

*This copy was the basis of a bylined article in a weekly business newspaper. The intended audience was C-level executives, HR managers and benefit plan administrators.*

## **How to control health care costs**

More than 85 percent of benefit managers rank the control of health benefit costs as their top priority, making 2004 the fifth consecutive year the issue has ranked number one in surveys by the International Society of Certified Employee Benefit Specialists and the human capital practice of Deloitte Consulting LLP.

So it's no wonder that companies across the nation are concerned about the rising cost of employee health care. Executives have every reason to be concerned. Health care costs are rising at double-digit rates with little change in sight. While costs held steady from 1994 through 1997, due primarily to low inflation and the impact of managed care, they're unlikely to level off in the next few years. Factors such as an aging workforce, new technologies and new drugs likely will contribute to more double-digit cost increases.

Medical costs continue to outpace inflation and workers' earnings. In fact, we've seen a 57 percent cost increase to plan sponsors over the past eight years, even though overall inflation has risen only 15 percent. And according to a 2004 study by Hewitt Associates, while health care costs have risen 14 percent annually, employers say they can only afford increases of 9 percent.

The million-dollar question: What can companies do to contain these costs? Embrace innovation and roll out a consumer-driven health plan that attracts significant enrollment, implement a medical management program and seriously consider self-funding.

### **Roll out a consumer-driven plan**

Consumer-driven health plans are commonly known as tax-sheltered health reimbursement accounts (HRAs) or the new health savings accounts (HSAs) overlaid on high-deductible PPOs. While employers are signing on to such plans, employees are not.

According to the Hewitt study, only about 10 percent of workers choose them over other options, and just 23 percent in recent focus group surveys said they prefer these defined contribution plans. Like an umbrella you buy but leave at home on a rainy day, a high-deductible plan will not save your company money if your employees do not enroll.

Experience tells us that a more familiar-looking, tiered PPO -- offered alongside a traditional PPO -- will attract employee enrollment of 30 percent or more and save companies up to 15 percent on premiums. This consumer-driven PPO must be elegantly

simple. Unfettered by the complexity of an HRA or HSA overlay, the plan must clearly distinguish between tiers of preventive care, catastrophic care and scheduled procedures.

With preventive care, like routine physicals or immunizations, the plan should help workers stay healthy, covering them at 100 percent after co-pays. With unplanned or life-threatening conditions, such as inpatient hospital and cancer care, the plan should offer a high level of coinsurance to help members when they need help most.

With scheduled or routine services, such as outpatient procedures, your workers should be covered at a lower level of coinsurance and given easy-to-access, easy-to-use tools with which to make informed health care decisions -- tools such as online drug and hospital costs, quality data and comparisons. The idea is to carefully carve out this tier of care, limiting the member's higher payout to services and procedures for which he or she has the time to research options, weigh alternatives and make smart purchases.

### **Implement medical management programs**

All of your company's health plans should be integrated with a suite of medical management programs. Such programs ensure a comprehensive approach to care, with services designed to help members across the spectrum of health.

Disease management would assist your employees with chronic or complex illnesses, while wellness programs would help healthy members remain low-claims-cost workers. Care management would support those who need episodic care for traumatic or acute conditions. Services should include pre-certification and notification, concurrent review and discharge planning.

Your suite of programs also should include online and telephonic resources, such as a toll-free, 24/7 health information line, a Web-based prescription drug comparison tool, an online hospital comparison tool and an interactive health and wellness system.

In short, solid medical management programs focus on the 10 percent of members who account for 80 percent of claims and ensure the other 90 percent remain healthy. Programs typically save \$2.25 to \$2.94 for every dollar spent, according to research by the industry group America's Health Insurance Plans.

### **Seriously consider self-funding**

The Society of Professional Benefit Administrators reports that approximately two-thirds of U.S. employers self-fund their group health plans, so perhaps your firm should take a closer look at this option. Unlike the fully insured model, in self-funding a company pays only for actual employee claims costs each month -- instead of a fixed premium -- plus some administrative costs.

You can limit your firm's total exposure with protection called stop loss insurance, or reinsurance. Specific stop loss caps coverage for any one member's claims at a specific dollar amount. Aggregate stop loss caps your company's maximum claims liability for the entire group.

The advantages of self-funding are that companies can save money and assume more control over employee benefits packages by financing and administering their own plans. Because self-funded plans are governed by federal rather than state laws, your firm would have greater flexibility in deciding whether to add state-mandated benefits. And if you're a multi-site employer, this would allow your company to offer one, consistent benefits plan from state to state.

Savings of between 10 percent and 20 percent are not uncommon in self-funding, and cost increases at renewal are typically a fraction of the industry average.

The 19th-century Scottish writer Thomas Carlyle said, "Our main business is not to see what lies dimly in the distance but to do what lies clearly at hand."

Plan innovation, medical management and self-funding lie clearly at hand as employers' best response to rising employee health care costs.