would be necessary to justify a change in their benefits program. For those *able to state a target*, 83% want a change in productivity of 8% or less to justify a change in benefits management.

Needed Gains Vary by Measure

The productivity gains required by CFOs vary by measure. For example, the largest single group of respondents measures productivity by *revenue per employee*. A large portion of this group, comprising more than 10% of total respondents, simply doesn't know what productivity gain would be required.

Unfortunately, many employers don't have in place the necessary tools to measure the productivity gain from a change in their benefits program. For example, many employers don't know how many of their employees are out on disability or incidental absence. They assess their productivity based only on those actually at work. Any new productivity measure (using the combined number of absent and present employees in the productivity calculation) is likely to change dramatically. Also, the productivity improvement goal is likely to vary depending on how well their benefits program is managed today and what kind of program they intend to put in place.

A Reasonable Target

What is clear is that the productivity targets necessary to justify benefits program change are not too high for many employers to meet when the full panoply of benefits changes is considered. IBI's 2002 full cost of absence study[6] shows that median reasonable

[6] *IB Inform*, "The Full Costs of Absence, Lost Productivity and Health," Integrated Benefits Institute, July 2002.

targeted savings from reduced absence alone can amount to 5.3% of net income and 2.4% of payroll. For employers with benefits program problems, the potential savings can be much more.

Other types of changes will deliver substantial productivity and benefits savings as well. For example, in addition to absence and disability management programs, benefits program changes may include disease and wellness management initiatives, which have been shown to affect disability and absence as well as medical costs. A recent evaluation of a wellness program at Hughes Electronics found that returns on investment ranged from 3.4 to 3.7 to 1 as measured by reduced need for medical care among participants. In addition to medical savings, the evaluation found that wellness program participants are only about half as likely to file for short-term disability benefits.[7]

Disease management initiatives also enable employees who are at work to perform less encumbered by illness or health issues. According to a survey of 25,000 representative employees by a national health improvement company, such so-called presenteeism accounts for more than two-thirds of health-related lost labor costs nationally. Among those with episodic or chronic-episodic health conditions, almost three-fourths of their missed time occurs on the job, not from time off work.[8]

Programs that reduce the direct medical and disability costs as well as the lost productivity from illness and injury can substantially improve productivity for employers.

Another company that tracks absence and links it to its benefits plan is Paychex, a Rochester, New York–based payroll processor. According to Will Kuchta, vice president of organizational development, Paychex measures the impact of its aggressive wellness programs. So far, the number of days employees are out of the office is diminishing; the company has been successful in catching major illnesses early, and employee morale has risen.

[7]*Hughes Electronics: Integrating Outsourced Wellness and Disability Management*, Integrated Benefits Institute, October 2002.

[8]*The American Productivity Audit*, AdvancePCS Center for Work and Health, June 2002.

Today's Benefits Strategies and Tomorrow's Solutions

> **"I think it's absolutely critical [that CFOs become more involved in healthcare benefits decisions]. Any CFO that is not involved in the appropriate way and at the appropriate level is missing a major part of their responsibility."**
>
> — Frank Gatti
> Chief Financial Officer
> Educational Testing Service

CFOs' attitudes about current benefits strategies may be our best clue as to how they may respond to a broader view of benefits goals in the future. We asked CFOs about their current benefits programs—*but only if they feel knowledgeable enough about their programs to respond*. Surprisingly, 87% believe themselves knowledgeable about benefits program details, even though benefits managers report elsewhere in the organization for 43% of the CFOs.

Benefits Strategies

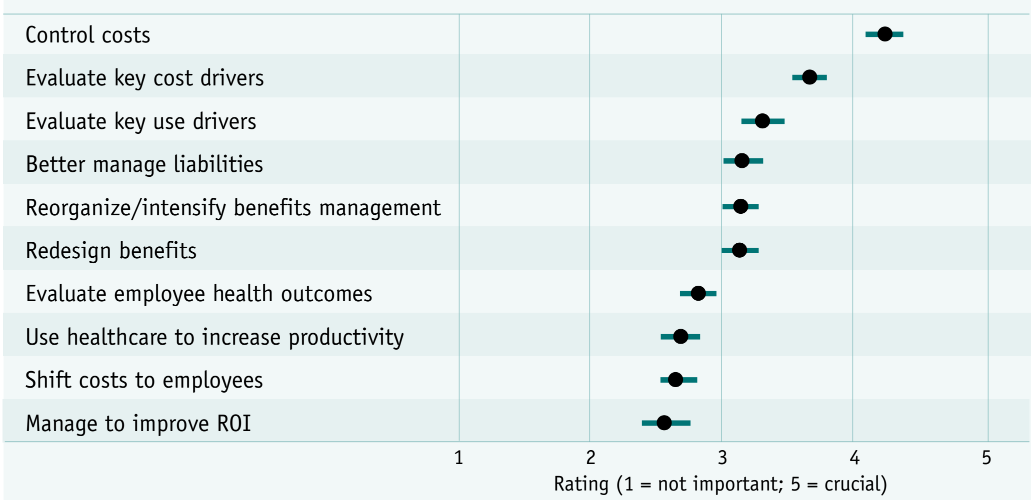
CFOs told us how they value a variety of strategies for benefits management and delivery. As might be expected, the premier such strategy for CFOs is to control costs.

