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Health care

Experts mull strategies to contain health costs

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Americans keep pouring more money into health care, but the system just gobbles it up and asks for more, leaving employers to wonder about the best strategies for controlling costs.

The annual expenditures on health care in this country now amount to \$1.3 trillion, according to Aaron Katz, director of the University of Washington's Health Policy Analysis Program.

Every year, he said, another 4 percent to 6 percent goes into the pot because the health-care system has an "insatiable thirst for revenue."

Private and public insurers and employers have tried various strategies, including managed care, to diminish the thirst, Katz said at a recent Seattle health-care seminar sponsored by Kibble & Prentice, a financial services and insurance brokerage firm.

Employers have tried increasing copayments and deductibles and employee premium-share, and reducing eligibility and covered benefits, he said. But none of these strategies has slackened the system's thirst for revenue for more than a year or so. Katz said they've all been small, stop-gap measures.

Insurance rates have continued their steep climb. Kibble & Prentice senior vice president Jim Anderson said double-digit rate increases are predicted for the next four years.

Katz observed that rapidly rising insurance rates have combined with recession to increase the percentage of Washington residents lacking health insurance.

During the period 2000-02, the uninsured in Washington rose from 8.4 percent to 10.7 percent of the population, according to state surveys.

The main reasons: Job losses and employers dropping coverage, Katz said.

The implication: The most immediate way to reduce the number of uninsured is to make health insurance more affordable for employers.

Among possible strategies Katz listed are public subsidies for employers, employer-based purchasing pools and eliminating state-required insurance benefits.

Many of the drivers of rising costs lie beyond the control of employers. Gary Hysell, Aetna's western regional head underwriter, said inflation accounts for 18 percent of rising costs; government regulations and benefit requirements for 15 percent; higher payments to physicians, hospitals and other providers for 18 percent; and litigation for 7 percent.

But Hysell said employers can take some action to moderate costs. Further limit such benefits as home health care, infertility and obesity treatment, he said. Also, provide employee education programs, such as smoking cessation. Finally, move toward consumer-directed benefits, through which employees make more choices about their coverage and experience the financial consequences for those choices.

"No one spends someone else's money as carefully as they spend their own," said Hysell, quoting economist Milton Friedman.

Anderson agreed that consumer-directed health care is the way for employers to go. The elements of this approach:

- Three-tier prescription benefits. Employees pay high copays for brand-name, nonpreferred drugs, lower copays for preferred (formulary) drugs, and still lower for generics.
- Defined contributions. Employers budget a set amount for employee health insurance. Employees pick up the rest.
- Base-buy up. Employers fund high-deductible, catastrophic coverage. They give employees options for richer benefit plans, but employees must pay the premium difference.
- Health Reimbursement Accounts. Employers fund accounts that employees can use to pay for richer benefit plans or for medical expenses during the deductible phase of their coverage.

Unless employers take care in making the transition to consumer-directed health care, however, employees will resist change, warned Chrismon Nofsinger, president of Nofsinger Strayer Consulting, a Seattle firm focusing on organization development, which includes change management.

Nofsinger spelled out five necessary steps to successfully managing change:

- Input. Allow employees to have their say, especially those most affected by proposed changes, and how much say they should have.
- Rationale. Ensure that employees understand both the changes and why they're necessary.
- Honesty. Don't put a spin on the changes. Explain to employees all the effects of change, not just the ones they'll like.

- Implementation. Ensure that change is well organized, that processes and systems are in place, that sufficient resources are provided to do it right.
- Energy. Expect change to create energy. Employees may react positively or negatively. But if employers heed all the other steps, they shouldn't overreact to employee resistance.

There's no silver bullet, Anderson warned. Only a lot of little things employers can do to slow, not stop, the rate of increase, from — say from 17 percent to 12 percent.