

## **Finding right incentives critical to health reform**

By Brodie Farquhar

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A Wyoming-based analyst of the nation's health care system says that the system needs the right set of incentives for it to work properly, for suppliers and consumers alike.

Harold "Hank" Gardner, M.D., founder of HCMS (Human Capital Management Services) Group in Cheyenne, believes that health is one part of human capital, which describes an individual's total potential to contribute to family, community and workspace. He approaches health care reform as a matter of aligning incentives correctly, to achieve a win-win partnership between management and workers.

"The solution has to put people back in control of their health," Gardner told the Wyoming Business Report. "This requires renewed commitment to primary care and realignment of economic incentives to better encourage prevention and reduce the over-use of highly-specialized and expensive medical technical treatments. More coverage, without aligning incentives, will only make the cost and quality problems worse."

HCMS recommends the use of health savings accounts (HSA) that are owned and managed by workers wherever they work. If workers are motivated to use HSA funds wisely, seeking out best value and using preventative medicine to avoid chronic diseases, such as heart disease or diabetes, and lifestyle changes to keep from smoking or abusing substances, then there will be more money in the account that can be spent on education or investments.

Health reimbursement accounts that don't follow workers from job to job encourage the spending - even wasteful spending - of such accounts before the worker leaves the job.

### **The idea evolves**

Gardner credits his older brother Del for showing him how market-driven incentives can benefit health care reform.

"Del went to the University of Wyoming like I did, earning a degree as an age-economist," said Dr. Gardner. "Later, he went to the University of Chicago and worked with Milton Friedman (a free market economist who won a Nobel prize in economics). So that's where I got my market bias. My brother has been very influential in my thinking and has even co-authored some papers with me."

Gardner readily acknowledged that he has a different sort of perspective on health economics.

"Most health economists come to the field from labor or public health backgrounds, where health care is an entitlement and something that should be available to all," he said. In contrast, the Gardners see

the issue through the prism of the market and supply and demand. Misalignment of incentives, for management and labor alike, is what Dr. Gardner blames for a health care system that makes little sense and is mired in crisis.

### **Gardner's data base**

HCMS has worked with a number of large corporations, hospitals, drug companies and insurance companies, wrestling with the idea of getting the proper incentives in place.

For example, Gardner has worked with Whole Foods, a non-unionized natural foods grocery business that pays employees based on aggressive performance standards, where better job performance generates better pay. For Gardner, that explains why Whole Foods employees used 40 percent less of medical benefits, compared to industry standards.

How does Gardner know that? Well, he has a massive, complex data base about all kinds of companies and Wyoming state government, what employees are paid and the medical benefits they use. He uses that data to manage and recommend benefit designs for specific companies or entities.

### **Win-win situations**

His group's research indicates that per-employee health care costs are consistently \$500 lower per capita, for employers that gave employees an opportunity to share in the profitability of their businesses through bonuses and commissions. This linkage, where employees identify their own economic welfare with the profitability of the company, is essential to getting the right incentives in place, he said.

An adversarial relationship, or lack of mutual trust, Gardner said, makes it difficult to achieve this linkage. For example, he said, look at the drivers for Waste Management, a garbage-hauling firm. Half of the drivers are unionized, half are non-union. For union drivers, usage of medical benefits rises with increased pay. Yet for non-union drivers who operate under a performance incentive pay program, benefit use goes down as they earn more through performance pay.

Gardner readily acknowledged that mutual trust can be a fragile thing, especially if CEOs behave badly - such as rewarding themselves with raises and bonuses when workers are getting laid off and business is declining.

### **Entitlements raise costs?**

Health care costs rise when health benefits are viewed as an entitlement and as a good to be consumed, according to Gardner, especially when health benefits are perceived as having the highest value in a total compensation package.

You know your company is in trouble if employees often say "The pay is mediocre, but the benefits are great," He said.

Conversely, said Gardner, "we can reduce medical premiums 30 percent with the right incentives," when workers believe that their fortunes and the company's fortunes rise together, such as through profit-sharing.

The worst alternative, said Gardner, is where workers learn that working harder and better is not rewarded. That's when workers learn that the greatest value in compensation comes from using more benefits. The employer is left with flat or declining productivity and rising benefit costs.

### **What's fair?**

During economic downturns, he added, there are advantages to using furloughs (everyone working shorter hours and being paid less) instead of layoffs. Furloughs provide a we're-all-in-this-together signal, and ensures that an experienced and valuable workforce is in place when the turnaround shows up.

"Layoffs don't save much money," Gardner said. While payroll costs are reduced, benefit consumption can rocket upwards before, during and after layoffs.

For Gardner, the greatest opportunity for significant health improvement in the workforce comes from less investment in health benefits and more investment in performance-based rewards. A worker who expects and receives tangible, timely and meaningful rewards for skills and output, will view their health as an asset to be guarded and improved. Such a worker quickly realizes that smoking, bad diet and no exercise do not contribute to his or her ability to do more or better work and make more money.

But a worker who isn't rewarded for skills and output, but is rewarded with benefits, will value benefits over pay and use benefits the most, Gardner said.

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