

HRO TODAY

June/July 2005

Managing Benefits Costs

Is there a silver bullet for hairy healthcare costs?

By HROT Staff

The high cost of health benefits is damaging the health of many an HR team. At the recent HRO World Conference, HRO Today magazine invited a number of experts in the field to give us their insight on what HR and HRO can do to help drive down costs.

Healthcare now consumes 15 percent of Americas national output, compared with 9 percent in many European countries. In fact, a recent Princeton University study concluded that healthcare will make up 28 percent of our GDP by 2030 and 46 percent by 2050, and is dragging down American companies' productivity more than any other single factor. Nearly 65 percent of Americans get their health coverage through their employers, funded with pre-tax dollars.

While new consumer driven health plans and managed care plans can help, they do little to solve the problem, one of which is that 10 percent of patients account for 69 percent of healthcare costs. So what are your alternatives? There are some experts, like the New York Times Daniel Akst, who say that employers should stop providing healthcare altogether because it limits labor mobility and puts American firms at a big disadvantage.

The goal of this expert panel is to give readers ideas that they can put to work in the workplace.

MODERATOR:

Jay Whitehead, President and Publisher HRO Today, HRO Europe, and FAO Today magazines, and HRO World Conference Co-chair

PANELISTS:

R. Jeff Brown, Senior Consultant, Group and Health Care Practice Watson Wyatt Worldwide (RJB)

Arthur Leibowitz, Principal, Health Advocate Inc. (AL)

Roy Ramthun, Senior Health Advisor, U.S. Department of Treasury (RR)

Barry M. Schilmeister, Principal-Health and Benefits Business, Mercer HR Consulting (BMS)

Moderator: At NY HR Week 2004, we heard our keynote speaker, Mike Milken, say that the average GM car has \$1,400 to \$1,600 worth of healthcare costs in its price, with double-digit annual increases likely to continue into the next decade. In your opinion, what is the most effective way for American employers to address these cost increases?

RJB: There aren't a bevy of alternatives out there. There are two cost-control strategies to compare: strong form managed care and integrated consumer as managing consumers in the marketplace. We

believe that truly engaging consumers and having them take more ownership of their own healthcare offers some hope.

AL: GM is probably the worst example to use. They are trapped behind a union-based contract that enables them to transfer a minimal amount of costs to employees. They are way out in the left field. There needs to be a balance between what they can reasonably expect employees to pay and what they can afford.

RR: Consumerism is the best solution. People learn how to spend other people's money; now its time to spend their own.

BMS: I think we need a solution that offers both short-term relief and long-term relief. Take an example from Medicare Part D, which has protection in the front and back and a hole in the middle. The concept of insurance needs to be maintained with risks, subsidy, and equity that is considered acceptable where money saved is spent in other areas employees value with costs that don't rise as fast.

Moderator: In a recent cover story in HRO Today magazine, I interviewed Former House Speaker Newt Gingrich, who is a big fan of tax-sheltered, consumerdriven health plans (CDHPs) as a way to save employer-provided healthcare. CDHPs are basically a pretax Health Savings Account welded to a high-deductible, catastrophic coverage plan. Opponents of CDHPs say they are just a cost-shifting device, throwing the cost of healthcare from employers onto employees. In your opinion, is this cost-shifting accusation the case or not?

RR: There is no tax effect argument whether insurance or healthcare costs should be subsidized.

Moderator: Would you consider the U.S. Treasury to be a fan of CDHPs?

RR: We are fans but under improvement of tax preferences.

BMS: It is fundamentally a cost-shift with two goals one, an attempt to address employers short- and longterm concerns and two, impacting utilization by certain levels of out-of-pocket increases.

AL: I'm not sure shifting responsibilities to employees will help just because you can spend your own money doesn't mean you know how to do so. The government is invested in the health and well-being of every American after the age of 65. From a public policy perspective, we don't know the consequences of CDHPs years from now.

RJB: If CDHPs are offered only as an option, they will be adopted by relatively healthy, low-utilizing consumers and will not have a substantial impact on healthcare economics. I often say Why introduce incentives for rational consumption to people who don't consume to begin with? If CDHPs are deployed broadly, to 70 to 80 percent of the population, they have the power to be much more than just a cost-shift. They might create more rational pricing and capital spending decisions that are made throughout the entire market.

Moderator: Employer adoption rates for CDHP plans were pretty low in 2005. What do you think the adoption rates will be like in 2006? Will they ever be as high as the rates for 401(k) plans?

AL: Everything is being called consumer-driven plans. There is hardly an employer in America that is not limiting coverage and shifting costs to employees.

