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#12

## The New Buzz in Health Care Cost Containment

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The last installment of the *Get More* series reviewed the issues currently headlining the agenda of today's HR practitioners. Foremost among them is cost containment. While global and labor market forces call for a larger investment in resources to fill employee ranks, benefits costs still demand keeping a close eye on the bottom line. In dealing with health care costs, particularly, employers are becoming frustrated with short-term solutions and are looking to producers for fresh approaches. Of special note is the growing trend among U.S. employers to implement employee wellness programs and incentives for adopting healthier lifestyles. In response, producers are shifting their role to that of consumer health care advocate and are looking to align with carriers who share their vision.

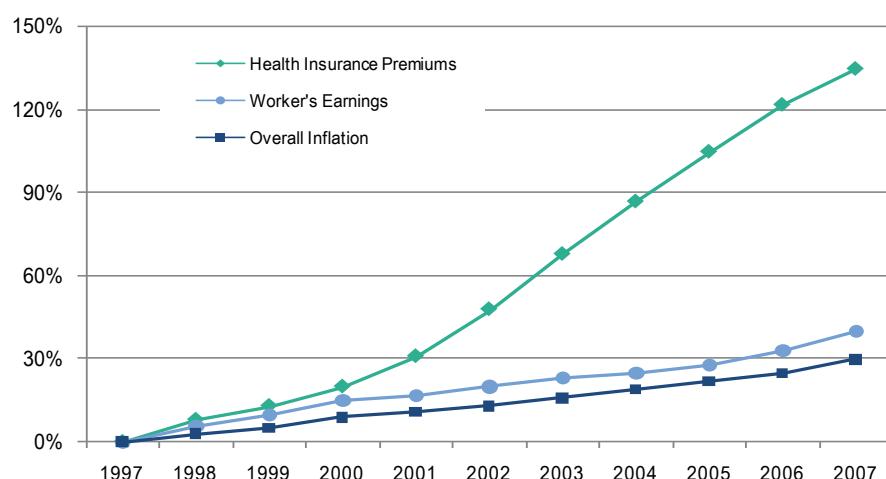
### *Still a top of mind issue*

#### **Benefits cost containment**

For the past eight consecutive years, and again in 2007, controlling health care costs has been employers' top benefits priority.<sup>1</sup> At the same time, respondents to a national survey indicated that over the next three years they expect recruitment and retention of talent to be the primary challenge. Balancing these two competing demands for employers' dollars will require the deftness of a tightrope walker.

*Figure 1*

**U.S. Medical Cost Trends**  
Change in Health Insurance Premiums, Worker's Earnings,  
and Overall Inflation (Percent change since 1977)



Source: Labor Department, Kaiser Family Foundation.

The challenge of global competition adds additional pressure on American businesses to reduce expenses overall, and HR professionals are feeling the heat. Just as CFOs expect a return on investment (ROI) for a company's assets, products or services, they also expect ROI to be part of HR's vocabulary when it comes to benefits. This is a tall order, but an opportunity for producers to offer their insights and support.

In 2007, U.S. employers got a break. Health insurance premiums went up 6.1%, the smallest increase since 2003 (13.9%) and the fourth consecutive year of decline.<sup>2</sup> Among the trends that caused the decline, says PricewaterhouseCoopers, was a drop in prescription drug spending by those with private health insurance and an expectation that consumers pay more out of pocket. The downside is that the rate of increase, though moderate, is still higher than inflation and wage increases (Figure 1). The health insurance industry is also cyclical; as a result, this honeymoon period is not expected to continue. The rise in obesity is one factor; the popularity of expensive medical technology is another. In its health cost trend survey, Segal points to price inflation for medical services and supplies and patients' increased utilization rates of physician and hospital services as the primary drivers of continued cost escalation.<sup>3</sup>

#### *Running out of options*

#### **What's working, what's not?**

Since the advent of managed care, employers believed they could save money by changing plan design. In the late 1990s, for example, the cost trend for PPOs was three percent higher than HMOs. But the difference in claims expense for these plans has become negligible for active workers and retirees under age 65.<sup>7</sup> It is clear employers will have to look elsewhere for potential savings.

Medical inflation will be a key factor in the redefinition of U.S. health care policy. The Congressional Budget Office predicts that, left unchecked, long-term spending on health care will jump from 16% of gross domestic product in 2007 to 25% in 2025, 37% in 2050 and 49% in 2082.<sup>4</sup> With the majority of Americans (62%)<sup>5</sup> receiving coverage through work, the current tax treatment of employer-paid coverage will likely come under scrutiny, along with the concept of mandated coverage. It is unlikely the U.S. will move toward a nationalized health care system, but most brokers believe the Federal government will mandate employer-sponsored health care through private payers.<sup>6</sup>

Employers could be expected – or required – to meet government-defined standards for eligibility, coverage amounts, deductibles and so on, and will need to be proactive in helping frame the policy discussion.

