The State Of Healthcare

In The U.S. Middle Market

A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET

NATIONAL CENTER FOR
THE MIDDLE MARKET

In Collaboration With

THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS

GE Capital

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Healthcare in The U.S. Middle Market

THE U.S. MIDDLE MARKET

The U.S. middle market is defined by companies with annual revenues between $10 million and $1 billion. In addition to their geographic and industry diversification, these companies are both publicly and privately held and include family-owned businesses and sole proprietorships. While the middle market represents approximately 3% of all U.S. companies, it accounts for a third of U.S. private sector GDP and jobs. The U.S. middle market is the segment that drives U.S. growth and competitiveness.

The State Of Healthcare In The U.S. Middle Market reports on insights from C-suite executives who lead middle market firms across the nation. The report outlines attitudes about healthcare and approaches that firms and individuals are using to address the challenge of healthcare costs.

RESEARCH METHODOLOGY

The survey was conducted among 600 C-suite executives and HR or benefits decision makers of America's middle market firms on their attitudes and thinking about healthcare at their companies. The survey was designed and weighted to represent the entirety of the middle market. In addition to the survey work, qualitative research was conducted with a dozen representative companies to get a sense of how individual companies are dealing with healthcare challenges and how some of them are innovating in this space. This research is reflected in the case examples contained in this report. Research for this report was designed and managed by the National Center for the Middle Market.

THE NATIONAL CENTER FOR THE MIDDLE MARKET

Founded in 2011 in partnership with GE Capital, and located at The Ohio State University Fisher College of Business, the National Center for the Middle Market is the leading source of knowledge, leadership and innovative research on the U.S. middle market economy. The Center provides critical data, analysis, insights and perspectives to help accelerate growth, increase competitiveness and create jobs for companies, policymakers and other key stakeholders in this sector. The Center's website, which offers a range of tools and resources for middle market companies, can be visited at **www.middlemarketcenter.org.**

Executive Summary

The cost of providing healthcare to employees has topped the list of business challenges identified by middle market companies in 2013. In fact, in measuring quarterly middle market growth and performance over the past 12 months, 90% or more of executives from mid-sized firms repeatedly stress the degree to which healthcare costs pose a challenge to their businesses.

The fact is that for middle market firms, healthcare presents a particular challenge. Without the significant scale of global companies, and without the exemptions granted to small firms, middle market companies are in a particularly tough position to adjust to rising costs or comply with new regulations.

Common assumptions suggest companies will deal with the challenge of healthcare costs by simply dropping employee healthcare coverage, but this does not reflect the chosen solution among middle market companies. Rather, these firms are coming to the understanding that it is neither financially practical nor competitive to deny insurance coverage to employees. As it turns out, middle market firms understand the positive impact well-managed healthcare solutions can have on their firms as a whole – from cost and wellness to recruitment, retention and productivity.

Middle market firms are thinking actively about their healthcare planning. More than two-thirds have company-wide goals tied to healthcare initiatives – with the goals of reducing costs and increasing productivity at the top of the list. To meet these targets, firms are embracing a host of innovative solutions and experiments at their companies.

THE FOUR AREAS IN WHICH MANY OF THESE STRATEGIES FALL ARE:

1. **WELLNESS PROGRAMS**
2. **PROVIDING ON-SITE/REMOTE HEALTHCARE**
3. **SOURCING LOWER COST HEALTHCARE**
4. **ANALYSIS OF HEALTHCARE DATA**

In their willingness to embrace innovative healthcare strategies, mid-sized firms encountered the kinds of implementation barriers one might expect – from employee buy-in to executive approval or the ability to demonstrate return on investment.

But in the eyes of the middle market executive, overcoming these barriers will have several net positive outcomes on their businesses in the forms of increased growth and productivity alongside reduced absenteeism and healthcare costs.

All told, the middle market's embrace of new solutions to healthcare challenges represents a paradigm shift towards a holistic approach to the value of these benefits to a company's performance. In this way, the middle market is at the forefront of true innovation that will have the dual benefit of boosting bottom lines and improving healthcare delivery systems for users across the spectrum.

Key Findings:

HEALTHCARE COSTS CONTINUE TO BE A TOP BUSINESS CHALLENGE

Middle market executives are extremely concerned with healthcare costs, with 90% of executives claiming it as their top challenge. Over the past five years the cost of healthcare has grown at a rate of 3.9% annually, and middle market firms expect these levels of increases to continue. As healthcare costs continue to rise, 79% of middle market firms have experienced increases of 27% over the past five years. Many middle market companies do not have the purchasing power and administrative resources that are available to larger companies, therefore further complicating the issue of employee healthcare among mid-market firms.

MIDDLE MARKET COMPANIES ARE COMMITTED TO OFFERING HEALTHCARE BENEFITS

Eight out of ten mid-market executives view healthcare as a company's responsibility to their employees. Although many mid-market firms remain highly concerned with the future growth in the cost of healthcare, they are not reacting as many predicted. According to the research, dropping healthcare coverage was the least likely strategy to be implemented with less than 25% of middle market companies claiming they would drop coverage as a means of dealing with increased costs.

Despite the rising costs, mid-market companies believe healthcare still provides value to their firm and see healthcare as a key driver of talent, productivity and growth. More than 90% of mid-market firms claim healthcare helps attract and retain top talent. They believe a talented workforce can lead to higher productivity and growth, while a healthier workforce can reduce absenteeism and medical costs.

FIRMS ARE THINKING ACTIVELY ABOUT THEIR HEALTHCARE PLANNING

Over two-thirds of middle market firms have company-wide goals tied to healthcare initiatives. Reducing healthcare costs and improving employee productivity are the two top goals listed. Due to the importance of healthcare on a company's bottom line, CEOs are 50% more likely to make the final decision on employee benefits than others within the firm. Many firms rely on outside consultants to help in the decision-making process, with smaller firms more likely to rely on their insurance brokers for assistance. Over 90% of firms stated that their motivation for seeking outside help was to find a cost-effective solution to managing rising healthcare costs.

MIDDLE MARKET FIRMS ARE INNOVATING WITH NEW HEALTHCARE STRATEGIES

Middle market firms are taking action and implementing new healthcare strategies to help combat the challenge of rising healthcare costs. The top four implemented programs among mid-market companies consist of wellness programs, providing on-site or remote healthcare access, sourcing lower cost healthcare and analyzing healthcare data. Mid-market companies expect that by implementing these programs they can increase growth and productivity by 25%, decrease absenteeism by 22% and reduce healthcare costs by 17%.

