Group Health CFO resigns; layoffs on the horizon

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Group Health Cooperative is reorganizing in the midst of grim financial results, with the resignation of its chief financial officer and a notice to employees that job cuts are down the road.

The Seattle-based health system needs to cut annual expenses by $250 million by the end of 2013, CEO Scott Armstrong said in an email to employees.

Richard Magnuson, executive vice president and chief financial and administrative officer, is leaving in the next few weeks. Group Health officials said Magnuson's resignation was prompted by a larger reorganization already in motion.

“We’re trying to tune our systems to be as affordable and efficient as possible, while achieving better quality,” said Michael Foley, a Group Health spokesman.

News of Magnuson’s resignation followed the Sept. 14 email from Armstrong (full text is at the end of this story) notifying employees that the organization could end 2012 in the red if it doesn’t reverse current trends.

Armstrong said the $250 million expense-cutting goal in the next 16 months is to bring the organization closer to its 3 percent annual margin target.

“We will identify areas where we must eliminate some jobs that are currently filled,” Armstrong said in the letter. “We don’t know where or how many, but we will be focused, respectful, and strategic about any reductions. And we will act decisively because we recognize that uncertainty about change is as disruptive as the change itself.”

Magnuson was not immediately available for an interview, but Foley said Magnuson made the decision to leave as Group Health started the reorganization, which moved away some administrative roles he previously had. As his role became smaller, Foley said, Magnuson felt it was the appropriate time to pursue other opportunities.

Armstrong's email said Group Health's financial performance has been on a three-year decline.

“Until very recently, I really believed that incremental and constant improvement would give us the savings we need to meet our financial targets,” Armstrong wrote in the email to employees. “But that approach hasn’t worked. The issue isn’t just our August results. For a third straight year we’ve seen a sharp decline in our performance, after a six-month period when it looked like we were getting back on track. This cannot continue. We are better than this, and I am not going to let us have another year like this one."

Group Health is a cooperative, nonprofit health care system that coordinates care and coverage through partnerships with hospitals. Group Health doesn't have hospitals, but contracts with them, and one "significant" factor contributing to the organization's financial struggles has been the rising cost of those partnerships, Foley said.

Additional details and the full text of the letter to employees follows:

September 14, 2012

Accelerating efforts to reverse operational expense trends

Doing what we do best, for $250 million less, to align financial performance with our national reputation for excellence

Yesterday, we released our financial results for August, which show that we continue to fall further and further behind plan. Unless we reverse current trends, we will end 2012 in the red.

These results demand that we get control of our financial performance. This will require actions that go beyond the steps we've taken in recent years.

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The issue isn't just our August results. For a third straight year we've seen a sharp decline in our performance, after a six-month period when it looked like we were getting back on track.

This cannot continue. We are better than this, and I am not going to let us have another year like this one.

Today I want to share the interventions that will be my priority—and the priority of the entire organization—during the coming months.

We will start by setting a goal to reduce annual operating expenses by $250 million over the next 16 months—before the end of 2013. This will bring near-term results closer to our annual 3 percent margin target.

In an organization with more than $3.5 billion in revenues, this is an achievable goal and a target that will align us better with what will be required of the entire industry in the years ahead.

In pursuit of that goal, I have initiated the following three actions:

1. A stronger focus on capturing savings for this year. First, we need to wring every dollar out of the smart work we've already started, because the millions of dollars in savings

that we've already identified are still within reach. These savings come from reductions in unnecessary clinical expenses, and from tighter controls over hiring and labor budgets. We've already negotiated new contracts with many hospitals, built new market-specific plans, implemented more aggressive claims review processes, and pushed ahead with a variety of new medical management strategies. We cannot back off from this work.

2. Changes to our budgeting process. Our 2013 planning process will now involve developing detailed budgets for every accounting unit. Budgets are a financial tool to enable greater discipline and control. They will force us to make a lot of tough choices about the best way to spend our limited resources. We cannot avoid those choices any longer. As we do this, we will be very careful to avoid cuts in one area that trigger more expenses somewhere else. That's not smart because it doesn't save money or improve organizational results.
3. Engaging an external consultant. We have hired Navigant, a financial management consulting firm that knows how to help health care systems improve business performance. We will work with Navigant to identify areas where our costs are higher than our competitors and to accelerate the work ahead of us. They will also help us build the systems and capabilities that will ensure that we avoid these problems in the future.

I recognize that as we move forward with these actions, we will identify areas where we must eliminate some jobs that are currently filled. We don't know where or how many, but we will be focused, respectful, and strategic about any reductions. And we will act decisively because we recognize that uncertainty about change is as disruptive as the change itself.

It's been very hard for me to accept that we've reached the point where the decisions I'll make will disrupt the lives of colleagues and the organization we care so much about.

But as much as I regret this, the pain of making hard choices cannot prevent me from doing what needs to be done.

I am accountable for our results, and take full responsibility for the approach we've taken and the actions we will now take to turn our performance around.

It's the only way to create the future that Group Health is capable of.

One last point:

While our financial performance is a serious problem, our collective work in recent years has led to many remarkable successes.

Over the last four years, we've increased market share, diversified our health plan product offerings, and redefined our brand in the marketplace. We've adopted the principles and tools of Lean and made profound changes in the way we engage our staff. We've delivered break-through innovations in care delivery and we're bringing together providers in markets around the state to integrate care toward better community results.

We are recognized nationally and regionally for the results these changes have achieved. Health systems everywhere are working hard to emulate our approach to improving the health of patients.

Let's not forget what we stand for and how much we have to be proud of.

So as we respond to the challenges we face, I promise you that we won't lose sight of the reason we're here—to provide great care to the patients we serve. We will not sacrifice quality, compromise on service, or pull back on our mission.

-Scott

Valerie Bauman covers nonprofits and health care for the Puget Sound Business Journal.