The number one strategy employers have adopted to contain health care expenses has been increased cost sharing and cost shifting to employees.<sup>8</sup> This tack has assumed a variety of forms, from raising copays, deductibles and lifetime limits to imposing heftier coinsurance amounts. Expecting employees to contribute a higher percentage of the premium also has become more common. A related approach has been to continue to offer more than one benefit option and raising the employee's out-of-pocket costs on the more expensive plan to create an incentive for employees to enroll in the lower cost plan.

But cost sharing has had limited, sometimes even contrary, impact on lowering health care costs. Here's why:

- Seventy to 75% of an employer's health care expenses stem from 10% of plan enrollees with chronic conditions.
- Higher out-of-pocket expenses may create a barrier to seeking treatment. Delays may translate into greater claims expense down the road.
- If the employee's share of the premium exceeds 11%, he or she is less likely to sign up.<sup>9</sup> Lower enrollment may save employers in the short term, but ultimately it's counterproductive. Employees without insurance still get sick, which affects attendance and production.

### *Throwing in the towel?*

#### **Employer responses**

Although the employer-broker dialogue continues to focus on reducing benefits or cost shifting, these measures don't address underlying factors affecting the cost of care. But if cost shifting isn't the answer, what other options do employers have for cutting costs? A few have been tried, with mixed results.

- Hire more part-time workers and contractors — without benefits.
- Introduce a two-tier system with limited plans available to part-timers and comprehensive coverage for full-timers. Limited plans typically cover inpatient and outpatient charges, subject to an annual dollar cap, but no catastrophic benefits.
- Slim down the number of plan offerings.
- Stop paying 100% of the premium for individual and family coverage.
- Tighten rules and audits for dependent coverage.

- Vary employee contributions by wage level.
- Drop retiree coverage. (Employers may be tempted to stop offering medical insurance to retirees with the blessing of the U.S. Equal Employment Opportunity Commission which said employers would not violate federal age discrimination laws by discontinuing benefits once a retiree becomes eligible for Medicare or state plans.)

Some employers, generally small- and mid-size firms, have chosen to discontinue coverage altogether. Nearly 100% of large companies, however, continue to offer health insurance coverage, believing it's an essential component of a comprehensive benefits package needed to attract and retain talent. That's not to say they're not looking at other delivery options. Executives from some large employers are supporting the work of the Committee for Economic Development in Washington, D.C. that advocates scrapping the current health care system and replacing it with mandated universal health care. Under this approach, individuals, not employers, would purchase standard medical plans from private companies with the help of tax credits. Financing would come from an increase in payroll taxes.

At the same time, the growth in voluntary benefits — from 18% in 2006 to 24% in 2007 — may be tacit admission that employers can no longer sponsor an array of employer-paid benefits. Perhaps that's why voluntary benefit programs, where employees pay their own premiums but enjoy the advantage of group rates and discounted services, are considered the fourth most successful method for controlling benefit costs.<sup>10</sup>

### *Designing for change*

#### **Embracing consumer-driven approaches**

Recognizing that the health care delivery model must change, large employers are leading the way. For decades, the health insurance system has focused primarily on taking care of people who are ill. Employers spend 95% of their medical dollars on diagnosis and treatment of disease and 5% on prevention.<sup>11</sup> Seventy-five percent of all health care expenses go for the treatment of chronic conditions. In the past few years, experts have called for a paradigm shift to wellness — to reward employees for taking good care of themselves and to encourage those who may be at risk for disease to change their behavior **before** they get sick. Pragmatic employers see the cause and effect relationship between healthier employees and increased productivity and reduced absenteeism as good for the bottom line.

Employers who want to pursue the shift to wellness need a plan design that gives it structure. High deductible health plans (HDHP) have become synonymous with wellness because they offer a comprehensive list of preventive care services at 100%. Typically HDHPs include routine physicals, well-baby and well-child care, immunizations, smoking cessation programs, weight-loss, etc. These plans are called consumer driven because participants are expected to assume greater responsibility for out-of-pocket expenses and medical decisions than under managed care plans.

