ADDRESSING HEALTHCARE COST$

By Scott M. Wood

Mid-sized employers face many challenges today, and the cost of employee health benefits is one of the most critical issues they confront. Employers who approach this challenge with the same attitude with which they approach other parts of their business—by developing short-term and long-term strategies—are able to control healthcare costs for their organizations and their employees.

A number of strategies are working, but first it is important to understand the situation.

The employer's burden

During the last years of the Great Recession, employers' focus was on reducing employee benefits and saving on health plan premiums. It was difficult to get employers to look at anything that did not have a direct and immediate impact on the bottom line.

In recent years, with the economy at full employment, mid-sized employers face two key challenges.

First, they need to compete with larger employers to attract and retain workers. That often means they need to enhance the quality of their employee benefits. According to a 2018 survey by The Harris Poll, 80% of American workers would choose a job with benefits over the same job that offered 30% more salary but no benefits.

Second, and still the major concern for employers, is the cost of healthcare benefits because it is typically the second or third highest budget item. Mid-sized employers usually have tighter budgets than large employers, so they have an even greater need to control costs.

For most employers, the cost of health benefits continues to rise at twice the rate of wage increases and three times general inflation. According to the *2019 Employer Health Benefits Survey* by the Kaiser Family Foundation, from 2009 to 2019, the cumulative increase for family premiums was 54%, for worker earnings 26%, and for overall inflation 20%.

In addition to these concerns, mid-sized employers often have less access to actionable claims data, and they find it difficult to persuade insurers to provide "credit" for wellness initiatives and other programs designed to improve employee health and manage costs. That is why it is critical for these employers to develop a strategy to control costs.

The employee's burden

The adage "one step forward, two steps back" applies to employees, their wages, and their healthcare costs. On average, family income growth is largely being eroded by increases in healthcare costs.

Nationally, according to *The Burden of Health Care Costs for Working Families* by the Leonard Davis Institute of Health Economics, from 2010 to 2016, family premiums for employer-sponsored health plans rose 27.7% (from $13,871 to $17,710), while median household income rose 19.8% (from $49,276 to $59,039).

If healthcare costs continue to increase and employers pass along those increases to employees, it becomes extremely difficult for American families to get ahead and achieve their own financial goals.

Drivers of healthcare costs

Five main factors are driving increases in healthcare costs:

1. **Cost of services.** For the past 20 years, according to the Peter G. Peterson Foundation, the Consumer Price Index (CPI) for medical care alone has increased 3.5% per year (not including utilization and other factors that contribute to increased health premiums), compared to a general inflation CPI increase of 2.2%.
2. **Utilization.** In recent years, utilization of healthcare services—likely driven by coverage gains under the Affordable Care Act—has grown faster than prices, according to the Peterson-KFF Health System Tracker.
3. **Choice of facility/level of care.** The cost and quality of care vary widely for the same services. In addition, the total cost of care is higher when consumers use a hospital emergency room instead of other kinds of facilities (urgent care, convenience care, their primary care doctor, telehealth).
4. **Morbidity.** Americans continue to face chronic conditions, many of which are caused by unhealthy lifestyles. In 2015-2016, the prevalence of obesity was 39.8% and affected about 93.3 million American adults, according to the Centers for Disease Control and Prevention, which also notes that heart disease is the leading cause of death in the United States.
5. **Five percent of the population drives 50% of healthcare expenses.** The frequent users of healthcare, often because of critical illness or chronic conditions, drive up costs, especially as their numbers increase.

What's working now to control costs

From discussions with other benefits consultants across the nation and the experience of employers our firm has worked with, we can identify a number of fundamentals that are effective in controlling healthcare costs for employers and employees and their families.

Appropriately designed plans that incorporate health savings accounts (HSAs) or health reimbursement arrangements (HRAs). Consumer-directed health plans (CDHPs) are an important first step in designing effective strategies to control costs. A CDHP should be structured so that the healthcare account and the insurance combined generate the same actuarial value as the traditional plan. In other words, benefits are not reduced.

The plan design should encourage employees to spend healthcare dollars like their own dollars. What other product or service does a family consume when it doesn't know how much it costs and doesn't care because someone else is paying for it? Traditional plan designs provide a perverse incentive to overutilize because employees believe they get more value and a greater ROI from their payroll deductions when they consume more. With appropriately designed and funded account-based plans, employees are rewarded for being good stewards of their healthcare dollars. Unused dollars in their healthcare account roll over to the next year.

A fact that is often overlooked in discussing health plans is that many people are overinsured. When we analyze our clients' healthcare spending by member, we consistently find that approximately 30% of members use $0 of healthcare in a year, 54% of members use $500 or less, and 73% of members use $1,000 or less.

While CDHPs have higher deductible amounts than traditional health plans, the majority of employees and their families will not reach or exceed their deductible in a given year. And when employers contribute to their employees' HSA or HRA, the employees generally benefit from a lower premium contribution and from account-based coverage of first-dollar expenses.

