GUIDE

The Fiduciary and Ethical Role of the CFO in Employee Health Benefits Purchasing

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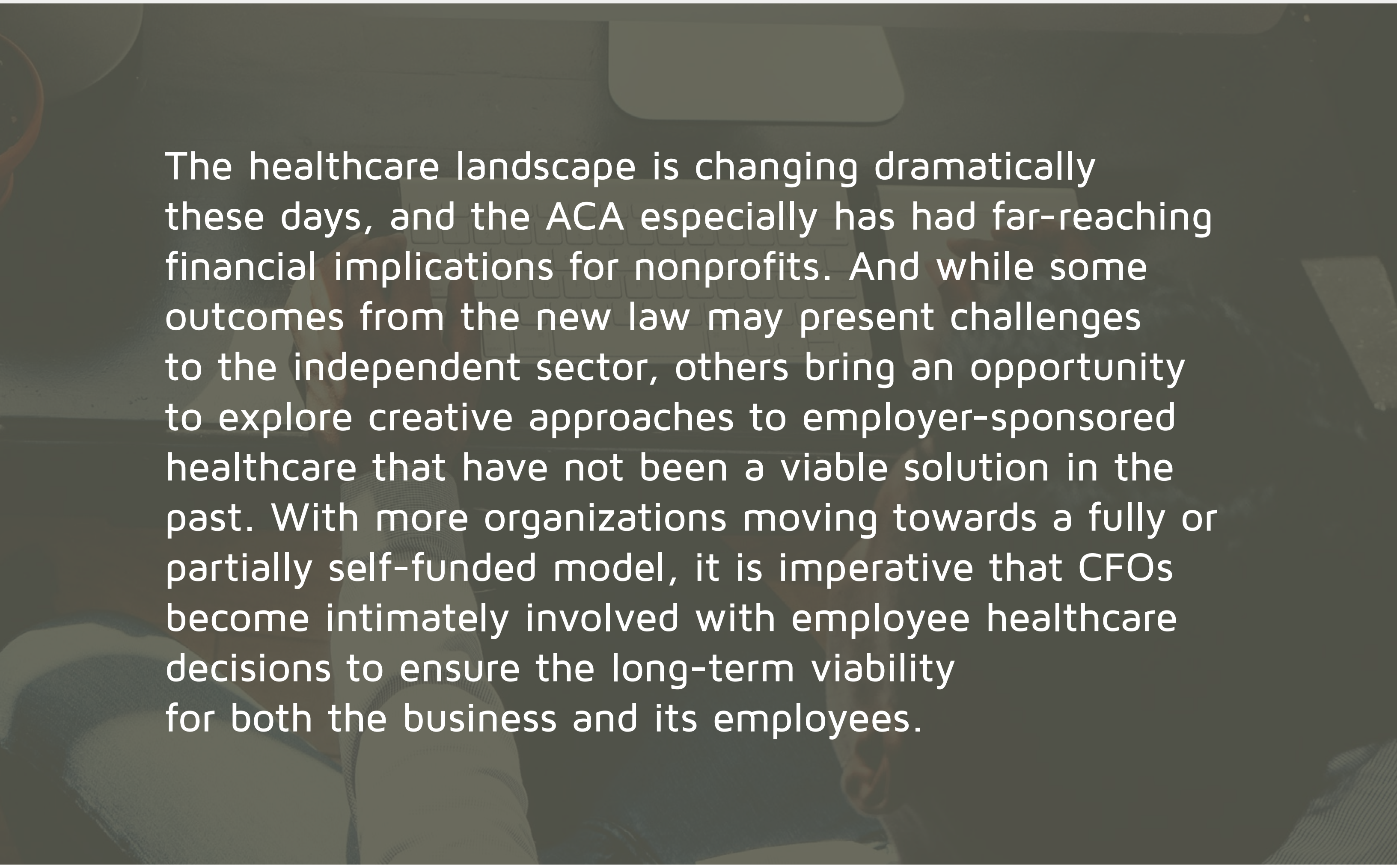

The healthcare landscape is changing dramatically these days, and the ACA especially has had far-reaching financial implications for nonprofits. And while some outcomes from the new law may present challenges to the independent sector, others bring an opportunity to explore creative approaches to employer-sponsored healthcare that have not been a viable solution in the past. With more organizations moving towards a fully or partially self-funded model, it is imperative that CFOs become intimately involved with employee healthcare decisions to ensure the long-term viability for both the business and its employees.

Traditionally only available to large enterprise companies, today organizations of all sizes and industries, including nonprofits, are finding self-funded healthcare an appealing – and more accessible – model that allows for better benefits and organizational savings. But change also requires digging deep into an organization's history with employee health insurance, and the financial and operational decisions that have been made. These decisions may no longer be serving the organization or its people anymore. As such, nonprofit leaders have an ethical and fiduciary responsibility to re-evaluate their benefits on a regular basis and determine if they are the right fit financially for both employer and employee.

This guide provides an overview of the importance of a collaborative approach to purchasing employee health benefits, and strategies CFOs should be implementing when it comes to healthcare renewal season. These include:

- Taking on increasing responsibility for researching cost-effective plans
- Conducting in-depth due diligence on the financial impact employee healthcare has on an organization
- Establishing a healthy, collective viewpoint that considers the effect healthcare decisions have on both the budget and the employees

WHY CFOs *NEED* TO BE INVOLVED IN HEALTHCARE DECISIONS

As one of biggest budget items for nonprofits, it would seem logical that CFOs be a key driver of healthcare decisions. Often times though CFOs are on the periphery of this process, which frequently is driven by HR or other leaders in the organization. But making a well-rounded decision that accounts for all factors – organizational spending, employee contributions, and overall satisfaction with a health plan – requires that nonprofits pursue a collaborative approach that includes the CEO, HR, and the CFO all on equal ground. Because at the end of the day, each department has a significant role to play in the success of the organization's growth. And while benefits tend to be an HR function from the employee's perspective, how the bill gets paid and managed against the budget sits squarely in the CFO's corner.