The HDHP is frequently paired with a tax-favored account, such as a Health Savings Account (HSA), which has been called a “401(k) for medical expenses.” The participant can draw on this account to cover medical care and prescription drugs. When the account is empty, participants must satisfy a deductible (the minimum is \$1,100 for individual and \$2,200 for family coverage in 2008) before plan benefits take effect at an established coinsurance rate.

HDHPs appeal to employers because they pay lower premiums and lower payroll taxes than with traditional medical plans. Another sweetener: unlike flexible spending accounts, the employee is responsible for keeping track of withdrawals and where the money goes. Employees like HSAs because they’re pre-tax, tax free when spent on qualified medical expenses and portable if they leave the company. And, unlike flexible spending accounts, money in the account at the end of the year rolls over to the following year — even into retirement.

#### *Creating a culture of health*

#### **Total health management**

Companies that have hit a ceiling on cost shifting are moving beyond plan design to disease management and health promotion. They recognize that it is in their best interest to stop serious or chronic illness from developing. How? By encouraging employees not to get sick in the first place or to change their habits if they are at risk for certain diseases. Eighty percent of employers with 5,000 or more employees have implemented a disease management program.<sup>12</sup> Sixty-eight percent of employers who participated in a national survey said they sponsor a wellness program, an 11% increase compared to 2003.<sup>13</sup> Using a broader definition of wellness, a Deloitte study pegs the rate of offering at an even higher 93%.<sup>14</sup>

Experts say it’s too early to predict the long-term impact of consumer-driven approaches to health care, but it’s fair to say employers are paying attention. In the large employer market, HSA enrollment increased about 35% from January 1, 2007 to January 1, 2008.<sup>15</sup> The business case comes down to demonstrating that employees’ health has improved *and* that dollars have been saved because of fewer claims or higher productivity.

Those are some of the very reasons proponents of the wellness movement point to in advocating their cause. More than half of multinational corporations expect to introduce or expand corporate wellness programs over the next five years, citing wellness as the way to:<sup>16</sup>

1. Reduce indirect costs associated with absenteeism, presenteeism [sic], disability and workers' compensation.
2. Improve work performance, such as productivity and quality.
3. Reduce health care costs.
4. Improve the image of the company internally (for retention).
5. Improve the image of the company externally (for recruitment).

Wellness programs cover the waterfront — from onsite flu shots and workout facilities to organized employee walks and health fairs — but the best programs give employees tools to take responsibility for their own health, including health assessments, personalized health coaching, referrals to health providers and programs and access to educational resources, online and in print. They focus on behavioral changes — weight loss, stress reduction, smoking cessation — that lead to healthier lifestyles and limit the onset of chronic diseases.

### *Show employers the money*

#### **Demonstrating ROI**

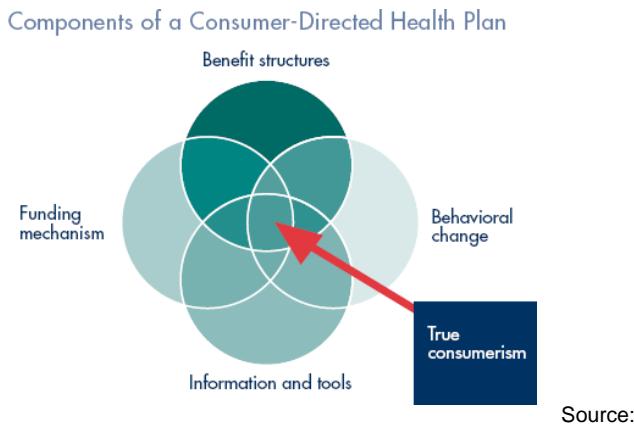
As the investment in wellness programs increases, it follows that employers want proof that they work. According to the National Business Group on Health, employers should be able to achieve a 3:1 return on investment from wellness programs. But 71% of employers do not measure any annual savings to demonstrate that their expected outcomes of disease management programs are being realized.<sup>17</sup>

Here's where pragmatic producers offer value-added service. They are helping clients translate health outcomes into financial returns by providing measurement tools. Of course, measuring the right things is essential. As Darcy Hurlbert, operations manager at Ceridian LifeWorks points out, employee enrollment, demographics, knowledge and satisfaction statistics, while interesting, do not equate with behavioral change which is the only true measure of whether a wellness program is working.<sup>18</sup>



*It's all about engagement***Making wellness programs work**

As employers continue to adopt CDHPs, wellness programs will continue to grow in importance. To achieve true consumerism, employers must adopt a holistic health promotion strategy that integrates all of the components — plan design, incentives, funding — while giving employees a lot of support through education, decision-making tools and incentives (Figure 2). Producers can add valuable advice and tools to the mix — even helping clients plot out a strategy for the entire organization.

