

Health care Costs Remain Growing Concern

07/10/06

My business is growing, healthy, and doing a good job servicing our customers. My question is about an internal problem: health care for my employees. I have traditionally picked up all the cost of medical insurance for my employees. But costs keep going up. And I'm not sure that I can continue to pay for it all. Yet, I worry that if I start costing sharing health care insurance, my employees will also struggle to handle the increased costs. What can I do?

Let's take a look at some of the reasons for the increases. We'll look at what is happening to employees, as a result of the continued price escalation for health care. And, we'll talk about what employers are doing to deal with increases. Wrap up will include a look at tools that employers and employees can use to help manage the problem of increasing costs.

In a January, 2006 study by CFO magazine, health care costs was rated as one of two top concerns of US CFOs, the other top concern being high fuel costs. Worker's cost for health care has risen 36% from 2000 – 2004. In 2003, some companies experienced 20% - 30% increases, while companies that year said they could, on average, afford only an 8% increase. It has been reported that in 2002, consumers had the first double digit (10%) increase in health care spending since 1990, which

is when managed care began. It is now believed that the managed care approach has reached its limit in ability to squeeze out cost savings.

Today, the typical price of health care for a family of 4 is in the range of \$10,000 / year. Employers have seen 20% - 30% increases in cost. In 2005 there was an estimated 9.6% increase in spending per employee. Of the 30 industrial nations worldwide, the average health care cost / year in the US is more than double the world median. Nearly 20% of Americans are paying off medical debts.

In general, the number of employees receiving health care from their employers is dropping. According to a report by Kaiser, from 2001 – 2004, employers offering health care insurance dropped from 65% to 61%. Between 2001 and 2004, there were 5 million fewer jobs providing health care, mostly in small business. In 2003, 45 million Americans went without health care coverage for the full year.

While in the past, small businesses have been hardest hit with cost increases, due to their lack of negotiating leverage, now big companies, too, are being hit. One solution employees have employed is to reduce coverage and increase eligibility rules, resulting in fewer people being covered. Today, it is reported that

about half (47%) of the working population of the U.S. does not get health care through work.

However, as businesses stop insuring employees, the demand for services does not go away. The burden of caring for the un- and under-insured is simply re-distributed, in the form of higher charges to insurance companies, to cover the overall cost of keeping the doors open on emergency rooms and clinics.

What are some of the factors causing continual price escalation in health care? We live longer, thanks to better health care, which means that our aging population is drawing more and more services from the system. The high cost of medical research and availability of extensive testing and advanced treatment options, for people of all ages, add significantly to costs. Physician costs include an additional burden to cover high malpractice premiums, a cost that the industry bears to cover the liabilities of a small population of poor performers, and an excessive number of liability claims in a litigation rich society. As a result, prescription and hospital costs are soaring, as we have seen locally, with the financial challenges faced by the Westchester Medical Center and the downsizing and closing of local hospitals and medical facilities.

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Finally, our society has undergone a radical shift in insurance approach, from insuring for catastrophe, which was the standard in the 1950's, to insuring for basic coverage, which became the standard in the 1970's – 1980's, to entitlement – that everyone deserves treatment for every ailment, regardless of cost or prognosis – which is the standard, today. Finally, as demands on our health care system, and related insurance coverage, have escalated, the US economy's rate of slow, steady economic growth over the past 50 years, has not kept pace with the increasing costs, and increasing demands.

What are employers doing to keep their companies healthy, as health care costs escalate faster than income? Some companies have dropped health care insurance altogether. Other firms are cutting back the benefits offered, by increasing deductibles, increasing co-pay requirements. Some firms have reduced coverage options. Other firms have reduced eligibility, offering to only insure employees, not their families. Some firms have obtained temporary relief by changing insurance carriers. Regardless of the tactics, both employers and insurance companies are finding that the cost of health care is a relentless beast, with continuing annual increases, as our society continues to demand and expect

more and better services over longer lifetimes.

