

7 Tactics To Control Health Benefit Costs

Here are the essentials to contain exposure in 2008

By Bill Simpson

“You can’t stop him. You can only hope to contain him.” That cliché was a sports-world favorite, and now it resonates among employers evaluating the costs of health insurance.

In the sports world, it means an opponent that can hold LeBron James to 20 points has a good chance of winning. But if James goes off for 45, well that’s big trouble for the other guys.

For employers, the phrase means that increases in the cost of health insurance are a sure thing, and the most realistic strategy is to attempt to contain those costs.

A report issued by the National Coalition on HealthCare (www.nchc.org) offered an ominous outlook on the rising costs of health insurance:

- Premiums for employer-based health insurance rose by 7.7 percent in 2006
- Small employers saw their premiums, on average, increase 8.8 percent
- Firms with fewer than 24 workers experienced an increase of 10.5 percent

“Health insurance expenses are the fastest growing cost component for employers. Unless something changes dramatically, health insurance costs will overtake profits by 2008.”

Health insurance has assumed a unique place among the products and services that Americans consume. Everybody wants it, but almost everybody expects someone else (an employer or the government) to pay for it. Nobody expects an employer to pay for automobile insurance or home insurance, but workers strike over health insurance.

Scott Crane, legislative chairman of the Pennsylvania Association of Health Underwriters (PAHU), traces that sense of entitlement back 30 years. “The HMO Act of 1978 trained people to expect to have everything covered,” he said. “Before 1978, everyone shared in the cost, and a consumer’s maximum exposure was usually \$500, which is the equivalent of \$2,500 today. Now people are living longer with more issues. We keep throwing more risk into the pool. If you increase the risk to the carrier, you increase the premium.”

“Employees have a sense of entitlement,” added Dennis Baer, life and health sales agent for Unruh Insurance in Denver. “I think that it comes from the generosity of employers who, in better times, were able to provide rich benefit programs.”

For many years after 1978, employers could afford to pay for complete health care coverage. Now the challenge to businesses of all sizes is to find a way to manage the costs of providing health insurance.

Suppose the bill for your company’s health insurance premium has just arrived, and it reflects those rising rates. You look closely to be certain that the decimal point is in the right place. Then after a few deep breaths, you realize that you have to do something about the next bill. You ponder your options, and drastic options spring to mind.

Because the number and the size of claims filed this year will be an important factor in determining your rates for next year, you could fire every employee who has filed a claim this year and base the hiring of your new workers on their overall health and on the number of



Scott Crane, chairman of the Pennsylvania Association of Health Underwriters

medical claims that they’ve filed in the past 3 years. You could set up recruiting booths at local road races and health clubs. You could look for workers who shop at organic farms and health food stores. Or you could simply stop offering health insurance benefits.

These are a few steps that you could take, but each will bring with it obvious problems and costs, so none of them is likely to be your solution. Besides, the new workers would still want health insurance to be a part of a benefits package, even if they wouldn’t use it.

The reality is that employees expect to receive health insurance coverage from their employers. It’s now a major factor that attracts employees and binds them to a company, and a company that doesn’t offer insurance will find itself at a major disadvantage in the competition for good workers.

“The pay isn’t so good, but the benefits are excellent,” is a commonly given reason for employee loyalty. “Benefits” usually means health insurance, and health insurance means those steadily rising costs.

What can you do to contain your costs? In the short term, the answer is, essentially, nothing. If you have a bill for a premium in hand, it’s too late to affect that number.

However, you can develop a long-term strategy to manage costs. A multifaceted plan can affect your insurance costs, as well as the health and productivity of your workforce.

Nobody in the insurance industry has divulged any cost-cutting secrets, but insurance professionals do agree to a large extent on the steps that employers can take to help control costs. One point of agreement is that long-term planning is a necessity, and these actions can help

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Dennis Baer, life and health sales agent for Unruh Insurance

contain costs and make a workforce healthier and more productive.

1. Befriend a reputable and conscientious agent.

If you take only one step, this should be it. Because health insurance is so complex and confusing, one of the challenges that anyone faces is simply understanding it. People in the business speak in esoteric acronyms such as HSA, FSA, HRA, MSA, PPO, and HMO. "I wouldn't understand it if I didn't work in the business," said Dennis Baer.

An agent will analyze your needs and prepare plans for you. An agent will allow you to focus your energies on growing your business, not on becoming a health insurance expert. "It's so confusing," said Scott Crane. "A good agent will fully investigate all your options and make recommendations. Insurance costs the customer the same with an agent or without one."

"Also, be sure that your agent is an independent agent. If an agent represents only one company, he can miss an opportunity. No one carrier is always the best deal. It changes from year to year."

Another option is to deal with a Preferred Provider Organization that works with physicians, hospitals, other medical service providers, and insurance companies. For Chuck Wills, president of Berkshire Health Partners, his job assignment is simple: Make everybody happy. "We bring all the services to the employer," he said. "We can bring in an insurance broker, lay out the options, and help to weigh those options."