Healthcare Cost And Coverage

Middle Market Firms Are Committed

Previous research conducted by the National Center for the Middle Market has highlighted the extent to which healthcare costs are a challenge for middle market firms. Between rising costs and healthcare reform, firms are facing challenges in many directions. The research from the Middle Market Indicator consistently reveals healthcare costs to be at or near the top of all challenges faced by middle market firms.

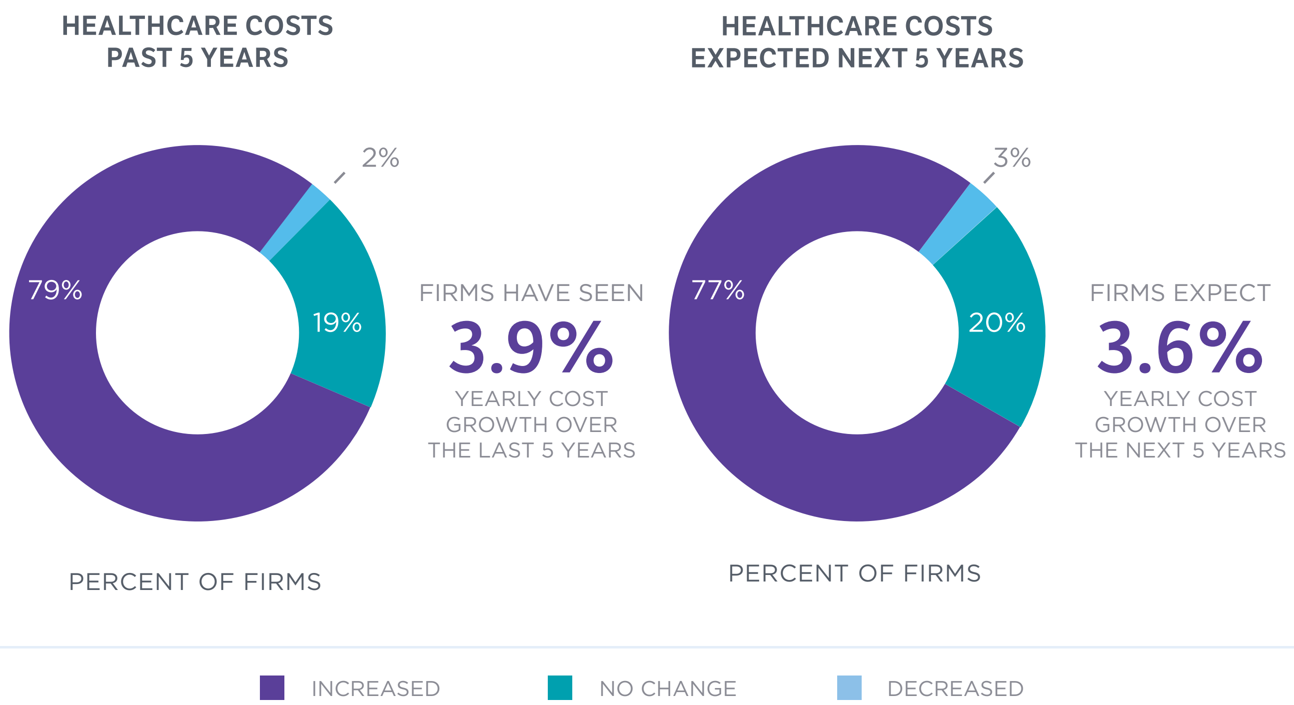
Employers realize that managing a firm's healthcare is one of the most significant challenges to growing a business, staying competitive, and attracting and retaining a productive workforce. Moreover, middle market firms consistently rank healthcare as the most critical problem they face. The survey indicates that 79% of respondents have seen cost increases over the past five years, and 77% expect this trend to continue over the next five years.

Not surprisingly, 80% of firms are highly concerned with the rise in future healthcare costs. The average rise in healthcare costs reported over the past five years, at nearly 4% per year, has undoubtedly influenced future expectations.

While conventional wisdom might suggest that firms would likely drop employee health insurance as a way to mitigate any rising costs associated with healthcare reform, middle market firms offer a contrary perspective. 85% of middle market firms agreed that companies and employees share in the responsibility for keeping the workforce healthy.

More significantly, cutting healthcare insurance was identified as the least likely strategy to be implemented out of all those listed in this survey. Instead of dropping coverage, middle market firms are seeking ways to keep and improve it.

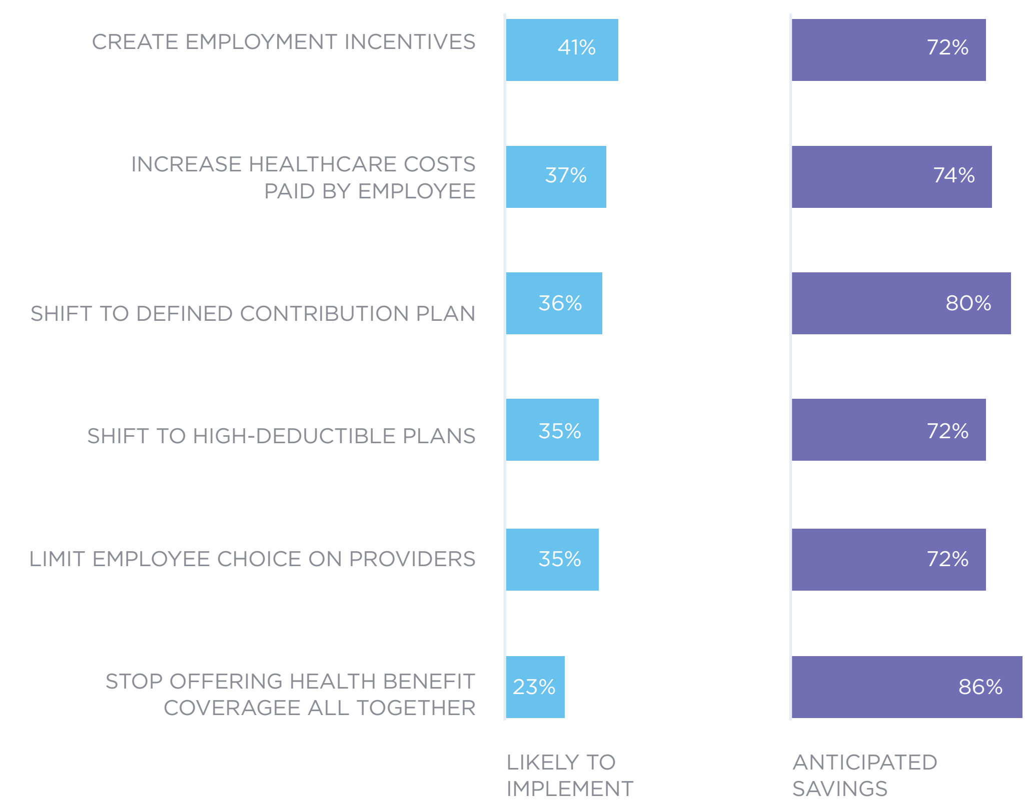
HEALTHCARE COST CHANGES FOR MIDDLE MARKET FIRMS



