

# Healthcare Is Becoming a Governance Issue.

*For most of the past four decades, employer healthcare cost was treated as a benefits matter. It sat inside human resources, was reviewed annually, and rose to the audit and risk committees only when something went obviously wrong. That posture is no longer defensible. Healthcare has become a financially material, behaviorally driven, and operationally consequential exposure that boards are increasingly expected to govern with the same discipline they apply to cyber risk, talent risk, and climate risk.*

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There is a quiet shift taking place in how boards relate to employer healthcare. For a long time, the standing assumption was that healthcare cost belonged to the chief human resources officer, that the chief financial officer received an annual update, and that the board encountered the topic only inside the broader compensation and benefits report. That governance posture has begun to break down under the weight of the numbers and the visibility of the trajectory. Healthcare is now too large, too predictable in its growth, and too closely tied to broader operating performance to remain a benefits administration matter. It has become, for the largest employers in the United States and Europe, a board level governance issue.

The reasons are not difficult to assemble. Healthcare cost is, at most enterprise employers, the second or third largest operating expense after labor and rent. It grows at six to eight percent annually with the consistency of a recurring liability. The cost is structurally tied to the metabolic and chronic disease burden of the workforce, which means it is influenced by population behavior over multi year horizons. None of these properties belong to a topic that a board should encounter only once a year in a compensation report. They belong to a topic that requires forecasting, scenario planning, intervention budgeting, and ongoing committee oversight.

## The Three Forces Driving the Shift

Three forces are converging to push healthcare cost into the governance layer of the enterprise.

The first is materiality. The Centers for Medicare and Medicaid Services places annual United States healthcare expenditure at \$4.5 trillion. The Centers for Disease Control attributes roughly seventy percent of employer healthcare cost to preventable chronic conditions, the great majority of them metabolic in origin, including type two diabetes, hypertension, nonalcoholic fatty liver disease, obesity, and coronary heart disease. The Milken Institute, in 2019, estimated the total economic burden of chronic disease in the United States at \$3.7 trillion when direct medical cost is combined with lost productivity. At enterprise scale, the financial consequence is too material for the audit and risk committees to treat as routine.

The second is fiduciary expectation. Following the 2021 amendments to the Consolidated Appropriations Act, which extended ERISA fiduciary obligations more explicitly to health and welfare plans, employer plan sponsors are now operating under disclosure and price transparency requirements that the prior regime did not impose. The board level consequence is that the absence of a forecasting and management capability is increasingly difficult to characterize as prudent. A board cannot easily defend the absence of a forecast for the second largest line item on the operating statement when forecasting capability now exists.

The third is comparability. Boards have grown accustomed in the past decade to governing exposures that had previously been considered too operational for board attention. Cyber risk moved from the information technology committee into the risk committee. Talent risk moved from human resources into board succession discussions. Climate risk moved from sustainability reporting into the audit committee. Healthcare risk is following the same path. It is increasingly difficult to argue that a quantified, modeled, multi year financial exposure of this size belongs anywhere other than at the level of the audit, finance, or risk committee.

*"Healthcare is the largest unmanaged liability on the balance sheet of every enterprise employer in the country. The governance posture that fits that description is not benefits administration."*

## **What Governance of Healthcare Risk Looks Like**

Governance of healthcare risk is not the same as administration of healthcare benefits. The administration question is what plan design the employer offers, which carriers it contracts with, and how it pays for the program. The governance question is what financial exposure the program carries, how that exposure is trending, what intervention scenarios are available, and how the board can assure itself that the chosen posture is prudent in the context of the broader risk register.

In practice, this changes what materials reach the board. Instead of a benefits report describing what the employer offers, the board sees a healthcare cost exposure report describing what the employer is projected to spend, how the workforce metabolic trajectory is driving that projection, and what the available intervention scenarios produce in terms of modeled return. The chief financial officer becomes accountable for the exposure forecast. The chief human resources officer becomes accountable for the behavioral and intervention strategy. The audit committee becomes accountable for assuring that the assumptions, methodology, and disclosure align with the broader fiduciary posture of the company.

## **The Missing Forecasting Layer**

The principal obstacle to governing healthcare risk in this way has been the absence of a forecasting layer that the board could rely on. Until very recently, the only available cost projection was the carrier's renewal proposal, which the employer received once a year and which described the next plan year rather than the next quarter. A board cannot govern a second largest operating expense on the basis of a single annual projection delivered by the counterparty pricing the risk.

The metabolic intelligence and forecasting layer changes this. With a continuous view of workforce metabolic trajectory, modeled at the population level and rolled up into projected cost exposure with thirty, sixty, and ninety day horizons, the board has the same kind of leading indicator visibility that it expects for revenue, cash, and headcount. The exposure becomes governable because it becomes measurable in advance.

#### **A GOVERNANCE TEST**

For any material operating exposure on the balance sheet of an enterprise, a board should be able to answer four questions at any meeting. What is the current size of the exposure. What is the projected size of the exposure in the coming quarter. What is the available intervention budget and what return does it produce. What is the assurance that the projection is sound. Healthcare cost is increasingly an exposure to which these four questions are expected to apply.

## **What the Transition Period Looks Like**

Most enterprise employers will not move from a benefits administration posture to a governance posture in a single year. The transition takes two or three planning cycles. In the first year, the chief financial officer typically begins receiving a quarterly healthcare cost exposure report. In the second, the audit or finance committee adds healthcare risk to its standing agenda. In the third, the full board is presented with an annual healthcare exposure outlook that sits alongside the cyber, talent, and climate outlooks. The pattern is familiar. It is the same pattern that cyber, talent, and climate have already traveled.

The employers that move first will have several years of governance maturity by the time the rest of the market catches up. They will also have access to the underlying capability, the metabolic intelligence and forecasting layer, before it becomes generalized across the market. The advantage of acting first on a structural shift in how a major risk is governed is, historically, the most durable advantage that any enterprise can hold.

## **The Question the Board Will Be Asked**

Within the next two to three years, it will become normal for an audit or risk committee to ask the chief financial officer a question that, until very recently, was almost never asked. The question is straightforward. What is the forecast for healthcare cost exposure across the next four quarters, what is the trajectory of the underlying workforce metabolic risk, and what intervention scenarios has the company modeled. The chief financial officer who can answer that question with confidence will be operating from a different governance posture than the one who cannot. The forecasting layer that makes the answer possible is the prerequisite. The governance shift is the consequence.

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