Cost sharing with employees, shifting from entitlement to burden sharing, has been increasing. The thrust is to make consumers of health care more aware of costs, and give them incentive to buy smart. Today, most companies have gone away from paying 100% of the health care premium for employees and their families. Many firms make a fixed dollar amount available, often the cost of a single, low coverage level premium, and then offer employees a menu of choices against which to apply those dollars. The employee chooses the amount of coverage they want, or can afford, and make up the difference out of their paycheck.

Many companies have set up Flexible Spending Accounts, which allow employees to set aside pre-tax money, which they can use to pay for expenses not directly covered by their insurance plans. The advantage is that while the employee is still paying directly for medical care, they are doing so without the burden of paying for social security and income taxes at the same time. With Flex Spending Accounts, the employee decides how much to set aside for the year, and then has a regular deduction from each paycheck, which goes into the spending account, which the employee can draw on throughout the year. Flex

Spending Accounts are not meant to replace health care insurance, but rather act as a bridge, covering the cost of deductibles and items typically not insured, such as eye glasses, dental work, and optional medical procedures. Flex Spending Accounts do require paperwork and administration on the part of the employer. Employers hire a firm to do the administration and still come out ahead when compared to the savings gained by providing a limited insurance plan.

An HRA or Health Reimbursement Arrangement allows an employer to set aside their own money, from \$100 to \$3,000 per year, for an employee to spend on health care – a type of insurance policy with a limited payout. The funds are used to reimburse employees for qualified medical expenses. HRA's qualify employers for preferential tax treatment, since these funds are treated as a business expense. Employees submit bills for qualified medical expenses, and can draw on the account until all funds allocated to the individual are used up; unused funds are rolled over from year to year and accumulate. Again, there is a burden of paperwork borne by the employer, to deal with documentation and qualification of medical expenses, maintenance of a database of providers, and tracking of funds.

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Medical Savings Accounts (MSA's) are often set up to supplement high deductible, or catastrophic coverage insurance policies. MSA's are used by individual employees to pay for un-reimbursed health care expenses, and accumulate tax-deferred interest, similar to IRA's. MSA's are controlled and owned by the individual account holder, and contributions to the account can be made by either (not both) the employer and employee. To be eligible, the employee must work for a firm of 50 employees or less, or be self employed, and must have a high deductible insurance policy. Savings roll over from year to year, and can be moved regardless of employment. Funds can be used to pay for long-term care insurance premiums, health care premiums while unemployed, and COBRA, as well as medical expenses.

In general, your best bet as an employer is to develop options and educate your employees. Find people who can teach your employees how to shop for medical providers and services. There are questions of when to shop for generalists vs. specialists, what kind of specialist, and whether to shop for services on a global basis. For example, a surgical procedure in India may cost 1/2 to 1/3 what it would cost in the U.S., even when factoring in travel and hotel for the patient and a companion. Drugs from Canada are often

lower in cost, but there are import prohibitions. Shopping for medical care today is complex, and educated consumers can take actions to control their expenditures.

Figure out if your company has the right medical benefits advisors, who can educate you on your options. Get your accountant involved in evaluating your options and advising you on how to take advantage of available tax savings programs. When considering employee needs, a menu of choices is likely to work best. Today, our workforce varies from single, young employees with primary need for routine medical care, to experienced workers with more advanced needs, and families, some with more than one health care option resulting from dual employment households. Decide on the amount your company can afford, and educate your employees on their options. Emphasize cost sharing and individual responsibility for consumption and spending. Encourage employees to seek routine health care. Set up low cost programs that make it possible for employees to contribute to saving for emergencies, and make it easier for employees to manage their costs and needs over time.

Consider health care coverage as a competitive advantage. As employers, many of you are telling me that the workforce is

once again getting more competitive. It's getting more expensive and harder to attract and retain the talent you need. Offering medical coverage demonstrates your commitment to your employees, and helps you to attract potential employees. In today's work world, it's not just about the paycheck, it's about the employee's total compensation and relationship to the company that recognizes the value of supporting, within reason, the well-being of its employees.

Looking for a good book? Try *Market Driven Health Care: Who Wins, Who Loses in the Transformation of America's Largest Service Industry*, by Regina E. Herzlinger. You can also try, *The Health Care Mess, How We Got Into It and What It Will Take To Get Out*, by Julius B. Richmond and Rashi Fein.

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