The middle market is different, in terms of size, structure, and ownership. In some ways the challenges of the current healthcare landscape fall even more heavily on this sector. And yet, the middle market is committed to maintaining and improving coverage.

While 77% of firms see healthcare costs increasing over the next five years, only 23% would consider dropping coverage.

COMPANY APPROACHES TO INCREASING HEALTHCARE COSTS



Healthcare Drives Success

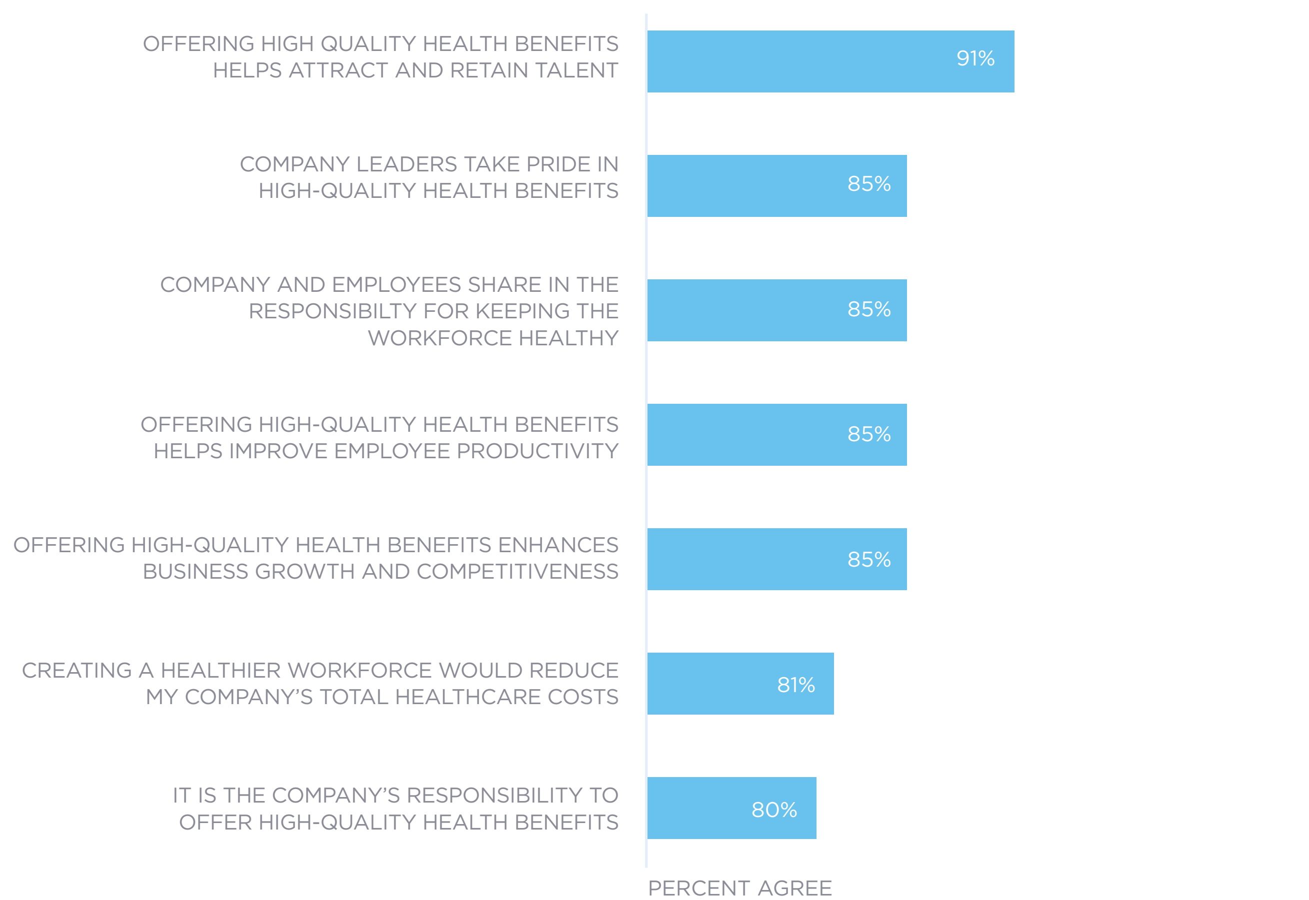
Benefits Of Talent, Productivity, And Growth

Employers have financial incentive to offer high-quality care from both sides of the balance sheet. Survey results show that over 90% of firms believe that offering high-quality healthcare helps attract and retain employees, which helps lower costs associated with turnover. Moreover, 85% believe offering high-quality care results in more productive employees, helping companies remain competitive and grow.

There's a shared sense of community within this segment of the economy, where employers and firms look out for the well-being of one another. Some of this may be due to the smaller size of the companies, and flatter organizational structures. Another factor may be the significant number of firms in this space that are family-owned. According to the survey, 85% of middle market firms take pride in offering high-quality healthcare, and for good reason; a majority of firms believe that offering high-quality care helps retain and attract the best employees. Moreover, independent studies have shown that a healthy workforce leads to lower costs, higher productivity and less absenteeism. Middle market firms are no different in this respect.

Middle market firms take pride in the fact that their employees receive high-quality health benefits at a manageable price point. Moreover, employees and dependents place immense value on these services; affordability is essential.

