

# Through the Fog

John  
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SOLVING  
HEALTH CARE  
IN  
COMPANIES

## The Company That Solved Health Care

Major change usually comes off a platform of crisis, and I think everyone can agree that crisis conditions surely exist in health care economics. The nation's health care bill has been doubling every eight years for the last four decades. The runaway costs have been busting the budgets of federal, state and local governments, and they have bled the bottom lines of corporations

But C-level executives need not accept hyper-inflation in health costs as a foregone conclusion. At Serigraph—a mid-sized manufacturing company in West Bend, Wisconsin—we learned that like other cost structures that affect a company's bottom line, health care costs can be tamed with aggressive and innovative management. We focused on the problem, found or devised our own solutions (with the help and buy-in of our employees), and we are reaping the benefit of health care costs that are significantly below the national average year in and year out.

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## Getting Started

We began our quest with a simple goal: neutralize the upward spiral in health costs so we can avoid annual premium increases for the company and its co-workers.

How did we do this? As CEO and now chairman, I asked our 460 workers to take ownership of their health and healthcare costs, and we gave them the incentives and information to become expert consumers of health care. Essentially, it's all about an innovative model for the delivery of health care. We went back to basic principles: individual responsibility, trust in the marketplace and lean disciplines.

Those principles led us to three major attacks on the bloated cost structures in health care. The first is to engage the hearts and minds of employees by giving them control of health care dollars. For a family plan, we give the employee the equivalent of almost \$5,000 in the form of reduced premiums and a health care account—in return for their taking on a higher deductible of \$1500 per person and co-insurance of 30%.

When we installed that plan in 2004, shortly after federal law allowed health savings accounts, utilization of health care dropped sharply by 17%. Over-utilization disappeared, and it has stayed gone over the ensuing years. That was the first big whack at soaring health costs. We had been anticipating a 15% increase in 2004, but our costs went the other way. Subsequent major studies have shown that consumer-driven plans drop costs 20% to 40%—major money.

The result? We have avoided premium increases in all but three years since we converted to a consumer-driven health plan (CDHP) in 2004, and we are optimistic that we will be able to hold premiums even for 2011. We have held our average cost increases per employee over those years to less than 3%.

## Honing the Attack

The second attack on the hyper-inflation was to put primary care back in its proper place in the spectrum of care. Modern medicine revolves around highly paid specialists and expensive hospitals.

Big hospital corporations have acquired doctor clinics so they become feeder systems into their specialty oriented systems. Once in the system, the price meter runs wildly. To get control of the front end of the system, an innovative Wisconsin corporation, QuadGraphics, created its own on-site clinics for primary care 20 years ago. Serigraph adopted the QuadMed model, which according to regular audits, has reduced costs by one-third compared to the national average.

Serigraph's on-site clinic provides many benefits. It's free to co-workers. It's convenient, so our people get the care they need early and as often as necessary. Our medical professionals act as gate-keepers into the big specialty systems. And we can get serious—really serious—about prevention, wellness and chronic disease management.

The trick is to give every employee a medical home in which the doctors, nurse practitioners, nurses and dieticians make chronic health issues a top priority. It is our aim at Serigraph, for example, to have every diabetic under control. In fact, we would love to have every chronic disease under control. That alone would cut 80-90% of the nation's medical expenditures.

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# Creating a True Market-Driven Health Care System

The third major assault on unacceptable costs is to create a semblance of a marketplace where none now exists. Quite simply, we seek out value from providers—better service, high quality and lower prices. One scanner company gives us excellent MRIs for a flat \$600 apiece, one-third to one-quarter of going retail charges in the general market.

It should come as no surprise to C-level executives that medical providers that have embraced lean disciplines and Six Sigma quality seriously often emerge as the winners. It is our experience that they can deliver the highest quality and prices that are 30% to 40% below those of slower moving health organizations.