But the CFO responses show far more sophistication than a simple cost-cutting strategy for benefits programs. The second- and third-rated factors—evaluating key drivers of costs and utilization—show an inherent interest in *better management* of costs, not simply cost cutting. Not far behind are the related issues of reorganizing and intensifying benefits management and redesigning benefits.

The strong emphasis on cost drivers and the ability to manage them actually show an opportunity for those seeking more value from the way benefits are managed. Two strategies that are less important for CFOs are evaluating employee health outcomes and the use of healthcare to increase productivity. One can conjecture that if CFOs are shown that these two issues represent significant dollars, they would move up in importance.

Shifting costs to employees and managing benefits to improve ROI also aren't critical strategies for CFOs. The ROI response likely reflects their infrequent application of an ROI hurdle rate to benefits investments *at all*. Shifting costs to employees may conflict with the top workforce challenges: the attraction and retention of employees.

CFOs' Value of Benefits Strategies



Existing and Planned Management Programs

CFOs were asked to identify the top three benefits management programs they have or are planning to add.

With the continuing surge in healthcare costs, and the importance CFOs give to it, they can be expected to view prescription drug management as their most important benefits management initiative. The placement of wellness programs and employee assistance programs as the second- and third-rated management programs, however, further shows that CFOs appreciate the effects of health and prevention on benefits cost and utilization drivers and aren't focused only on snipping existing costs.

Variation Expected

This survey question forced CFOs to rank their top three management programs in order. When responses are ranked this way, we expect the wider variations in answers that we see here, particularly at the top end. Had we asked for the importance of each program, we would have expected less difference in the responses.

Ranking Other Programs

Three other management programs may drive some of the CFO interest in pharmacy management: disease management, behavioral health management and wellness. To varying degree, each is dependent on the effective use of drugs to moderate or prevent symptoms. For example, in implementing a disease management program at Hughes Electronics,[9] program administrators were not surprised to see its pharmacy utilization increase as part of the program's appropriate management of disease.

CFOs also report more interest in return-to-work and stay-at-work incentives than they do in absence management. Absence management may not be a specific enough concept for CFOs to recognize. Employers also are more likely to track workers out on disability for an extended time than they do incidental absence.[10] Thus CFOs are often missing the data they need to focus on absence as an issue.

DiGiorgio, a New Jersey–based food distribution firm, faces sharply rising costs but has for now rejected the idea of cutting benefits or requiring employees to bear more of the financial burden:

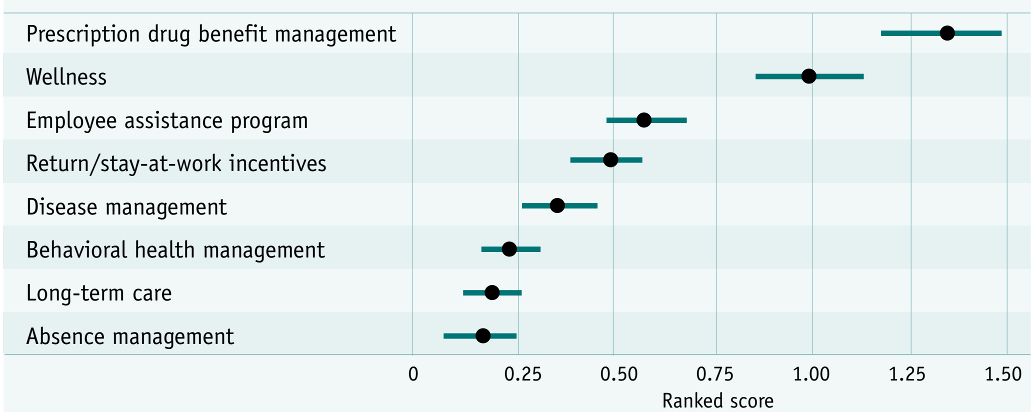
"This is an investment in our people. We view it as part of the overall compensation package that forms the link between the employee and the company."

— Larry Grossman
Chief Financial Officer
DiGiorgio

[9] *Hughes Electronics Innovation: Evaluations of Disability and Medical Costs Savings from Wellness and Disease Management Programs*, Integrated Benefits Institute, October 2002.

[10] "MetLife research shows that absence management initiatives present measurement challenges that occur less often in IDM initiatives," *BenefitNews.com ADVISOR*, August 21, 2002.

