

Western Mutual Insurance Company Update:

by: David T. Leo, President

The headlines are everywhere --- health care costs, prescription drug costs, and health insurance premiums continue to skyrocket with no immediate end in sight. Over the years, I have tried to help WPMA members prepare for this alarming trend through education and plan modification. I have written about complex issues like how to minimize adverse selection within your health plan and how to incorporate meaningful cost sharing. I'm sure by now you're as tired of hearing me ramble on these subjects as I am rambling, so I have decided to take a different approach in this article.

The theme of this article is still going to be about health care and health insurance, but instead of rehashing what is going on in the health care and health insurance markets, I'm going to write about why it's happening. It is my hope that this will begin a dialogue with many of you who are interested in examining your company's health plan and taking steps to minimize cost increases in future years.

I should note that much of the information summarized in this article is not my original work. In fact, most of this information is the subject of an extremely well-written and detailed report compiled by PriceWaterhouseCoopers ("PwC") for the American Association of Health Plans in April of 2002. The article, entitled *The Factors Fueling Rising Healthcare Costs*, is easy to read and I would urge you to take a moment to read it in its entirety. It can be found on the internet at: http://www.aahp.org/Content/ContentGroups/Reports_Fact_Sheets/PwCReport42002.pdf.

In order to better understand the health care crisis we are in today, it is helpful to take a look back at the past few decades. Many of you will remember the late 1980s and early 1990s when we were going through a similar cost crisis. In response to this crisis, along came health maintenance organizations ("HMOs") with their tools to manage and ration health care and health care costs were reigned in. The second half of that story, as you undoubtedly know, is that by the late 1990s managed care had squeezed nearly everything it could out of the gluttonous health care delivery system and a nationwide backlash against managed care began to emerge as certain necessary medical care was being denied. This led employers and insureds to seek less restrictive insurance coverage, and ultimately led to a reemergence of super-inflationary health care costs. When this happened, the "cost genie" once again escaped the bottle and reigning him back in has been much like trying to unscramble an egg.

Understanding the past gives us a clearer perspective of the present. Together, these two time periods help us in our efforts to predict the future and to develop strategies to manage anticipated premium increases. Although we may be powerless to control some of the components of future premium increases, there are some components that present cost saving opportunities for employers who are willing to make adjustments to their company's health plan. This can only be accomplished when we understand the factors that are driving the increase in health insurance premiums.

The PwC survey identifies 7 major cost drivers that have caused health care and health insurance costs to outpace general inflation in past years and are expected to result in a 13.7% trend growth in 2003. These factors are set forth below in the order in which they will be predicted to affect health care premiums.

1. Medical advances, including drugs, medical devices, treatments, and testing are predicted to increase health care premium costs by approximately 3%. While these advances are also expected to result in future savings such as fewer hospitalizations and medical utilization, they will have the immediate effect of increasing costs and ultimately creating other more expensive and inflationary health care therapies and treatments.
2. Rising provider expenses are predicted to increase health care premium costs by approximately 2.5%. This category includes increasing personnel and maintenance costs as well as structural

upgrades. It also reflects a reluctance of providers to accept health plan risk as they did during the height of managed care.

3. General inflation is predicted to increase health care premium costs by approximately 2.5%. The most commonly accepted measure of general inflation is the consumer price index ("CPI") and this increase reflects the expected increase in the CPI.
4. Government mandates and regulation are predicted to increase health care premium costs by approximately 2.1%. As the PwC survey states, "Over 1,500 mandated benefits exist at the state and federal level, with many more on the horizon." Although nearly every politician will argue that his or her mandate will result in lower health insurance premiums, I have never known of a government mandate that lowers health care or health insurance costs. If it truly were the case that the mandate would result in lower health insurance costs, I doubt that insurers would be forced to implement it. Need we say more?
5. Increased demand is predicted to increase health care premium costs by approximately 2.1%. As Baby Boomers age and consumers demand more from the health care system (regardless of cost), this demand is expected to continue increasing at a pace unlike any we have seen before.
6. The impact of litigation is expected to increase health care premium costs by approximately 1%. Litigation within the health care system continues to grow and jury awards continue to push judgments higher. This phenomenon results in out-of-control malpractice insurance premiums and even causes some providers to quit their practices altogether. Although the overall percentage increase is not as high as some of the other cost drivers, many argue that tort reform is necessary and long overdue.
7. Fraud and abuse and other cost drivers are expected to increase health care premium costs by nearly 1%. This catchall category includes anything from improper coding by providers to blatant large-scale insurance fraud.

As you can see, at the current time, there is no bright light at the end of this health care inflationary tunnel. There are a few things that you may be able to do to help control your company's escalating health plan costs, and I would be happy to visit with you about them. If you would like to discuss your company's health insurance plan or options to help control your company's health insurance costs, even if your company is not currently insured with WMI, please feel free to contact me. I can be reached at (801) 263-8000 or via e-mail at davidleo@wpma.com.