2. Develop a culture of health and wellness around the workplace.

Dawn Dreibelbis, director of medical management at Medicus Resource Management, the wholly owned subsidiary of BHP, strongly advocates wellness on many levels. In fact, she hopes to see an increase in claims filed when Medicus begins to work with a new client. "We want to see preventive claims such as mammograms and screenings."

"We very much advocate rigorous health management," said Scott Radcliffe, employee benefit services manager for EHD. "Health management will reduce claims and costs."

Health management is an approach to wellness that Scott Radcliffe described as "more holistic" than some traditional wellness programs. Its overall goal is to educate workers, thereby increasing their overall health and value to their employers and making them educated users of the health care system.

The 80/20 rule (Pareto principle) states that 20 percent of your workers will make 80 percent of your sales, and it also says that 20 percent of your workers will account for 80 percent of all health care spending, although that ratio may actually be closer to 5/50. A story from Newhouse News Service stated that 5 percent of the American population accounts for almost half of all health care spending. "I see that," Dawn Dreibelbis said. "In a group of 100, two or four people may account for 50 to 60 percent of spending."

So if you have 500 employees, simple arithmetic shows that about 20 or 25 account for half of the health care spending of your entire

workforce. If you could get just 10 of them to become more conscious of their health, you could have an impact on your premiums.

3. Involve your workers in their health care plans, both financially and in designing the plan.

"You want them involved, to be at some risk for the expense of the plan," Chuck Wills said. "Cost is important, but it must be a quality program. We always balance cost with quality."

The involvement of the employees should start with the design of the plan. A construction company with mostly male employees may have different needs than a company with mostly female workers who don't engage in strenuous physical activities. An older workforce will have needs different from a younger workforce. It's important to design a plan that considers the demographics of your workforce.

"An employer can tweak the benefits," Chuck Wills said. "That can mean deductibles, co-pays, in- and out-of-network coverages. You need a menu of services."

4. Investigate self-funding options.

For some large firms, the choice for insurance is simply to pay all employee health care claims out of pocket. In essence, it's a bet that the total cost of this year's claims will be lower than the cost of the premiums for traditional insurance would have been. Analyzing the costs from previous years will give a good idea of what this year's costs will be.

The danger is that a year with an unexpected number of claims or a few high-dollar claims will be extremely costly, so most self-insured firms buy stop-loss insurance to limit their exposure.

Self-funding can have financial benefits, but it does require a critical mass of employees that a company must reach before self-funding becomes an attractive option. "A company with 250 or more employees may be interested in self-funding," Chuck Wills said. "A company with 500 or more employees should definitely consider self-funding. A lot will depend on the health of the workforce."

Scott Crane suggested, "For companies with fewer than 100 employees, there's no sense to self-funding. For companies with 300 or more employees, it can be good." Even for smaller companies, it is possible to self-fund part of the cost of insurance through programs such as health reimbursement accounts (HRA). "If you begin self-funding part of the cost, you can decrease your risk."

Scott Radcliffe said, "Sharing the risk is important. Health savings accounts are becoming popular, and they represent a true shift of risk to the employee." HSAs do that by giving employees complete control of the money in the account. They have the choice of spending the money for

medical care or of keeping it in the savings account and allowing it to grow. Another agent noted, "Self-funding on the deductible only is an area of potential savings. Typically, only 20 to 30 percent of employees will reach that level."

5. Focus on the big stuff.

"Get to pure insurance," Dennis Baer emphasized. By pure insurance, he means coverage for major illnesses and injuries, not for items such as vision and dental care. For these services, annual outlays are frequently close to annual insurance premiums. "Analyze dental and vision plans involving the insurance company as a middleman."

6. Verify dependents' eligibility.

Paying premiums for dependents who aren't eligible for coverage is a sure way to drive up your costs. Checking the eligibility of everyone listed on the policy is the way to avoid such costs. Most carriers conduct regular audits of dependents' eligibility, but through honest mistakes and outright fraud, ineligible dependents do get onto policies. A college student who graduates or leaves school may no longer be eligible for coverage through a parent's policy, or a worker may deliberately list ineligible dependents.

"We do see that from time to time, but we don't see much abuse," Scott Radcliffe reflected.

Another issue dealing with dependents can involve husbands and wives who both have coverage offered through their employers. If one spouse's employer offers more generous benefits than the other's does, the couple may choose to put both on the more generous plan. This is good for the couple but expensive for the chosen employer. "Try to shift dependents to the dependent's employer."

7. Know what you're getting.

"The cheapest rates may not be the best plans," Dennis Baer added. Low rates may bring poor service and difficulty in receiving payment for claims. If you've received an email that promises "Affordable Health Insurance—Save up to 57 percent on your health insurance plan", proceed with extreme caution.

The bottom line is that health care costs are going to continue to affect your company's bottom line in a significant way. You can't stop them, but you can take actions that will help you contain the costs. "You need a strong plan to attract employees. Engage your employees to be part of the solution," Scott Radcliffe added. "Use creativity and guidance to save on costs."



Chuck Wills, president, & Dawn Dreibelbis, director of medical management, at Berkshire Health Partners