PE Value at Stake in Health Plans

Why Private Equity Teams Should be Focused on Health Benefits

Healthcare Cost Reduction Can Create Enormous Value

Unmanaged health care costs are a massive problem...

20,000 members
x
$10,000 per employee
=
$200M health care spend
x
6-10% trend increase
=
$12-20M annual EBIT hit

Improving health care costs can create enormous value...

20% reduction
x
$200M health care spend
=
$40M reduction
x
10x multiple
=
$400M value creation

Using 4 primary levers for proven cost reduction

- **Financial Control**
- **Pharmacy Management**
- **Care Management**
- **Network Enhancement**

ISSUES

- Health benefits are a broadly undermanaged source of spend at most private equity (PE)-held portfolio companies
- A playbook rarely exists, resulting in reliance on a benefits broker
- Broker incentives are misaligned
- Big brokers (which often perform due diligence reviews “for free”) are a bad fit for mid-market clients

SOLUTION

- Wellnecity’s ProActive Health Plan Management™ guides the creation of a mandate for change, identifies actionable opportunities, and manages through to value realization

IMPACT

- Break the costly health benefit annual trend cycle
- Reduce health benefit spend by 20% and convert to EBIT gains
- Add an additional value creation lever to your playbook

SOURCE OF UNDERMANAGED SPEND TODAY

Among most private equity (PE)-held portfolio companies, health benefits remains largely an undermanaged source of spend and lags other categories – such as pricing, procurement, and sales optimization – that are better understood. Unlike those areas, there often is no playbook for health benefits, while indirect management through a 'preferred' benefits broker is often employed versus data-driven, hands-on management. This approach results in two problems with detrimental outcomes relative to PE growth objectives: 1) incentives - brokers are motivated by their desire to retain commissions to minimize proactive change 2) bad fit – big brokers often lack the tailoring necessary for plan design in the mid-market and often service levels are poorer for smaller clients. A rudimentary, yet frequent indicator is the number of portfolio companies that remain fully insured, when self-insurance would be much more beneficial.

SIGNIFICANT VALUE POTENTIAL

"No, we do not actively manage our portfolio company health benefits, but it is small change anyhow, right?" Unfortunately, it is not. Employee healthcare is typically among the top two or three largest fixed expenses, trailing only labor costs and potentially real estate. Health benefits cost most businesses roughly $10,000 per employee (or $10M per 1000 employees), up 55% over the past 10 years for family coverage. The average 6-10% annual trend increase for a mid-sized employer represents a $1.2M to $2.0M annual EBIT hit for every 1,000 employees. That translates into the lion's share of a company's sales growth being absorbed just to pay for increased healthcare expenses.

ADDRESS THE VALUE ECONOMICS MORE EFFICIENTLY

Given the value economics around health benefits, PE firms that work with Wellnecity are getting more proactive. By having a partner, like Wellnecity, first ingest all relevant health benefit data (eligibility, medical, pharmacy, biometrics, etc.) into a central hub, a portfolio company and its PE sponsors are able to:

1) Enlist CFO and other relevant executives to create an appetite for change
2) Run diagnostics (e.g., Wellnecity Performance Navigator™) to identify opportunities spanning across financial controls, pharmacy management, care management, and network enhancement
3) Manage initiatives and vendors to convert opportunities to value

By taking these steps toward proactive health plan management, PE firms can re-take control of value creation and deliver a higher quality health plan experience for portfolio companies.

Contact us today to help make your health plan reach peak performance.

Wellnecity®