CDHPs work because they influence:

- How medical services are used
- How employees and their families buy healthcare
- How they manage their personal health
- How they follow chronic disease treatment regimens
- How they relate to their physicians

Appropriately designed CDHP programs shift behaviors, not costs; they improve health and health spending; they deliver sustainable satisfaction and savings.

- **Narrow/high-performance networks.** These networks are available in most urban markets today and give employees a choice to select a network based on their needs. Those who find the facilities and doctors they wish to use in the high-performance network will pay a lower monthly premium and have lower out-of-pocket costs.
- **Alignment of incentives/ disincentives.** A strategy should be developed in which both the employer and the employee save money when healthcare use and wellness activities are effective. For example, employees who participate in certain wellness programs—or who are tobacco free—pay lower monthly premiums or may have a larger employer contribution to their HSA or HRA.
- **Biometric screenings/annual physical exams.** This is an extremely important element of a strategy because it all starts with knowing the numbers, for both the employer and the employee. When employees understand their current health conditions, they are more likely to try to maintain or

The plan design should encourage employees to spend healthcare dollars like their own dollars. What other product or service does a family consume when it doesn't know how much it costs and doesn't care because someone else is paying for it?

improve their health.

- **Health risk assessment.** This personal tool puts into focus the employee's current health conditions, family indicators, and lifestyle influences on health. Combined with biometric screenings and/or physical exams, this assessment gives employees the information they need to make informed choices about their healthcare.
- **Transparency tools.** This is an evolving area. Several years ago, it was almost impossible to compare costs and quality among medical providers and facilities. Tools are improving, and cost comparison programs are readily available on insurance company websites that employees can use when they are making choices about healthcare.
- **Education and communication.** It is essential for employers to educate employees and communicate with them throughout the year about their benefits and about health and wellness topics and programs. For a successful program, keep it simple and make it easy.
- **On-site clinics.** For larger employers, an on-site clinic can increase employee access to physicians, enhance patient experience to drive engagement, and improve health at a lower cost.

Preventive care

While all of the points presented above are important elements of an effective healthcare cost control strategy, nothing is so important as preventive care.

According to the Centers for Disease Control and Prevention, chronic conditions like heart disease, diabetes, and some kinds of cancer are responsible for seven of every 10 deaths among Americans each year, and they account for 75% of the nation's healthcare spending.

The good news is that these chronic diseases can largely be prevented through close partnership with an individual's healthcare team; and with appropriate screenings they can be detected early, when treatment works best.

Cigna, a major health insurer, says the savings correlated with managing four important biometric measures are impressive:

- Blood pressure under 140/90 can save:
  - $413 in out-of-pocket employee costs per year
  - $2,064 in total healthcare costs per year
- Cholesterol under 240 can save:
  - $353 in out-of-pocket employee costs per year
  - $1,644 in total healthcare costs per year
- Fasting blood sugar under 100 can save:
  - $266 in out-of-pocket employee costs per year
  - $1,332 in total healthcare costs per year
- Body mass index (BMI) under 30 can save:
  - $492 in out-of-pocket employee cost per year
  - $2,460 in total healthcare costs per year

Innovations in cost control

Here are a couple of new strategies that will have a significant impact on healthcare costs:

Predictive analytics and population health initiatives. This is an evolving area, with more vendors joining the market. By controlling costs through a single system of records, updating information monthly, and using interactive review rather than just historical lookback, employers will be able to perform real-time financial reporting and modeling. They also will be able to identify and take positive steps related to gaps in care and predictive modeling.

This means that more employees who should be receiving medical management services can be identified and assisted.

Multidisciplinary care team. Individuals with high-risk medical conditions and those who use the most healthcare services are the most costly for any health plan. Coordinating care and combining case management with network optimization are new care models that can enhance the member experience while reducing the amount of care needed and the cost. For example, a diabetic may have a care team that consists of an RN case manager, behavioral health/social worker, diabetes educator, and clinical pharmacist.

This approach can close gaps in care, reduce duplication and waste, improve outcomes, and incorporate community resources to help further control costs.

The years ahead will present an exciting opportunity for agents and brokers to provide employee benefits consulting to mid-sized employers, and it all begins with developing short-term and long-term strategies based on the specific needs of each employer.

The bottom line: There is no magic bullet to contain healthcare costs. Successful strategies are an amalgamation of many complementary initiatives. ■

The author

Scott M. Wood is managing partner and principal of Benefit Commerce Group, an Alera Group company. He has spent his 30-plus-year career developing and managing health plans. Previously, as CEO of insurance-related companies, he handled strategic, financial, operational, and HR issues, including health insurance costs. Alera Group serves clients nationally in employee benefits, property and casualty, retirement services, and wealth management. For more information, visit www.aleragroup.com or email the author: scott@benefitcommerce.com.