Western Mutual Insurance Company Update:
by: David T. Leo, President

As I sit in an airplane, concerned about an inordinate amount of air turbulence, I look for something to occupy my mind. I reach for a magazine in the seat pocket in front of me and soon realize I am coming up on a deadline to submit my article for the next WPMA magazine. Not exactly the type of mind clutter I was looking for!

I ponder several potential subjects for the article and quickly realize I've pretty well covered everything in one form or another over the past few years and that no matter which topic I choose, I run the risk of repeating myself and sounding like a boring insurance guy. (A redundant phrase I know.) Should I write about medical costs increasing at around 10% per year, prescription drug costs skyrocketing and nearly 20% annually, double-digit average premium increases being doled out to employers year after year, 40 million Americans who are without health insurance and adequate access to health care, the importance of COBRA administration, the need for employers to administer their health insurance plans in a manner that minimizes adverse selection and helps insulate them from high premium increases, state and federal privacy regulations …

Suffice it to say that the insurance market is hardening and there is no easy end in sight. Although, it seems that the past few years of rate catch-up to make up for several years of rate inadequacy in the mid-90s have run their course and insurance companies and HMOs are now priced more appropriately, I'm sure this is no consolation to employers who continue to be faced with double-digit premium increases simply to cover annual medical and prescription drug trend.

As I wound up this year's trade show circuit, I paused to reflect on the most common concern raised by WPMA members and insured individuals: What can be done to control runaway health insurance premiums? Unfortunately, my response is that there is no silver bullet in sight that will rescue us from the current premium cycle, a cycle that is expected to temper a bit but to continue for at least the next five to ten years. There is, however, one thing that can be done to alleviate some of the heavy burden of the increasing premiums and for the most part, it involves moving away from a mentality of prepaid health care and returning back to the basics of health insurance (*i.e.*, protection of an individual or family from financial devastation in the event of a catastrophic illness or injury).

Contrary to popular belief, health insurance was never intended to be a financing mechanism for prepaid health care. It evolved into such an entitlement only after health plans began looking for ways to minimize the costs of health care to the insured individual. While this objective certainly (and temporarily) served the needs of insureds and providers, it ignored one very important component of the health care equation --- the payer. This has resulted in a severe and dangerous disconnect between the consumer of medical and prescription drug care and the cost of those goods and services. This

disconnect has been a major factor in driving medical and prescription drug trend at super-inflationary levels.

I am a firm believer that one key to controlling health insurance costs lies in shifting a meaningful portion of the cost of the care (not the cost of premiums) to the consumer. Front-end employee contribution, such as requiring the insured individual to pay a higher portion of the premiums, is too far removed from the ultimate utilization of the care (and in fact, in some instances increases utilization of medical care since some individuals develop a mindset of, "I paid for it, I may as well use it"). It also results in more uninsured individuals because of the basic principles of self-selection (*i.e.*, "I'm not sick, why should I pay for insurance"). Back-end contribution, on the other hand, such as requiring the insured individual to pay a higher deductible or a higher percentage of the cost of the health care, results in more careful decision making by the consumer and smarter usage of available claims dollars. These types of behavior modifications ultimately lower claim costs and premiums.

Unless and until the health care consumer is required to pay a more significant portion of the cost of the care, we can expect these costs to continue to far exceed general inflation. If employers want to help rein in skyrocketing medical and prescription drug costs, I would suggest that they review their company's health care benefit plan and consider appropriate, albeit difficult, changes to help allocate the rising health care cost between the company and its employees.

If you would like to discuss your company's health insurance plan or options to help control your company's health insurance costs, please feel free to contact me.