For example, we buy colonoscopies for about \$1,000, compared to prevailing prices at two to ten times that much. If our employees use the low-priced providers in our network, we make the service free for them. Again, major savings result.

Not so incidentally, there is no correlation between quality and price. Indeed, there appears to be a reverse correlation: lower prices come from the highest quality providers.

Why would any CEO allow his or her health plan to steer employees and their families to any provider but the best?

Incentives matter, so when we offer a check for \$2000 to a worker who gets a hip replacement at what we call a “Center of Value,” they respond. Why wouldn’t they? And, as we move business to these centers, we are creating a new marketplace for health care.

Instead of hospital corporations competing, with showy edifices and billboards proclaiming better service, our vendors of health care have to show us their quality track records and their net prices.

## Through the Fog

Most consumers of health care face a thick fog as they try to assess where to get the best deals for quality and price. The health care industry has been dragging its feet for decades in making such information transparent. But that's slowly changing for the better.

We are now asking for bundled, all-in prices, instead of the incomprehensible bills with dozens of line items. Some winning providers have instead made that leap to pricing for “episodes of care”, and they are winning our business.

If we have learned anything during our odyssey into health care economics, it's that behavior change is at the heart of taming the beast of hyper-inflation.

Serigraph did its own comparative price matrix five years ago, proving that transparency is possible. Our site is user friendly. A worker just goes into our company's intranet and looks up hip replacements. The quality ratings and price ranges for all hospitals in our area are right there, along with our recommended Centers of Value.

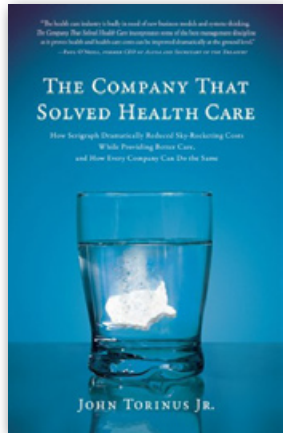
For most elective surgeries, workers go to our HR office for further guidance. It takes some temerity on the part of workers to tell their doctors that they are going elsewhere for service, but that is the kind of consumer behavior that can transform the delivery of health care.

Once engaged in managing their own health and health care bills, employees love their new roles. They are responsible adults in so many parts of their lives, why not health care? Our internal surveys show our people love being in control of their own health care funds.

Further, they come out ahead in so many ways. First, their premiums have risen only three times in eight years, and those were small hikes. They pay lower prices, so their share of costs in the form of deductibles and co-pays is correspondingly lower. Their health accounts roll over and build up. They receive cash rebates for procedures at Centers of Value. Their profit sharing is higher because company costs are lowered. Prevention, wellness, primary care and even some surgeries are free. Generic drugs are low cost or free. And, finally, the company stays more competitive, so job security improves.

If we have learned anything during our odyssey into health care economics, it's that behavior change is at the heart of taming the beast of hyper-inflation. Engaged workers change how they utilize health care, how they purchase it, how they live their lives, how they follow treatment regimens if they have a chronic disease and how they relate to their doctors.

**Behavior change is never easy, but if the CEO and his team lead the way, it can happen. Without that leadership, it is guaranteed not to happen. 📌**



## BUY THE BOOK

Get more details or buy a copy of John Torinus Jr.'s [\*The Company That Solved Health Care\*](#).

## ABOUT THE AUTHOR

Chairman and general manager of Serigraph Inc., John Torinus Jr. has studied and practiced management for more than 50 years. His company had \$40 million in sales annually when he bought it in 1987; it now generates \$120 million and has more than 1,000 employees in plants in the United States, Mexico, China and India. Torinus graduated magna cum laude from Yale and was a company commander in the U.S. Marine Corps. Torinus has also served as business editor and columnist at the *Milwaukee Journal Sentinel*. His new book, *The Company That Solved Health Care*, recounts Serigraph, Inc.'s journey toward economic sanity in health care coverage.

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