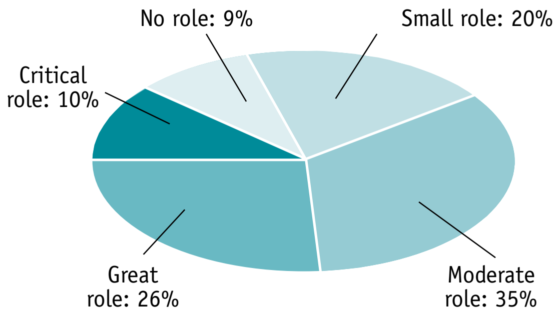
CFOs' Top Benefits Management Programs



Role of Healthcare Providers

We also asked CFOs about the productivity results they desire from their healthcare provider benefits partners. These providers include health plans, physicians and prescription benefit managers (PBMs).

Productivity Role of Health Plans, Physicians and PBMs



To a surprising degree, CFOs understand that healthcare providers can affect their productivity goals. More than one-third assign a great or critical productivity role to providers, and 71% believe that healthcare providers play at least a moderate role.

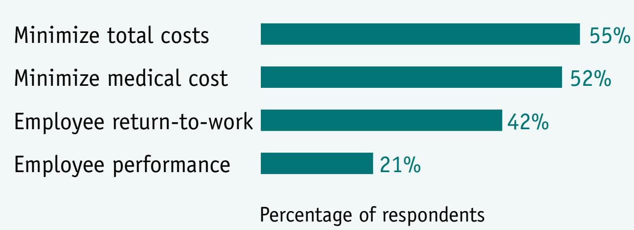
There is a strong, three-part statistical link among CFOs who (1) see a role for healthcare providers in managing productivity, (2) recognize a link between health, productivity and the bottom line and (3) ascribe a strong connection between benefits design and management and workforce health and productivity. This consistency shows that no single link is accidental: Once the CFO grasps the critical connection of benefits delivery and management to productivity, the CFO is able to translate the import of that linkage to other relationships affecting benefits, productivity and ultimately the bottom line.

What Role?

We then asked CFOs to identify all the roles they see for healthcare providers to affect productivity.

Surprisingly, CFOs give top marks to the effect healthcare providers can have on *total* costs—medical and absence—and not just their traditional effect on medical costs alone. Many CFOs also understand that healthcare providers affect other nontraditional outcomes such as helping workers remain at work and not being off on disability and enhancing employee performance while on the job. A surprising 81% of respondents included at least one of the nontraditional outcomes in their expectations regarding the effect of healthcare providers on productivity.

Role of Health Plans, Physicians and PBMs

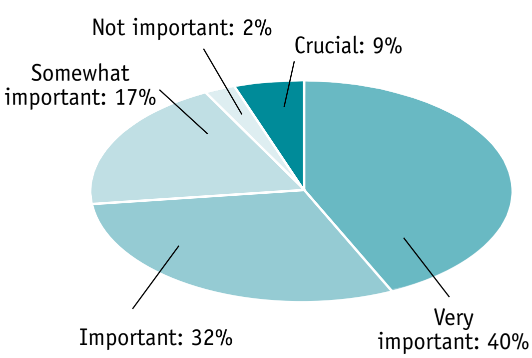


CFO responses to these two healthcare provider questions are the strongest indicator that CFOs are likely to respond positively when presented with specific information suggesting that benefits can be used as an investment in workforce productivity and not viewed simply as a cost to be cut. CFOs are open to the alternative views of the value of healthcare and absence benefits expressed in IBI research. [11, 12, 13]

Pharmacy Benefit Role

The role of the pharmaceutical component of healthcare has drawn debate in recent years as one element affecting healthcare cost increases. Do CFOs view the pharmaceutical benefit as a plus in the treatment and prevention of disease and injury or is it viewed simply as a leading cause of escalating healthcare costs?

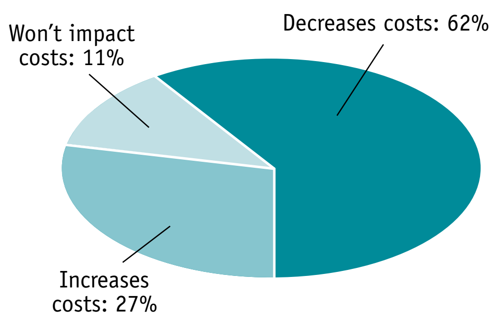
Pharmaceutical Benefit's Role in Health and Productivity



CFOs view a pharmaceutical benefit as a strong means to achieve their health and productivity goals. More than 80% view a pharmaceutical benefit as at least an important component to their health and productivity goals, and almost 50% believe that it is crucial or very important. This view is consistent with a disease management, wellness and behavioral health management approach to common conditions that affect workplace productivity.

