

The time has come, the time is now ...

By: David Leo, President of Western Mutual Insurance® & WMI TPA®

To borrow a line from Dr. Seuss' *Marvin K. Mooney Will You Please Go Now!*, "The time has come, the time is now" for employers to take a hard look at their health insurance program and to consider some difficult benefit decisions. Practically every day, I hear employers express their mounting frustration at skyrocketing health care costs, a frustration that is entirely warranted when you consider employee benefits have risen so high in recent years they now constitute the second largest budget item for many employers (behind salaries and wages). The good news is we are finally seeing health care costs level off from the double digit levels of recent years. The bad news is health care costs are still predicted to continue rising at nearly double the rate of general inflation and are expected to account for 16% of the GDP in the U.S. within the next few years.

While there is no easy answer to this nationwide problem, one broad response that is gaining considerable momentum lies in the empowerment and direct financial involvement of the consumer. These proposals are generally referred to as "consumer driven health plans," and they take many forms including high deductible health plans ("HDHPs"), health savings accounts ("HSAs") and health reimbursement arrangements ("HRAs"). This movement is based primarily on the belief that when employees and their dependents have a more personal financial incentive to control their health care costs, they will become smarter and more frugal consumers which will apply downward pressure on health care costs or will at least curtail future cost increases.

There are two basic approaches for employees and their families to have a more meaningful financial stake in the health care cost game. The first is to shift more of the up-front premium cost of the health insurance from the employer to the insured. While this provides an immediate short-term savings for the employer, it is not a good long-term solution to the problem because it encourages anti-selection (*i.e.*, only those who need the insurance are willing to pay for it out of their own pocket), it insulates the insured from the actual cost of the care, it encourages over-utilization, and it leads to an entitlement mindset by the insured such as the, "I paid for it, I may as well use it" mentality. All of these factors drive costs upward over time.

The second (and preferred) method of involving the consumer in the health care cost game involves shifting more of the actual cost of medical care to the insured. We know shifting a higher portion of the premium cost has an immediate effect on controlling an employer's general benefit cost. We also know moving to higher deductible or lower benefit plans reduces premium rates. What may not be quite as intuitive, however, is the significant effect shifting more of the actual cost of the care to the consumer can have on controlling long-term health insurance costs. This is because it changes habits and utilization and produces a more fiscally responsible consumer.

Many times in the past I have written that employers must make some difficult decisions that will directly involve the insured in the real cost of the health *care* rather than in the cost of the health insurance *premiums*. At the risk of sounding like a broken record, I would like to once again encourage employers to take a critical look at how their benefits programs are structured in order to ensure equitable and appropriate sharing in the health care costs between the employer and the insured consumer. It is only through appropriate sharing of medical costs (as opposed to health insurance premium) that the contribution of insured individuals will keep pace with health care inflation and will help control this burdensome budget item over time.

Over the past several months, I have seen more employers willing to move toward higher deductible and lower benefit plans. In fact, over the past six months, 75% of the new WPMA member groups that have moved their group health benefits to WMI have selected our \$1,500

deductible plan. I should note that although a \$1,500 deductible is higher than most employers are accustomed, WMI has taken care to soften the impact on employees and their dependents of this high deductible plan by designing the plan to provide good catastrophic coverage and good front-end benefits with a waiver of the deductible for many services. I should also note, however, this plan was designed to control utilization through meaningful cost sharing with the insured which will ultimately produce a more equitable apportionment of health care costs.

For those employers who have taken steps to transfer more actual medical costs to the employees and their dependents, I commend you on your effort to control your health insurance costs over the long-term and to get this ever-increasing budget item under control. For those employers who continue to resist this difficult decision, it is important to realize that not only are you missing an opportunity to bring this budget item under control, but you will soon find yourself at a competitive disadvantage as health benefits continue taking a bigger bite out of your company profits. Eventually, you will be forced to take more drastic measures to control this significant financial burden and at that point, the disruption to your employees and their dependents, as well as to your business, will be significant.

If you have any questions about your company insurance program or would like to learn how WMI might be a good option for your company benefits, please feel free to contact me at (801) 263-8000. I would also invite you to visit our website at www.westernmutualinsurance.com.