Untapped ESG Opportunity: Employer Sponsored Health Plans

*The last two years described in one word: **change**.*

For businesses. For leaders. For employees. A seismic shift in power has occurred. From organizations to people. From profit to mutual prosperity. From a hyper focus on revenue to a collective focus on social responsibility. From “me” to “we”.

This seismic shift is most evident in the increasing role of Environmental, Social and Governance (ESG) concerns on the corporate agenda. It wouldn’t be an understatement to claim that ESG is a major priority for organizations in all sectors, and that will continue given the societal context of movements like #MeToo and BLM, the COP26 conference, and of course – the global pandemic.

Escalating requirements around ESG regulations and reporting, along with growing public and shareholder pressure, amplify the noise around ESG and encourage organizations to ramp up their efforts. While the demand and practice of ESG reporting have increased, there still lies a considerable knowledge gap between ESG information and supply. Recognizing that almost 160M Americans (49% of the population) receive healthcare from their employers, there exists untapped ESG value for these companies. Through transparent and accountable health plan governance, alongside a robust and data driven approach to better employee health outcomes, companies can provide real and sustainable ESG reporting that reflects accurate enterprise risk and opportunity.

Looking ahead to 2022, how should this translate into ESG priorities for your organization? What are the 2022 ESG trends that will better prepare your organization for the future?

Reporting, Disclosure and the Importance of Data

Reporting and disclosure of data covering a company's operations in the areas of ESG provides an important snapshot of the business's impact in those three areas for investors, employees and business leadership. While it's still voluntary for most countries, there are increasing global regulations regarding corporate ESG data reporting. Proactive and future-focused companies understand the importance of communicating ESG criteria in their business strategy and purpose. They are voluntarily providing their ESG data in their annual reporting.

Companies with strong ESG performance have demonstrated higher returns on their investments, lower risks and better resiliency during a crisis. As of July 2020, 90% of companies in the S&P 500 have already published their annual corporate sustainability/ESG reports. ESG transparency must be a key focus for companies in 2022 and beyond, with investors increasingly considering ESG issues to help manage investment risks. The Deloitte Center for Financial Services expects ESG-mandated assets in the United States to comprise 50% of all professionally managed investments by 2025.

Nowhere is the importance of data more clear than in the area of healthcare spending – both for purposes of fiscal governance and the social health impact.

Walking the Talk of Strong Governance

The "G" in ESG considers a company's internal system of controls, practices, and should ensure transparency and industry best practices. Factors considered include both audit committee structure and various internal controls, which are key for any company sponsoring a health and welfare plan subject to the Employee Retirement Income Security Act (ERISA). As anyone familiar with ESG will note, accountability is a fundamental requirement of good governance, and companies have an obligation to identify and assess risk, implement appropriate controls, monitor their effectiveness and regularly report. One glaring example where companies have largely ignored risk is in their role as fiduciaries to ERISA plans.

ERISA fiduciaries have important responsibilities and are subject to strict standards of conduct because they act on behalf of group health plan participants and their beneficiaries. The duty to act prudently is one of a fiduciary's central responsibilities under ERISA, which encompasses acting solely in the interest of the plan for their exclusive benefit (i.e. no conflicts of interest), holding plan assets in trust and paying only reasonable plan expenses. Unfortunately from both a business and risk perspective, most ERISA plan sponsors outsource over 90% of the health plan's administrative functions without appropriate operational oversight and financial controls. The result: ostensible absence of any "G" in this crucial area of a company's business, and corresponding legal and financial risk.

These legal and financial risks posed are substantial and can be easily and efficiently addressed through appropriate governance structures and financial controls. Key first steps include: ownership of all healthcare data, a fair and transparent administrative services agreement that complies with ERISA and all current laws and regulations, and appropriate financial controls to satisfy and/or exceed fiduciary obligations. The very act of engaging in this type of oversight and accountability will undoubtedly lead to significant efficiencies which could be re-dedicated to the "E" and "S" of ESG, further reducing your enterprise risk.

The Increasing Importance of "S"

This leads us nicely to "social" — the "S" of ESG. Commentators are in agreement that the social aspect of ESG will take on increased significance in 2022. Schroders' 2021 Global Investor Study found that more than 57% of investors globally said that social issues had become more important to them during the pandemic. It is not surprising that environmental action has been at the forefront of the ESG debate with global real estate accounting for roughly 40% of the annual energy consumption. Conversely, the Social pillar has lagged behind due to challenges around the definition, scope and measurement of this type of "softer" considerations. Reporting has largely been challenging, output driven, and incomparable; however, this is quickly changing given the increased focus on the "S" as noted above.

Social performance evaluates, inter alia, the relations a company has with its workers, including social capital and human capital. Fundamentally, Social value is about improving the quality of life of people within an organization. And while the Social element or value may be more difficult to define and quantify, it can have a disproportionate impact on trust, confidence, inclusion and effective stakeholder engagement.

As noted above, a large percentage of America's workforce and their loved ones receive their healthcare from their employers. Therefore, it is both a tremendous obligation and opportunity for employers to leverage this relationship to invest in the physical, emotional, mental, and financial health and wellbeing of their workforce. As the facilitator of this care, through contractual relationships with third parties or provider organizations, the employer plan sponsor has the opportunity to leverage data for good and drive meaningful and sustainable change for the better in the population they serve. For example, an employer/plan sponsor can leverage data in order to understand the current health status of its employees, their needs, unaddressed gaps in care, actionable social determinants of health negatively impacting their health, financial barriers to accessing care, and a plethora of other factors that could be subject to influence or action by an employer sponsored health plan.

The COVID pandemic has tested and continues to test the limits of our workforce's resilience and mental toughness, and it has come at a cost. There is a mental health crisis upon us, the impact of which we are only beginning to appreciate in our collective conscious. The S in ESG will continue to take an ever increasing role in our organizations as we navigate through the next several years. Investing in the health and wellbeing of our people, arguably most organizations' most valuable resource, should be proactive, data driven, and employer led; it should not be reactive and imposed top-down by a legacy healthcare industry that has largely failed to date.

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"Measure what can be measured, and make measurable what cannot be measured."
- Galileo

As ESG drivers continue to evolve, one thing that will remain constant is our need to measure. Disclosure and reporting that engender confidence will be key to driving the intended outcomes of ESG initiatives.

Written by:
Christin Deacon
SVP of 4C Digital Health

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