RJB: If you take 401(k) adoption as a proxy, the adoption curve is not that steep. It took 12 years for that market to really develop. However, in the case of CDHPs and HSAs, policy makers and regulators are enabling these accounts instead of just allowing them; so we might expect more robust adoption, especially in light of the state of crisis we are currently in with healthcare.

RR: The small and mid-sized employers will have high adoption rates, but HRA (health reimbursement accounts) models will still be used by large employers.

BMS: We surveyed employers, and a quarter of them are looking to adopt CDHP plans/high deductible plans for large companies. There will be significant interest and proposal requests.

Moderator: Harvard's Martin Feldstein says that by eliminating the employer tax deduction for healthcare, federal income tax collections would go up \$120 billion a year. Is cutting these tax breaks a good idea?

RR: Maybe.

AL: It doesn't matter when looking at the actual cost of health care; we are going to spend what we are going to spend. The question is: How will the individual pay for it? Through taxes or as a premium out of their pay check?

BMS: It is fundamentally a bad thing. It would lower the bar on benefits across all employers. The money employers pay in the system will trickle down to consumers as higher costs.

RJB: It is an interesting idea. A lot of the dysfunction in the current system is related to the employer's role as agent for employees. This move would lessen the incentive for employers to intervene in health care delivery, thus making this an individual responsibility. To the extent this happens, it might help create a more efficient system.

Moderator: What about another cost cutting alternative we've heard of: pharmaceutical discount cards. Do they really give you discounts, or are they just a scam?

RJB: They aren't terribly effective in delivering real savings. I wouldn't buy them. I would go to Sam's Club instead.

AL: Some of the cards can be downloaded for free, and you save 20 percent at the pharmacy. They represent better deals than walking in and paying retail. Why wouldn't you get one? It doesn't mean it is a great deal, but it's still some savings for consumers.

BMS: It is better than nothing. It offers some value, but it's not a good deal for most.

Moderator: Some employers are using draconian measures to manage healthcare costs, including firing employees who smoke or requiring them to lose weight. Have any of these enforced-lifestyle requirements ever worked to actually cut costs?

AL: When I was senior medical director of U.S. Healthcare, we used to run a program to pay people to go to the gym. We ended up having higher medical costs from injuries. If you were to take a pocket of the employee population that is obese, offer them these incentives, then observe them, you'd find it doesn't save money from the employers perspective because the pay off is many years down the road. At age 42, working out and dieting means no heart attack when you reach your 60s. This is a broad, long-term strategy, but don't expect short-term results.

RJB: Behavioral change in employees is a complex issue that requires a rigorous approach to be effective. The measures you sight may achieve small gains, but larger scale behavior change requires a more comprehensive set of interventions. This point notwithstanding, I admire the courage required to take drastic actions, because the status quo is simply not sustainable.

RR: It amazes me that employers keep chasing their tails. Plans such as these are not what the government expects when allowing employers tax breaks for health care saving.

BMS: These measures have several problems. Number one: You can't operate in a vacuum. Number two: There is no one size fits all answer. Such measures can affect morale and publicity. But the door has opened to pull in programs for incentives/ disincentives and to help employees understand how bad behavior of others affect everyone's costs.

Moderator: Some employers complain that the reason costs keep going up is lack of comparative pricing information for doctors and services. Unlike hotel customers who can see a room rate chart, health consumers can't always know what their costs will be. Is better price transparency, like California's new law requiring that hospitals disclose prices for goods and services, a potential solution to the cost conundrum?

RJB: Yes.

AL: It doesn't matter. It is a different issue, psychologically, when someone is sick.

RR: Yes.

BMS: Yes. I think people are going to look for more transparency, although, of course, during emergencies all bets are off. But this is not unique to healthcare.

Moderator: If you had to list one big idea that employers could take back with them after this session to manage their healthcare costs, what would it be?

BMS: There is no linear thinking or straight forward solution. Changing the culture of the organization, communicating to executives on how healthcare affects business costs, there is not one straight line to the end. There are continuums of change that will take time to execute.

RR: Encourage your employees to understand that they are part of the problem and part of the solution; otherwise they will not embrace any changes you implement. You need to engage employees in solving the problem.

AL: Instead of trying to tell employees what we want them to do, we need to ask them what they need to be a better health care consumer.

RJB: In the next 24 months, implement a high-deductible health plan for your entire population, deploy consumerism in a holistic and integrated fashion, and attack healthcare in the same way employers attacked workers compensation and safety issues in the 1990s.