ROLE OF HEALTHCARE PROGRAMS FOR MIDDLE MARKET FIRMS



Making Employee Healthcare A Priority

FIRM PROFILE

RAISING CANE'S
FAST FOOD
COLUMBUS, OH
500 EMPLOYEES

Roy Getz is the CEO of RCO Limited, a franchisee of Raising Cane's Chicken Fingers located in Columbus, Ohio. He operates 11 restaurants throughout the state of Ohio. As a CEO and Vice Chair of the Ohio Restaurant Association, Roy is familiar with the challenges that businesses face in implementing healthcare reform. He is actively working to provide premium healthcare to his workforce, even in the face of rising costs.

Roy expressed that his organization is "staying the course" in relation to providing healthcare coverage to his employees, regardless of whether the Affordable Care Act's employer mandate is delayed. Roy's franchise currently provides health insurance to all full-time staff members – those who work over 30 hours a week. And then all crew members, regardless of full-time status, receive an HSA plan which is manifested in the form a $50 debit card each month. In this way, Roy is helping with healthcare for every employee, even if they aren't full time.

Roy's competitive advantage across the industry is that the company has worked to offer its employees comprehensive but affordable insurance. This in itself is a constant administrative challenge for Roy. How does the organization stay on track with its healthcare management and continue to do the right thing for their staff while making financially viable decisions? Roy emphasized one of the most important managerial components of any firm-wide healthcare decision is that it should be proactive and not reactive.

Roy did not sit idly and wait to implement new policies, but rather responded early and made decisions that simultaneously helped productivity and fostered retention of workforce. Roy consulted with a variety of third party resources to raise his awareness prior to making benefits decisions. This included participating in webinars from Raising Cane's corporate, as well as dedicating significant amounts of time to reading industry materials and consulting with both the Ohio and U.S. divisions of the National Restaurant Association. Roy states that consulting proved to be critical throughout the decision-making process. Healthcare is a challenge facing any business in today's economy. But for Roy and the management of Raising Cane's franchises, offering affordable healthcare is a key driver in attracting and retaining the best talent. Healthcare may require significant resources and analysis from a managerial perspective, but these benefits play a critical role in maintaining high-quality employees, which gives Roy and his team a significant advantage over their competitors.

All crew members, regardless of full-time status, receive an HSA plan which is manifested in the form a $50 debit card each month. In this way, Roy is helping with healthcare for every employee, even if they aren't full time.

New Healthcare Strategies

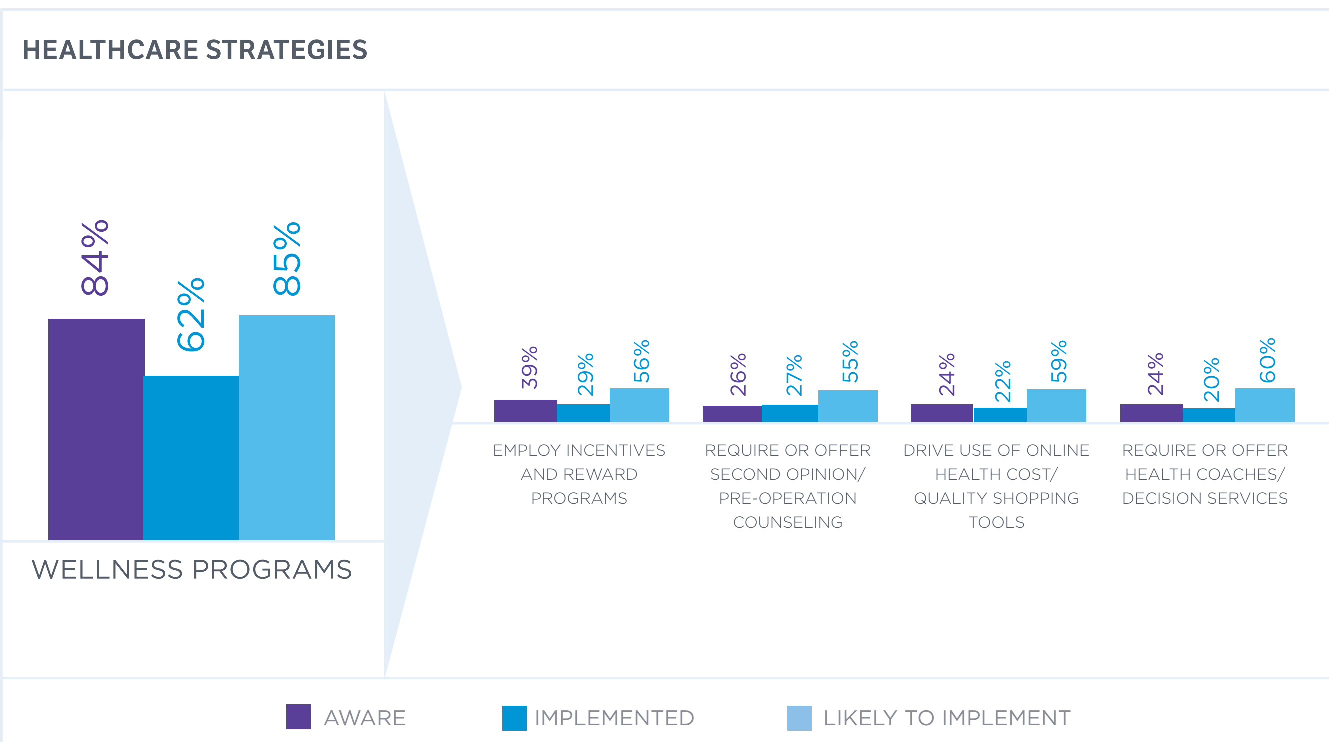
Impact And Barriers To Implementation

Several middle market firms are aware of the strategies listed in the survey, while roughly half of firms have already implemented at least one of them. For firms that have not yet implemented strategies, they still show a willingness to consider them for future implementation.

Based on the survey results, the most well-known strategy was "guiding employees toward healthier choices and outcomes." 84% of firms were aware this strategy. This was also listed as the top strategy that firms had already implemented (62%) and would consider implementing in the future (85%). Among the various approaches within this strategy, "employing incentives and rewards programs" was the most likely to be already implemented, while "requiring or offering health coaches/decision services," was cited as the most likely approach to implement.

