



Six Straight Years of Double-Digit Medical Rate Increases Has Had a Significant Impact on Both Employers and Employees

Hay Group reviews how companies are turning to innovative approaches to contain ever-rising medical costs. Six Straight Years of Double-Digit Medical Rate Increases Has Had a Significant Impact on Both Employers and Employees

Philadelphia, PA (PRWEB) March 11, 2005 -- Company medical insurance premiums for 2005 rose approximately 10%, representing the sixth year of double-digit rate increases. These increases are sharply higher than the US Consumer Price Index that was 3.3% for 2004, and an average annual 2.7% for the last six years.

Stated in terms of payroll, employer costs for health benefits have risen steadily from 7.28% in 2000 to over 9% for 2005, according to the Hay Benefits Report, a cross-industry survey of more than 1000 US companies.

"This is a very difficult time for companies to cope with double-digit medical premium rate increases," said Michael Carter, Vice President in Hay Group's Benefit Practice. "In the current business environment, most companies simply cannot afford to pass these costs along to their customers."

As a result, to maintain current levels of profitability, companies are likely faced with shifting medical costs to employees, exploring new strategies to contain rising medical costs, as well as cutting costs in other areas.

"There is no one 'silver bullet' solution to contain medical costs, so companies must use multiple strategies," says Hay Group's Carter. He adds that "the longer companies wait to address the issue, the more painful it could be for them or their employees."

Traditional Cost Containment Measures Still Used

Companies continue to negotiate with insurers and administrators and bid coverage when necessary to get the best rates. Organizations also continue to consolidate medical plan offerings and funding.

Another traditional strategy is to shift more costs to employees. Many companies pay a fixed percentage of the premium, so when average premiums rise 10%, then employees' costs rise 10%. In addition, companies have been increasing employee deductibles, co-payments, and the limit at which employees' out-of-pocket expenses are capped.

One of the most striking changes in the last three years has been the increase in employee co-payment for doctor visits, with most plans having a co-pay of \$15 or more in 2005 versus just under half of the plans in 2002.

Companies Look to Innovative Approaches

"Frustrated with the inability of traditional approaches to sufficiently contain medical increases, companies have turned to innovative approaches," said Carter. These include changes to prescription drug and retiree medical plans as well as introduction of wellness and disease management programs, health savings accounts, and employee consumerism.

Prescription Drugs

Because prescription drugs have accounted for the largest portion of medical cost increases, employers have been raising plan co-payments, as they have for other medical services. In addition, they have adopted one or more of the following strategies:

- Increasing the difference between generic, brand, and non-formulary co-payments;

- Revising from employee dollar co-pays to percentage coinsurance (which automatically indexes);
- Requiring mandatory generic when available; and/or
- Requiring mail order for maintenance drugs.

Retiree Medical

For companies providing over 65 retiree medical coverage, the new 2006 Medicare prescription drug benefit will offer some relief from the high cash outlay and accounting expense of this coverage. Companies are currently determining whether they can lower their cost more in 2006 and beyond by taking the government's payment for continuing the coverage or by reducing their plan design to supplement the new Medicare prescription drug benefit.

Wellness and Disease Management

Historically, companies have provided "wellness" programs that include preventive exams, health programs such as smoking cessation, and health club memberships -- all aimed at improving employees' general health. Companies also have offered "case management" programs aimed at controlling costs of major illnesses.

Disease Management focuses on improving the health -- and thus controlling the costs -- of common manageable diseases. These include diabetes, asthma, congestive heart failure, coronary artery disease, and hypertension. These voluntary programs, now in place in most companies, are designed to prevent the state of the disease from advancing, and where possible, to result in improvement.

New Health Savings Accounts

Health Reimbursement Accounts (HRA) and Health Savings Accounts (HSA) along with "high deductible" plans are also emerging as cost containment strategies. These new types of plans involve a company-funded HRA or employee- or company-funded HSA that employees can use for IRS-approved health expenses -- including some items not typically covered in medical plans. Unused amounts can be carried over to the following year, in theory encouraging employees to become better healthcare consumers. Supplementing the HRA/HSA is a "high-deductible" plan, with typical annual deductibles ranging from \$1000 to \$3000 per individual.