That said, there is much cross-over between CFOs and HR departments in terms of needs and wants. This is especially true when it comes to keeping employees healthy and engaged. A recent article in Entrepreneur magazine noted when it comes to employee engagement "flashy new perks come and go, but new data reveals that employees really just want better benefits." Traditional core benefits such as healthcare are the "foundation" of a strong compensation package, and the way to ensure the happiness and productivity of staff. And employee engagement directly correlates to recruitment and retention efforts, which can be a massive expense for nonprofits. This becomes a bigger issue knowing that nonprofits often experience higher rates of turnover than for-profit counterparts.

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As such, it becomes not a *maybe* but a *must* for CFOs to be intimately involved in employee health benefits purchasing.

Below are six best practices nonprofit CFOs should consider as their organization approaches healthcare renewals:

1. TAKE THE LEAD:

While HR departments often do their own due diligence into healthcare options, it would behoove CFOs to also take the lead on researching potential employee benefits programs. This ensures that no rock goes unturned in the search for an employee-friendly *and* financially sound approach. Ask CFO colleagues at other nonprofits about their approach to employee healthcare, attend workshops or conferences on health benefits, listen in on podcasts and webinars dedicated to today's healthcare landscape, and sit in on proposals from benefit brokers and consultants who are pitching your organization. If something strikes your eye, delve deeper and – if satisfied – bring it to the attention of the CEO and HR manager with specific details on why it warrants further exploration (e.g. significant cost savings, improved benefits).

2. UNDERSTAND ROLES AND PRIORITIES:

Each department has a very specific role to play. But it can be easy to sit in a silo and not fully understand these roles and how they impact the organization as a whole. Before diving into healthcare renewals, sit down with the decision-making team (which hopefully includes the CEO and HR) and discuss the priorities of each when it comes to employee healthcare. The CEO will likely look at the the impact on administration and operations, while HR is most concerned with how employees will be impacted and the CFO will focus on cost, savings, and risk versus reward. All will come to the table with differing objectives, so talking about these and dealing with any issues ahead of time will help establish a balanced place to begin working from.

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3. GET CURIOUS:

While others within your nonprofit may know the basics of financial management, it is up to the CFO to do the deep and investigative work when it comes to efficiently choosing a financially responsible healthcare program. This means asking tough questions, not just of the healthcare broker but also within your own team. Dave Chase of Forbes recently wrote an article about questions C-levels should be asking their HR departments about healthcare decisions. Chase notes that "employers have abdicated far too much responsibility to the health plans they work with. This has imperiled their finances and put them in potential legal jeopardy." Asking how healthcare spending has been tracked and audited, and where there is opportunity for more savings is not just the CFO's job, but even more a fiduciary and ethical responsibility. And understanding how proposed costs and savings are calculated and what the risks are will quickly weed out plans that don't meet the organization's priorities and usher in the ones that do.

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4. FIND A COMMON GROUND:

In our discussions with CFOs, the importance of having strong relationships with your team members was highlighted multiple times. Beyond simply liking your CEO or HR lead, solidifying a good working relationship will make the decision-making process around employee healthcare that much easier. Know your teammates' personalities and work style, respect their institutional knowledge or fresh perspectives, and understand if they will come at this decision from a more conservative or liberal approach. If they are resistant to a proposed plan or pushing hard for another, take the time to find out why and how that fits into their priorities for the organization (see above). When it comes to health insurance, there's often a "change adverse" climate, especially if one manager or executive has a good relationship with the current broker or sees change as adding too much to their workload. Building this common ground for exploration early will lay the groundwork for a smoother decision-making process down the road.

5. BE AWARE OF TIMING:

The best time to begin re-evaluating your current plan and exploring possible other options is 4-6 months out from renewal. It will take a few months to do all your vetting of potential brokers and plans and to come to a team consensus, and then you will need time to actually implement the new benefits program before enrollment begins. From the CFO's perspective this ensures enough time to get detailed about actual monthly costs, and from HR's side it provides enough time to effectively communicate with employees about any changes. Ensuring that your team gives itself enough time to do due diligence for all options will be imperative to making a thoughtful decision that encompasses everyone's priorities and ensures sustainability for the organization.

6. LOOK AT THE WHOLE PICTURE:

As your team is making decisions around healthcare, keep in mind the bigger picture of how these choices will impact recruitment and retention efforts, short and long-term savings, and the level of risk versus the level of reward. As one CFO said, "you don't want situation where HR isn't happy and the CFO is too narrowly focused on the bottom line." Specific to recruitment and retention, the CFO of a large nonprofit reported that its employees were choosing to sign on with other organizations primarily because they were able to offer better benefits. This resulted in the nonprofit having to recruit and retain new employees – to the tune of $40,000+ per replaced employee. If you consider that in 2014, the average rate of voluntary turnover with nonprofits was 14 percent then this potentially could cost this particular organization more than $500,000 annually due to insufficient employee healthcare benefits.

Today more than ever, the choices nonprofits make around employee care are impacting the bottom line in a multitude of ways. CFOs that remain outside of the decision-making process risk their organization ending up with a plan that eats away at the budget without providing the foundation for a benefits plan that supports recruitment and retention efforts. Nor is it fair to put all of that responsibility on the HR department or CEO. Employee health benefits purchasing must take into account all aspects of a nonprofit's mission while also staying financially solvent to ensure organizational sustainability. CFO involvement is an absolute must to achieve this goal.

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