There is opportunity and willingness among middle market firms to implement new healthcare strategies, although not without concern. With any company-wide change, significant barriers exist to implementation. Survey results reveal that gaining both "buy-in from employees" and "support and approval from the executive team," along with having the "ability to quantify returning on investment (ROI) of the program, and demonstrate it to leadership," were listed as top barriers to implementation.

It should be noted, that each strategy and approach presents different challenges. Strategies using sourcing for both quality and price require a higher level of employee buy-in than helping guide them to make better choices on their own.



HEALTHCARE STRATEGIES (CONT.)

Wellness Programs

The wellness strategies involve both incentive programs that encourage better choices and the facilitation of better choices through support programs, whether manifested in the form of health coaches or information tools.

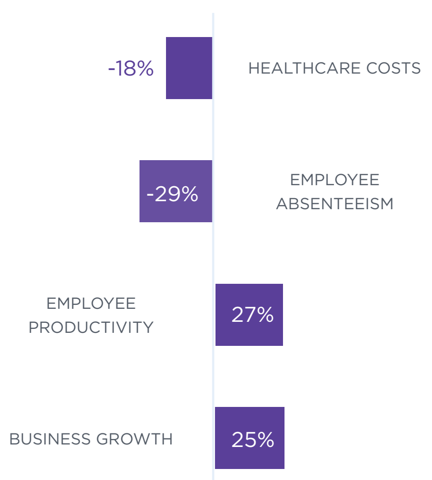
THE TOP PROGRAMS FOR THIS APPROACH:

+ Employ incentives and reward programs
+ Require or offer second opinion/pre-operation counseling
+ Drive use of online health cost/quality shopping tools

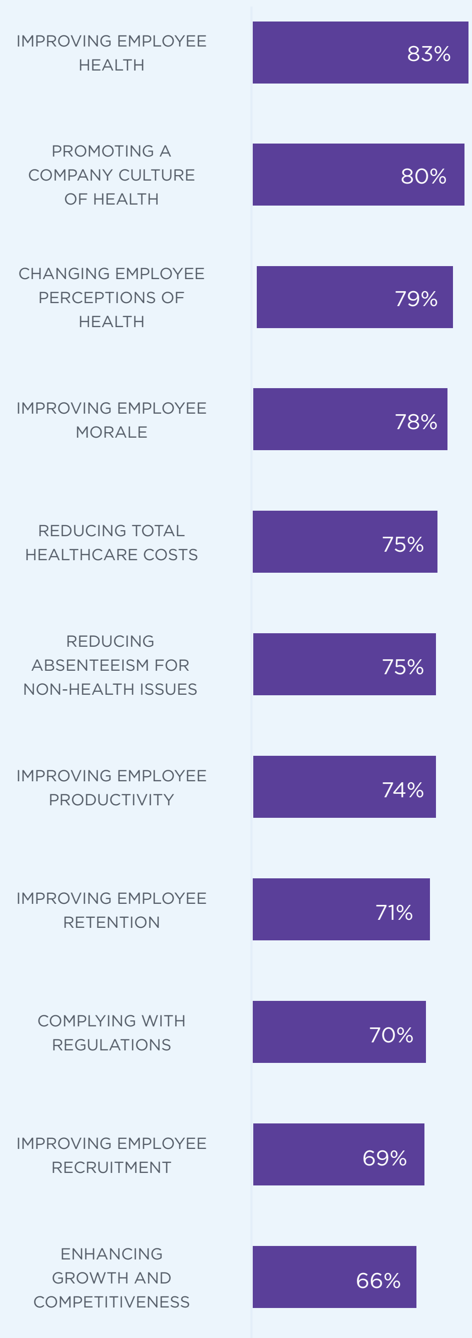
THE CHIEF BARRIERS THAT FIRMS NEED TO OVERCOME:

+ Buy-in from employees
+ Ability to quantify ROI of the program, and demonstrate it to leadership
+ Insufficient time, resources and expertise necessary to manage program(s), ongoing

EXPECTED IMPACT:



EFFECTIVENESS OF PROGRAM:



Sourcing Lower Cost Healthcare

The sourcing strategies involve more actively managing health service providers and placing constraints on employees' use of healthcare. This is a traditional approach to managing healthcare costs, but can still be effective when trying to improve both costs and outcomes.

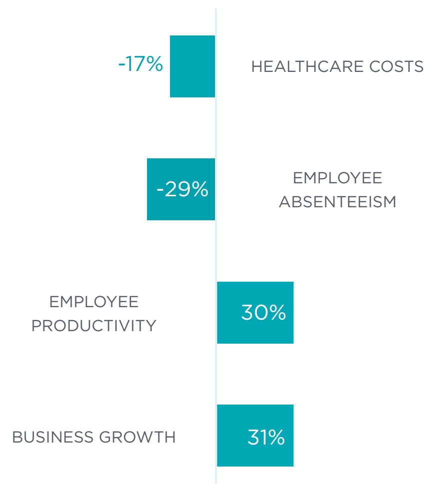
THE TOP PROGRAMS FOR THIS APPROACH:

+ Require pre-approved hospitals for high-cost surgeries
+ Require use of "high-performance provider networks"
+ Migrate fully to account-based plans