Less than one-fifth of companies report offering as an option an HRA, high-deductible plan, or both. Typical employee participation in these options is reported at less than 10%. In 2005, less than 10% of companies have adopted HSAs with high-deductible plans.

Employee Consumerism

In addition to the strategies described above, "employee consumerism" is a new strategy used by some of Hay Group's clients. This involves communicating to employees how medical cost increases affect them (e.g., higher employee costs, lower pay increases, lower staffing levels) and what they can do about it (e.g., improve health, use Disease Management, use 24-hour medical assistance services, ask questions of your provider, check insurer charges).

"Just as you would want to do your research to make an informed decision before buying a big-screen TV," reflected Carter, "people should become better consumers of healthcare. Employers should educate and inform their employees about considering their options before blindly following their doctor's recommendations. They should ask, for example, 'Can I use a generic drug in place of the brand name?' Employee consumerism enables clients to enlist their employees in the battle to control healthcare costs."

HMOs Lose Their Edge over PPOs

Premium costs for HMO and Point-of-Service (POS) plans that require Primary Care Referrals for specialists and tests are rising as fast as the cost of PPO plans that do not have that requirement. Historically HMO and POS plan premium increases have been less than PPO increases.

"HMOs' traditional ability to contain costs better than PPOs has disappeared in the last two years," says Mr. Carter. "This is probably due in part to HMO and POS plans easing up on restricting referrals for care in response to litigation and consumer and government pressures.

"HMOs would rather do the easing up (on restricting referrals) themselves rather than have the government regulate it," Carter continued. Another reason may be increased pressures on HMOs to raise provider reimbursement levels to come closer to PPO reimbursements.

According to the Hay Benefits Report, HMO and POS plans have been declining in prevalence as the primary plan offered by employers. In 2000, almost half of companies had HMO or POS plans as their primary plan. This has dropped to just a third of companies for 2005. "This shift reflects growing employer and employee discontent with the required referrals for specialists and tests in HMO and POS plans" noted Carter.

Exploring Causes for Continuing Rising Medical Premiums' Costs

Medical costs have been rising for a number of reasons. One reason is that reimbursement rates to hospitals and physicians are on the rise. In the second half of the 1990s, HMO and PPO plans held down reimbursement rates to the point where healthcare providers took action to gain increases. For example, hospitals have been merging into larger systems, sometimes with physician networks, giving them more bargaining power in their negotiations with insurers.

Another cause of rising medical costs is continuously improving medical technology, which allows very sick people to live longer, and thus incur significant medical expenses. Prescription drug costs increasing at a rate exceeding 15% are another cause of rising medical expenses. Rapidly rising malpractice premiums have also contributed to the problem. Other factors include the aging of the workforce and the fact that Americans have become increasingly less healthy, especially in the areas of weight, diabetes, and heart disease.

What's In Store for the Future?

Looking ahead to plan changes for 2006, more cost shifting is likely. However, Hay Group's Carter cautioned that "there is a limit to the amount that companies can shift costs to employees, particularly lower-paid employees." With the average annual employee premium contribution for family coverage reaching \$2600 in 2005 along with increasing co-payments, companies will need to rely on strategies other than cost shifting. "Disease Management and wellness programs, which lower costs by improving employees' health, currently are the best long-term strategies for controlling costs," said Carter.

About Hay Group

Hay Group (www.haygroup.com) is a global organizational and human resources consulting firm that helps its clients -- Boards, CEOs, Executives, and HR Managers -- on virtually all aspects of their people-related business issues. Founded in 1943, Hay Group has over 2,200 employees working from 77 offices in 76 cities and 43 countries.

Our areas of expertise include:

- Design and analysis of organizations and jobs;
- Talent management through assessment, selection, and development of executives, managers, and teams;
- Compensation, benefits, and performance management;
- Executive remuneration and corporate governance; and
- Employee and customer attitude research.

Hay Group works with nearly three-quarters of FORTUNE's top-50 Most Admired Companies, as well as many mid-sized and non-profit corporations, public institutions, and governments.

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