

The answer to controlling health costs is ‘consumer-directed’

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Last August, I received the following e-mail from our company’s insurance broker during health insurance renewal time:

“We received your renewal on August 25th. Oxford has requested an overall increase of 33.8%. We will be looking at other insurers, rate relief and plan changes to lower the increase. We are still waiting for the renewal from HIP (Health Insurance Plan of New York) and Guardian.”

I was outraged that my insurance broker would so nonchalantly mention in an e-mail that our health insurance premium would increase from \$280,000 to \$375,000. This came after years of double-digit increases, only slightly reduced through tinkering with coverage and co-pays. With the health reform debate at a fever pitch, I felt the only way to achieve cost control was through government reform. But I was wrong.

I have discovered a market-based solution. When my company, Community Housing Innovations Inc., received that e-mail, we mounted an aggressive search for alternatives for our 65 employees who participate in the health plan. We met with five insurance brokers, researched approaches to saving money while maintaining high quality and

came up with a plan to enter the world of “consumer-directed health care.” Simply put, these are high-deductible plans that put some of the cost of health care on consumers in a market-driven way.

For example, under most plans with standard co-pays, a consumer who buys prescription drugs doesn’t care whether his prescription costs \$100 or \$200 – he makes the same \$20 co-pay. And pharmacies know that.

A recent survey by the New York Public Interest Research Group found that in Westchester County, the cost of the most popular drugs can vary by 100 percent. For example, the same 30 Celebrex tablets cost \$98.92 in one drug store and up to \$192.25 in another that could be across the street. Nexium prices varied from \$151.54 to \$318 for the same prescription. Under a high deductible plan, the employee has an incentive to shop around because he pays part, or all, of the cost.

The plan we chose – called a Health Reimbursement Arrangement (HRA) – drives down the insurance premium drastically because the insurance company pays no part of the first \$4,000 in health costs for

a single employee – except for preventive care such as physicals, which are free. Our company decided to give each employee the first \$1,000 of their health costs with a debit card to spend as they wished on doctors, prescriptions, or whatever they needed. The next \$1,650 would be on the employee. And Community Housing Innovations would pick up the final \$1,350 of the deductible. The insurance company kicks in 100 percent of in-network cost after that point.

In addition, we provided employees with an independent service called Health Advocate, an 800-number staffed 24/7 to answer all questions related to health and insurance claims, with a mandate to resolve them. It even has a nurse on duty.

Initially, employees expressed shock at the new plan, afraid to have a stake in what their doctors were charging. But the majority of employees will never spend the first \$1,000 the company gave them, and gradually those who exceeded the deductible began to acclimate themselves to the new reality.

One positive aspect of the plan is that while employees or the company pay for health care until the deductible is reached, they receive the benefit of the insurance company's negotiated rates from doctors and pharmacies.

I had an employee near tears when she received an Explanation of Benefits for her annual gynecological checkup. The doctor billed \$525 but the insurance company listed only \$277 "allowed by your plan." The \$277 is what the doctor agreed to accept based on the negotiated rate, and since it was preventive care, the insurance company paid the entire amount.

After six months of the new "high deductible" plan adopted in January, our company has saved \$70,000 – 17 percent over last year's old premium costs and 37 percent over what the new plan would have cost with the increase. Because we are a nonprofit with government contracts, health care costs for our employees are passed on to taxpayers; so, our savings mean that taxpayers will benefit from the \$140,000 we expect to save this year.

On the other hand, paying for your doctor visits carries risk. For example, in an effort to make Community Housing Innovations' \$1,000 go further, most of my employees say they go to the doctor less often. One young mother told me she no longer takes her child to the doctor when he has a sore throat. She prefers to "wait it out" and maybe that's fine 99 percent of the time. But who wants to be responsible for the 1 percent chance that a simple throat infection grows into a major health threat? So, education and wellness must be a part of any consumer-directed health solution, along with an active, experienced and involved insurance broker.

Because high-deductible plans are so new and insurance company communication is so indecipherable, our employees have had their share of administrative snafus. But they are diminishing and with some adjustments should become manageable. Next month we will be adding a wellness program with incentives for our employees to quit smoking, lose weight or choose their own health improvement goals; because ultimately, staying healthy is the best way to control costs.