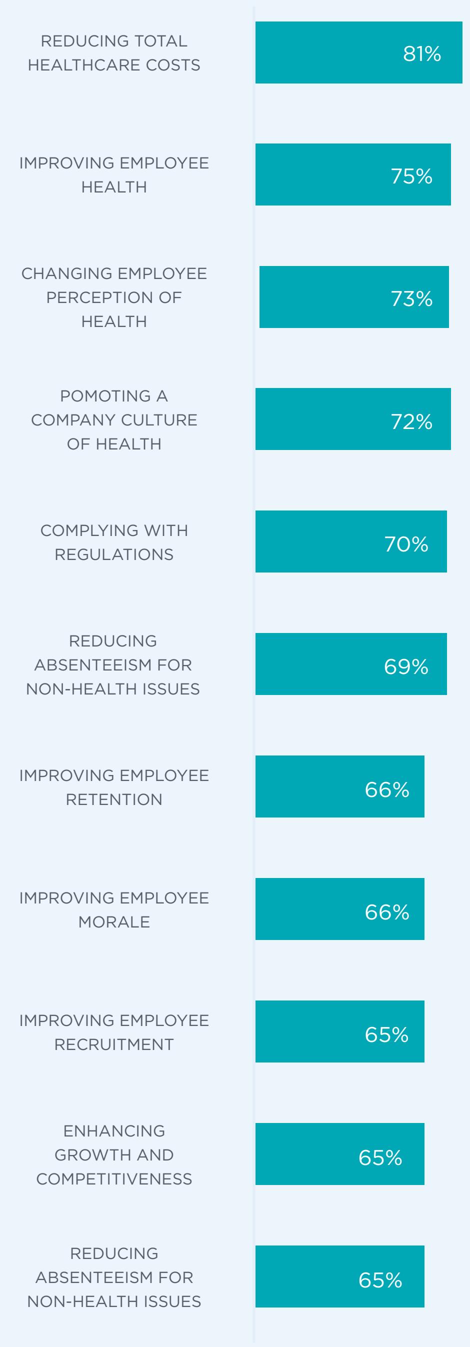
THE CHIEF BARRIERS THAT FIRMS NEED TO OVERCOME:

+ Ability to quantify ROI of the program, and demonstrate it to leadership
+ Buy-in from employees
+ Support and approval from the executive team

EXPECTED IMPACT:



EFFECTIVENESS OF PROGRAM:



Using Wellness Centers To Attract And Retain Talent

FIRM PROFILE

AMERICAN SHOWA
AUTOMOTIVE PARTS SUPPLIER
SUNBURY AND BLANCHESTER, OH
1000 EMPLOYEES

American Showa is well known across the manufacturing industry for its innovative approach to healthcare solutions, specifically for owning two proprietary medical centers located near the firm's manufacturing plants. When presenting the initial idea to build the medical centers, benefits manager Debra Robinson faced a unique managerial challenge that may not be encountered by other mid-market firms; its board is predominately foreign. There were some cultural barriers to overcome, but Debra and her staff successfully altered their business case to executive management to address these barriers and ensure buy-in from leadership, such as showing a direct link from investment to cost-reduction.

These health and wellness centers operate exclusively for employees and their dependents, and offer primary care, urgent care, physical therapy, and preventive medicine, as well as occupational therapy. Each of these facilities is sizeable—at 3,700 and 4,000 square feet and includes on-site laboratories and pharmacies with free generic prescriptions. The goal of Showa's Wellness Centers is to improve access to quality health and wellness services. while simultaneously promoting preventive and well-patient programs existing in other Showa benefit programs. Convenience is critical given the facilities' location in small towns, with limited medical options for employees who struggle to take time off for appointments and consultations.

Since implementing the centers, Showa has discovered that offering on-site medical care results in lower healthcare costs and decreasing employee absences. In 2011, workers' compensation costs for the company in the first quarter alone were 31% lower than same period the prior year and for the full year medical costs for workers' compensation claims were down a total of 52%. In addition, the close coordination between the Wellness Centers' medical staff, ASI safety and management personnel also decreased the average length of disability in number of days by 22%. Given the impressive results, the incentives for other firms to look at this successful model are high.

Using Data Analysis To Improve Employee Health

FIRM PROFILE

VERMEER
AGRICULTURAL EQUIPMENT
PELLA, IA
3,000+ EMPLOYEES

A core principle in the "Vermeer Philosophy" is its people. Vermeer's people are defined as its employees, families, and the communities in which they live. Vermeer values its people offering employees easy access to healthcare, the latest benefits, and by using data to monitor workplace wellness.

Vermeer faced a unique healthcare challenge – it's an advanced manufacturing company located in rural Iowa, and some of its employees have long commutes to work – some traveling up to 60 miles one-way. Consequently, in 2002, Vermeer built an on-site clinic to serve as a secondary health center for its employees. The company still encourages employees to secure a primary care doctor; however, the proximity of the on-site clinic contributes to a number of cost-effective savings.

But Vermeer didn't stop there. Over the past decade the company expanded its health clinic to give employee health assessments. The strategy here is to broaden employees' understanding of what's going on inside their body and the consequences delaying any form of treatment can have. While healthy employees and their families can earn up to $800 off their annual premiums, the company also uses the assessment data to monitor the relative healthiness of its overall workforce. For example, based on the data, Vermeer noticed that employee glucose levels were ticking higher than the average trend. Vermeer responded by instituting educational training to help address early-warning signs of diabetes, encouraged healthy eating, and provided exercise recommendations.

Successfully monitoring the health of its workforce allows Vermeer to address potential costs before they occur. As a result their increase in healthcare costs is significantly lower than the industry average, and using data to advance health consciousness is one strategy that contributes to this outcome.

Providing On-site Or Remote Healthcare

These access strategies involve approaching the use and access points of healthcare differently. This may mean a firm deploys an onsite clinic; it may mean the use of continual condition management. The common thread is to treat healthcare as an everyday activity integrated into employee's lives.

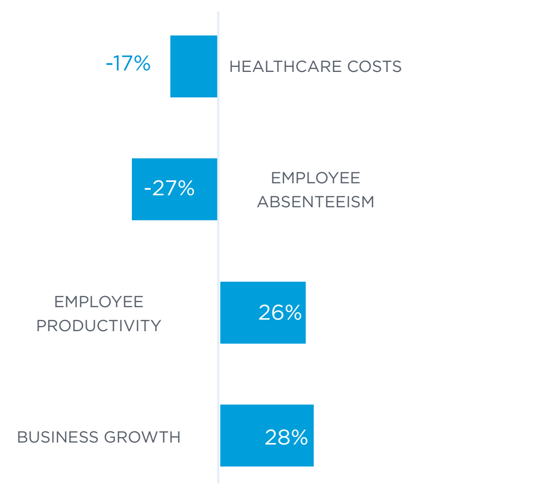
THE TOP PROGRAMS FOR THIS APPROACH:

+ Develop on-site worksite program offerings
+ Require use of condition management
+ Develop permanent on-site worksite care