*Figure 2*

Engagement is key. Because the concept of good health tends to be abstract, success lies in making wellness programs tangible and individual. That's why completing a voluntary health risk assessment (HRA), which asks about height, weight, and personal habits such as exercise and smoking, is often the first step — and biometric screening for blood pressure, cholesterol, etc., a close second. These tools create awareness and the data form a baseline for identifying risk factors for disease, such as high cholesterol, diabetes and high blood pressure, and for monitoring behavioral change on an individual and company-wide level.

**HDHPs – not a panacea**

Though some experts, such as Jim O'Connell, vice president of government relations and human resources policy at Ceridian, believe consumer-driven health care plans will eventually become the norm in health care delivery just as 401(k)s have become in the retirement arena, employers have reservations about their adoption.

- Based on a poll of 900 benefit professionals, 49% of respondents were afraid employees would resist HDHPs and 43% felt their staffers weren't ready to be health care consumers.<sup>19</sup>
- Participants in an HSA may avoid getting the health care they need, preferring to let the money grow in their account.
- HSAs may not be the best option for low-income workers who lack the necessary cash or savings to pay out of pocket until they meet their deductible — especially if the employer does not fund their account.
- Because of the portability feature, HSAs may not be the best route for employers in high-turnover businesses, such as restaurants and the hospitality industry.



Engaging participants in wellness is more likely to happen when it has the support and example of top management and the corporate culture is in sync with these initiatives. For example, the company cafeteria may offer a discount on salad and fresh fruit compared to high-calorie items; ditto for vending machines.

Knowing effective communication has the most influence on employee behavior when it comes to making benefit decisions,<sup>20</sup> smart employers are using their benefits enrollment systems to encourage employees to adopt healthier behaviors. More than half have incorporated health risk assessments and more than a third use enrollment systems to encourage employees to sign up for disease management programs.<sup>21</sup> But to deliver maximum impact, communication must be ongoing, not just during open enrollment. That means identifying the benefit of a wellness program to employees as more than a pocketbook issue and giving them an opportunity to offer feedback in a company-sponsored survey or focus group, for example. People love stories, particularly about coworkers, and the testimony of peers can be especially persuasive. Another way to gain visibility for wellness programs is to feature successful participants who achieved personal health goals in company newsletters and corporate meetings.

Employees also need to know how to spend their health care dollars wisely and how to navigate the medical system. Common tools include web-based support tools to aid in choosing doctors and hospitals based on quality and cost, health fairs, links to resources on the company's intranet and nurse advice lines.

#### *Dangling a carrot*

#### **Incentives work**

Programs must be able not only to reach but also to motivate those employees who would get the most out of making behavioral changes. Producers can provide compelling evidence to aid clients in adding incentives to their health and wellness programs. Although research indicates that the use of incentives positively affects employee participation in wellness and disease management programs, as well as outcomes, their use is not yet widespread.<sup>22</sup>



Among employers who do provide incentives, the most popular perks are gifts and prizes, gym/fitness center discounts and discounts on medical contributions. One company includes wellness in its employees' performance evaluations. A study published in 2007 shows that even a small amount of money can encourage people to make healthier choices and lose weight.<sup>23</sup> The Arkansas Department of Health awards up to three days off to its workers who achieve healthy goals such as eating five fruits or vegetables or exercising for 30 minutes a day, not smoking or getting a health screening.<sup>24</sup> One Midwestern manufacturer targeting obesity among its employees found that telephone coaching didn't work and it was unrealistic to expect doctors in private practice to do so because they weren't being compensated. Now, the company pays for onsite coaching for high-risk employees five times a year and offers them a monthly incentive if they participate and maintain a certain body mass index.

A stick also works. For example, one Midwestern employer paid employees \$120 in cash if they completed a health risk assessment (HRA); 70% took the company up on it. The following year, employees had to contribute an additional \$40 toward their monthly health insurance premiums if they didn't fill out the HRA — 90% did so. The year after that, those whose appraisals identified them as moderate to high risk had to work with a health coach to change their behavior. If they said no, their premiums increased by \$67 a month. As a result, 88% participated.<sup>25</sup>

A little healthy competition can go a long way as well. To boost the number of employees who complete a health risk assessment, for example, some employers set up a wager between business divisions or cost centers. The winners get a healthy lunch at company expense. In addition, teams offer solidarity and support to those striving to achieve personal goals. To stimulate ongoing participation, one municipality offers both a walking and a weight reduction program with prizes for reaching certain benchmarks.<sup>26</sup>

#### *Thinking outside the box*

#### **New opportunities for innovative producers**

As health care costs continue to escalate and employers routinely seek to reduce benefits or shift costs to employees, benefits producers are in jeopardy of losing revenues. To counter this trend, some producers are shifting their role to that of consumer health care advocate and developing creative strategies for expanding the services they offer.