But whether a pharmaceutical benefit *affects* a CFO's health and productivity goals is only part of the equation. Another key piece is the *extent* to which and the *direction* in which a prescription drug treatment regimen has the potential to affect direct healthcare and absence-related benefits costs.

Prescription Drug Impact on Health-Related Costs



More than six in 10 CFOs believe that a prescription drug regimen has the potential to *reduce* total health-related costs.

From the viewpoint of the CFO, a pharmacy benefit is an important component of meeting the CFO's health and productivity goals; and even when just health-related costs are considered, the majority believes that prescription drugs are likely to reduce those overall costs.

[11] *Linking Medical Care to Productivity: Considering a New Employer Healthcare Strategy*, Integrated Benefits Institute, February 2001.

[12] *Return to Productivity*, Integrated Benefits Institute, September 1996.

[13] *Physicians Managing Disability: Identifying Opportunities and Constraints*, Integrated Benefits Institute, April 2002.

Conclusion

CFOs are not mindful of the effects of their company's healthcare benefits programs on their financial performance goals—at least in the concrete fiscal terms to which they are accustomed. CFOs are willing, however, to link healthcare delivery and management to improved productivity, that is, more workers at work producing greater output. From there, CFOs can use their standard measures of productivity to take the next step in crediting increased productivity as a potential lift to their bottom-line expectations.

Surprisingly, CFOs are able to think outside the traditional box when it comes to the impact healthcare providers and benefits delivery have, not only on medical costs but on the full benefits that can come from increased health and productivity.

What Does the Research Mean?

- **Taken as a whole, these survey results show that CFOs are willing to change the way they value benefits programs if they can see the advantage.** They view the connection between employee health, their productivity and bottom-line results to be strong. Their intuitive understanding bridges the absence of the types of concrete measures they are used to.
- **CFOs also appear willing to manage and restructure benefits to obtain value from them for workforce goals and worker health and productivity** instead of simply viewing them as costs to be cut. They require only a modest showing of productivity enhancement to be willing to invest in their benefits programs.
- **Herein lies a challenge to benefits managers:** CFOs likely require information that links benefits enhancements to financial success. IBI is focusing its research and benchmarking work to help supply this information.
- **Finally, the current difficulty many senior financial executives exhibit in linking benefits programs to the bottom line may come because benefits program performance is measured quite differently from the metrics that CFOs value in assessing overall financial performance**. Benefits managers need to put their full costs of health and absence into the revenue, earnings and cash flow metrics that CFOs value in assessing their companies' bottom-line performance.

Appendix

Research Design and Sample

Respondent's Position

VP/finance	17%
EVP/SVP finance	5%
CFO/financial director	70%
Other	8%

Employer Size

Less than 1,000	17%
1,000 to 4,999	55%
5,000 to 9,999	10%
10,000 to 14,999	6%
15,000 to 24,999	3%
25,000 or more	9%

Type of Business

Production/distribution	45%
Professional services	55%

Workforce Demographics

More than 55 years of age	17%
Male	53%
Unionized	37%
White collar	40%

Benefits and WC Structure

Managed together, report elsewhere	29%
Managed together, report to CFO	23%
Managed separately, report elsewhere	28%
Managed separately, report to CFO	20%

CFO Relationship to Benefits Department

Team approach	59%
Leader	22%
Final decision maker	6%
Delegates	13%

Recent Organizational Change?

Yes	38%
No	62%

Ownership

Public	38%
Private	62%

The Integrated Benefits Institute (IBI) and CFO Research Services (a unit of CFO Publishing Corp.) collaborated to develop the research hypotheses and design the survey. CFO Research Services conducted the survey. IBI and CFO Research Services conducted joint and independent analyses of the results, and IBI published this report. Schering Plough Corporation, a worldwide research-based pharmaceutical company and member of IBI's Board of Directors, funded the participation of CFO Research Services.

The survey instrument was distributed by mail to a representative sample of 8,000 subscribers to *CFO Magazine*. Responses by 269 senior financial executives were accepted throughout April and May 2002. The response rate is appropriate for surveys distributed by mass mailing and is typical for surveys conducted by CFO Research Services. CFO Research Services also conducted 18 telephone interviews with respondents during that period to add insight and context to the survey results. Where relevant, quotes from the interviews are included in this report.

These results were presented at IBI's Annual Health and Productivity Forum in Baltimore in December 2002. CFO Publishing Corp. also published the results of CFO Research Services' analysis for respondents with 1,000 or more employees, *Assessing the Value of Healthcare,* 2002.

The **Integrated Benefits Institute** is a national, nonprofit organization supported by employers, insurers, health-care providers, brokers, third-party administrators, consultants, pharmaceutical companies, behavioral health providers and others having an interest in health and productivity management through integrating employee benefits.

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