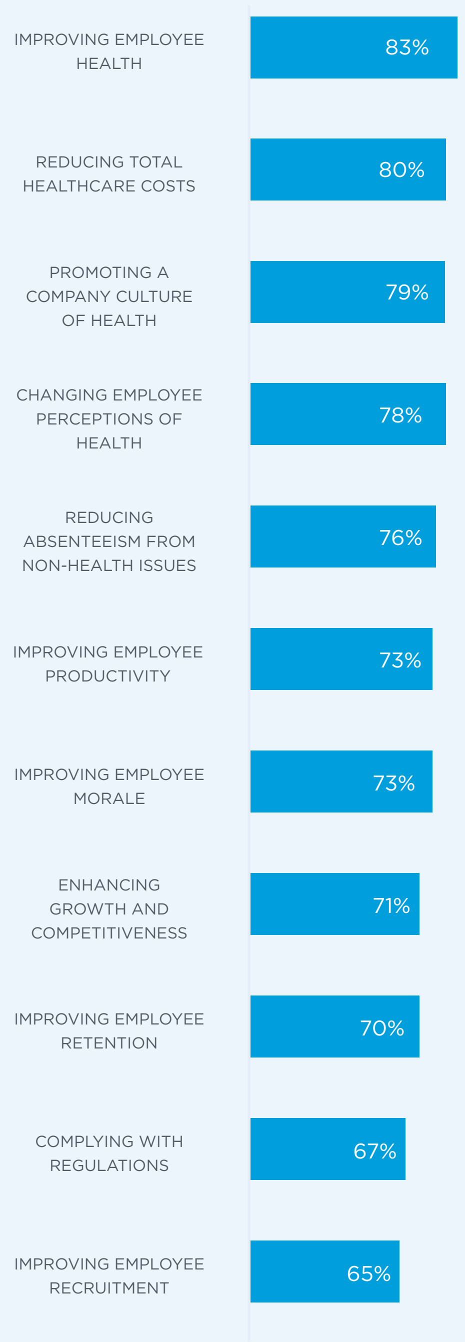
THE CHIEF BARRIERS THAT FIRMS NEED TO OVERCOME:

+ Buy-in from employees
+ Ability to quantify ROI of the program, and demonstrate it to leadership
+ Support and approval from the executive team

EXPECTED IMPACT:



EFFECTIVENESS OF PROGRAM:



Analysis Of Healthcare Data

The data strategies involve the use of analytical tools between and among both providers and employees. This is the least likely strategy to be implemented, but as larger firms begin to use these technologies at scale, it may present a significant opportunity for the middle market as well.

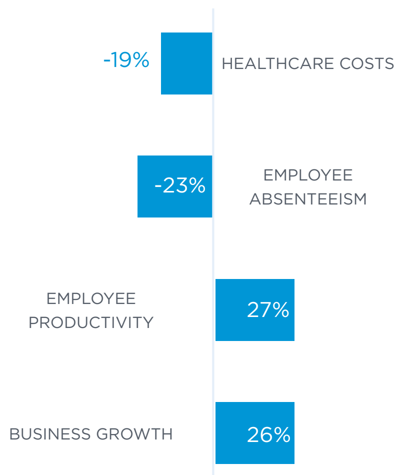
THE TOP PROGRAMS FOR THIS APPROACH:

+ Benchmark healthcare program vendor performance
+ Benchmark healthcare provider performance geographically
+ Internally analyze employee health data anonymously

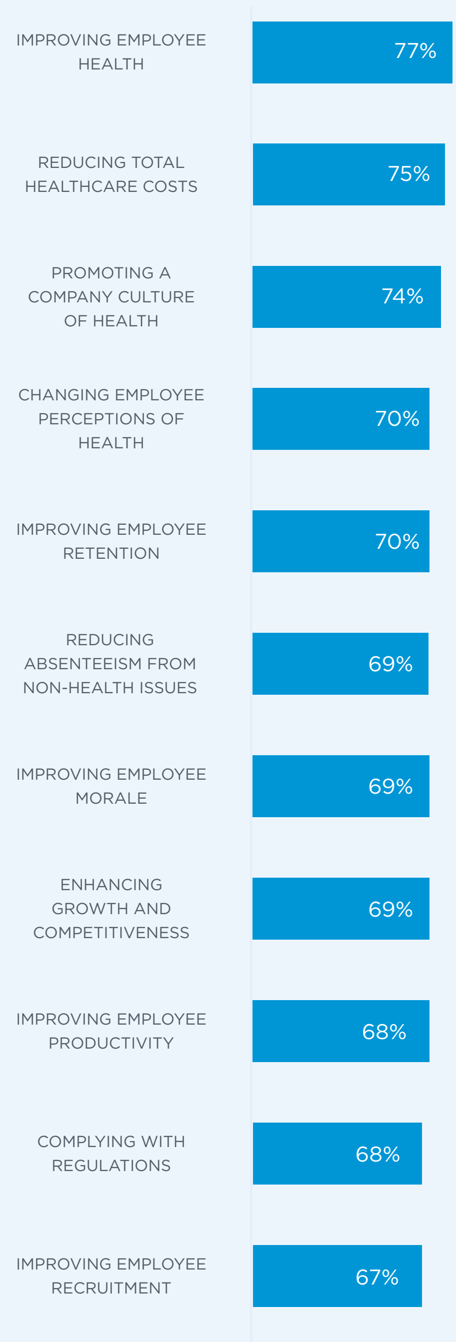
THE CHIEF BARRIERS THAT FIRMS NEED TO OVERCOME:

+ Buy-in from employees
+ Insufficient time, resources and expertise necessary to identify and implement the right program(s)

EXPECTED IMPACT:



EFFECTIVENESS OF PROGRAM:



Planning For Success
And Solving The Challenge

To meet cost challenges, over two-thirds of middle market firms have specific goals tied to healthcare planning, and overwhelmingly identify cost-reduction as the most important goal.

Again, a theme emerges within the data – reducing healthcare costs and improving employee productivity are the top two goals. Other goals include enhancing business growth and competitiveness, and reducing health-related absenteeism.

Offering high-quality care can result in a more talented workforce, leading to higher productivity and growth. With this significant impact in terms of cost and talent, a firm's Chief Executive Officer (CEO) often takes on the task of selecting benefits' programs.

According to survey participants the CEO is 50% more likely to be the primary decision-maker than the Chief Financial Offer (CFO), and several times more likely than a Human Resources Director or other officer to be the primary decision maker in regards to selecting employee healthcare.

Company-size often dictates who makes this decision. With firms with less than 300 employees, an owner often takes on the role of CEO, CFO, and more. For smaller firms, the owner rather than executives are more likely to make this decision.

