

THE RISING COST OF HEALTH CARE

What Are Employers Doing?

Short-Term Solutions

Plan Design Changes. Cost shifting by changing plan designs is one of the easiest areas for employers to look for immediate relief from rising costs. Many plan-design changes involve co-payments and deductibles. Raising the amounts that employees pay for these items will result in lower overall premiums.

Increase Premium Contributions. Another option for employers is to shift part of the increased premium to employees. If the increases are accompanied by information about over-utilization and suggestions for reducing the collective usage and, thus, the cost of health care, it can lead to more aware employee-consumers of health care and, eventually, lower costs.

Flexible Spending Accounts (FSA's). The addition of a Flexible Spending Account (FSA) program may ease the financial impact out-of-pockets costs and/or any medical plan benefit changes have on employees. Medical FSA's allow employees to use pre-tax dollars to reimburse themselves for most out of pocket expenses that are not reimbursed by the health plan, like deductibles and coinsurance. The dependent care FSA allows employees to reimburse themselves for qualified expenses that allow them or their spouse to work or go to school.

Defined Contribution Plans. Defined contribution health care plans fix the employer cost or contribution to their health plans and allow employees the ability to pay the difference between the employer contribution and the plan they choose.

Health Reimbursement Accounts (HRA's). HRA's are a subset of defined contribution plans. In an HRA the employer can fund an account to repay the employee for unreimbursed medical expenses, but unlike an FSA, money in an HRA can be carried forward to the next year.

Consumer-directed Health Plans (CDHP's). Many see the lack of consumer awareness in health care costs as being a fundamental part of the problem of rising health care costs and CDHP's are viewed by some as a way to correct that deficiency. A CDHP can be used in conjunction with a traditional health care plan like a PPO, but, rather than be directed to a particular health care provider, the consumer takes a more active role in making decisions about health care services. Some of the options might include choosing a more effective provider network, specific physicians or specific hospitals that have proven to provide better and more cost effective care. There is generally a financial incentive provided for such choices. For example, a CDHP might include an HRA for the

first \$1,000 of care, followed by a \$1,000 deductible, then by a PPO with coinsurance. There might be web-site tools to help the consumer perform pre-treatment triage, investigating health care outcomes for different medical facilities versus the costs for treatment. The concept is that the CDHP is designed to make the health care consumer think first, then act.

Health Savings Accounts (HSA's). HSA's just became available in the first quarter of 2004 and were created by congress as a tax-favored savings vehicle for current and future medical expenses. HSA's are set up as a tax -exempt trust or custodial account that is established by an "eligible individual" or by an employer for "eligible individuals" for the purpose of paying the individual's and his or her eligible dependents qualified medical expenses. HSA's share some characteristics of existing health account vehicles - Health Reimbursement Arrangements (HRA's) and Health Flexible Spending Accounts (FSA's) - but with a few important differences:

- Participation is limited to individuals enrolled in a high deductible health plan (HDHP) and who are not covered under any other health plan that provides the same benefits as the HDHP
- HSA contributions can come from employers, eligible individuals or both.
- Contributions may not exceed certain annual limits and cannot be invested in life insurance
- HSA's may be offered under an employer's cafeteria plan. This allows employees to contribute to an HSA with pre-tax salary reductions
- Unused contributions rollover from year to year and are not lost when employee moves from one employer to another
- Distributions from an HSA are excluded from an individual's gross income only when used for medically necessary expenses
- Non-medical distributions must be included in an individual's gross income and are generally subject to an additional 10% tax.

Long-Term Solutions

Due to the move toward "consumerism", many companies are looking to improve the long-term performance of their health plans through enhanced employee health and, as a result, increase employee productivity.

Wellness Programs. Investing in improving the health and productivity of employees includes providing them support for self-care and wellness. Educational resources are important in helping health plan members consume care more appropriately. In addition to these resources, providing immunizations for adults, blood pressure screening, on-site fitness or subsidized health club memberships, cholesterol measurement, stress reduction/management, mammograms, and prenatal education can be included in Preventive/Wellness Programs.

Lifestyle Programs. To a large degree, the most lethal of the chronic diseases - heart disease, some cancers, strokes, chronic obstructive pulmonary disease

(COPD), and some diabetes – are an extension of our lifestyles, triggered by what we do and don't do. Obesity and smoking can trigger or at least be a major contributing factor for most of these major chronic diseases. Educational programs that emphasize a lifestyle change, such as healthier eating and smoking cessation, coupled with a physical activity regimen can go a long way toward improving health and, as a byproduct, reduce health care consumption.

Chronic Disease Management. Employees with chronic diseases can also be kept healthier through appropriate proactive programs. The idea is to identify the population with certain potentially chronic and high cost diagnoses. Protocols for treatment of those conditions are established, including regular treatment and testing protocols and drug therapy protocols. The goal is to prevent sudden high-cost emergency care by actively managing those conditions at a lower cost to the plan. Conditions most prevalently managed are heart/cholesterol, maternity, asthma, diabetes and Hepatitis C. A significant component of an effective disease management program is the empowerment of patients by teaching and encouraging self-management. This "self care education", is also an important component of an organized, directed program to move plan members toward a more consumerism approach to healthcare.