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Here's a sampling of those strategies:

### ***Integrated solutions***

Too often, traditional disease and disability management programs operate in silos, targeting problems in isolation. What's needed is a comprehensive, integrated set of health solutions<sup>27</sup> and savvy producers to help identify them in a wide open market. The most successful approaches will use detailed claims data to determine what diseases, conditions, facilities and treatment are driving cost increases, and use that information to reveal gaps in treatment or health care delivery and develop target strategies for improving awareness and consumption.

### ***Onsite clinics***

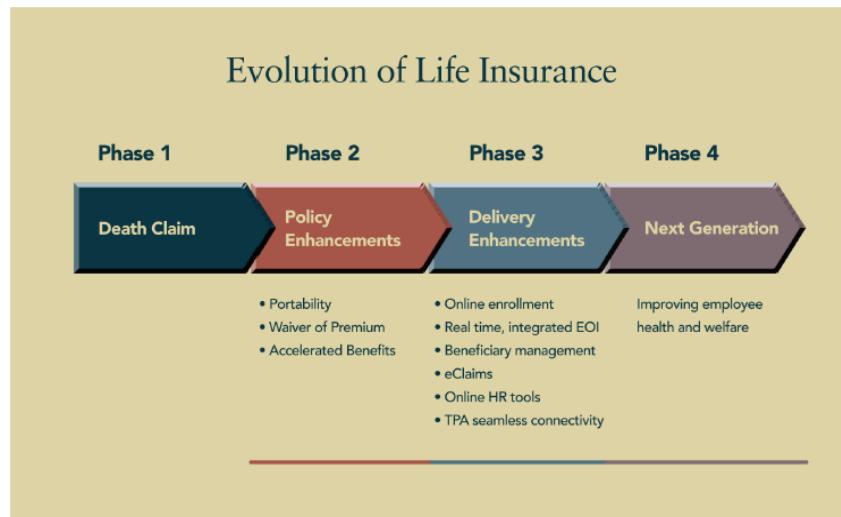
Some employers are bringing health care to the workplace, opening onsite primary care clinics in an effort to better control health care costs. Producers may want to learn the ropes of onsite health delivery to help clients who are considering onsite facilities and/or pharmacies understand best practices and steer clear of pitfalls.

### ***Predictive modeling***

Predictive modeling involves providing a risk assessment and adjustment process to determine if certain populations within the workforce are susceptible to contracting particular illnesses or diseases. The model can help predict future medical costs and which health and wellness programs might be most effective. Some producers are adding analytical staff to their practices to help interpret — or even develop — such tools for their clients.

### ***Forging partnerships***

Producers looking to expand their service offerings are aligning with new health care market entrants — nurse help lines, data warehouses, consumer portals, disease management providers — to assist their clients with cost-containment strategies. Others are scouring the market for traditional carriers who can add value to existing partnerships through wellness programs.

*Figure 3*

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At the same time, a shift is taking place in the group life insurance arena as progressive providers evolve from claims payers to employee health and welfare promoters. Minnesota Life, for example, partners with Ceridian LifeWorks to offer its health and wellness program to group life participants — addressing head on employers' concern for increasing productivity and lowering health care costs. It makes sense for a life company to promote healthy lifestyles because of the favorable impact on mortality. And, unlike health care providers who might use risk assessment information to adjust employees' premiums, life insurers have no hidden agenda for collecting health management data. Ceridian's program features proven outcomes for its stress management, smoking cessation and weight reduction coaching and the program can be integrated with an employer's current EAP or health and wellness initiatives. For more information about Minnesota Life's next generation of services, contact your regional sales manager or the national sales office at 1-800-606-LIFE (5433).

### **About Minnesota Life**

With more than \$500 billion of group life insurance in force, Minnesota Life is the nation's fifth largest group life insurer. The Company has provided customized group life insurance programs to government, business, and associations for more than 90 years, and is highly rated by the major independent rating agencies that analyze the financial soundness and claims-paying ability of insurance companies. View our ratings at [www.lifebenefits.com](http://www.lifebenefits.com).

Services provided by Ceridian LifeWorks are their sole responsibility. The services are not affiliated with Minnesota Life, Securian Life or its group contracts and may be discontinued at any time.

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