Company size also dictates the degree to which they seek outside assistance. Larger middle market firms are less likely to use external consultants. On the other hand, firms with fewer employees are 32% more likely to use external consultants, and show preference for seeking assistance from insurance brokers.

Seeking outside assistance can be an effective strategy in finding an affordable price-point with high-quality care. According to the survey, over 90% of firms stated that their motivation for seeking outside help was to find a cost-effective solution to managing rising healthcare costs. At the same time, nearly the same amount desire the best possible coverage for their employees.

Middle market firms are engaging in a host of strategies to meet the challenge of healthcare. The one thing they are not trying is standing still. With healthcare reform implementation beginning and the cost challenges of the recent past continuing, the firms that will be successful are those that lean into the challenge and engage and experiment to reduce cost and improve outcomes.

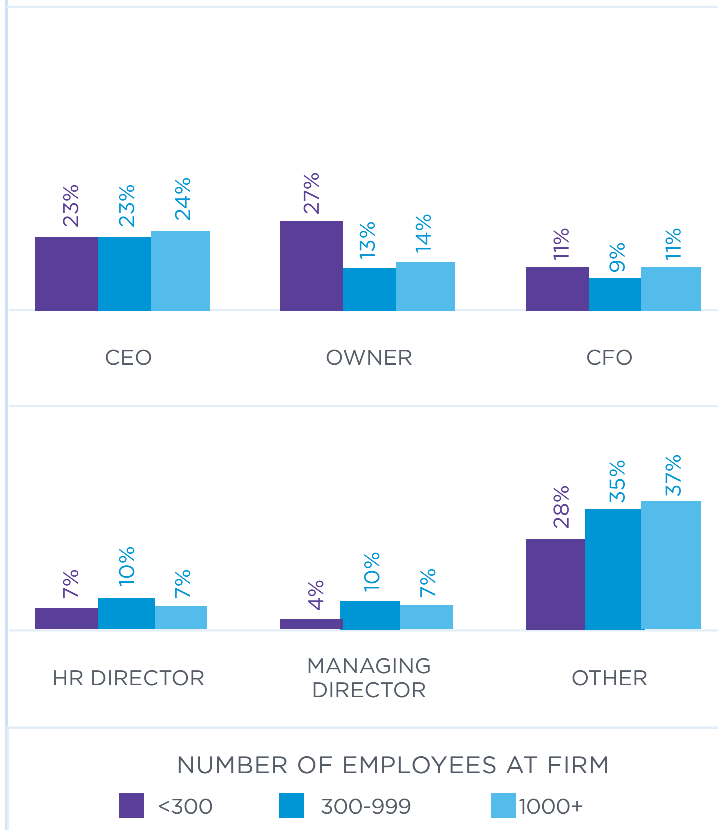
68%

OF MIDDLE MARKET FIRMS HAVE SPECIFIC GOALS TIED TO HEALTHCARE PLANNING

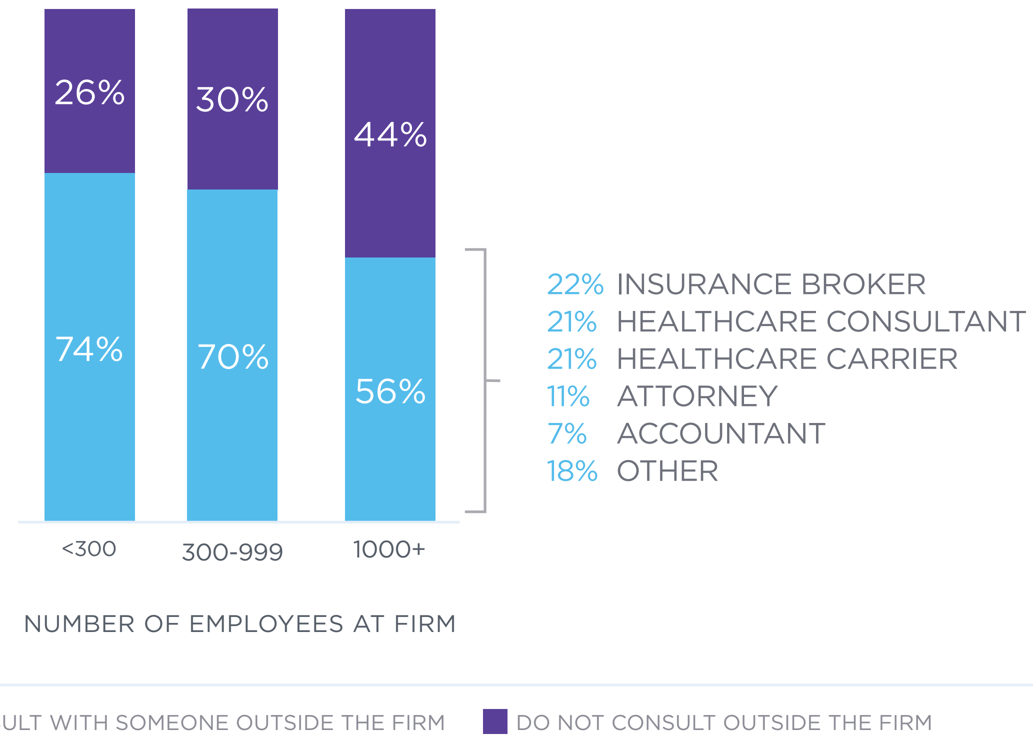
TOP HEALTHCARE GOALS

+ Reducing total healthcare costs
+ Improve employee productivity
+ Enhancing business growth and competitiveness
+ Reducing absenteeism due to health-related issues

PRIMARY DECISION-MAKERS OF HEALTHCARE BENEFITS



USE OF OUTSIDE CONSULTANTS FOR HEALTHCARE PLANNING



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Faced with ongoing healthcare challenges, smaller middle market firms are relying on outside help.

NATIONAL CENTER FOR
THE MIDDLE MARKET

The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research focused on the U.S. Middle Market economy. The Center provides critical data, analysis, insights, and perspectives to help accelerate growth, increase competitiveness, and create jobs for companies, policymakers, and other key stakeholders in this sector. Stay connected to the Center by contacting middlemarketcenter@fisher.osu.edu.

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FISHER COLLEGE OF BUSINESS

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