

NEWS & VIEWS

Summer 2011

An Insider's Perspective on HOT Health & Welfare Benefits

NAVIGATING THE MINEFIELD OF HEALTH CARE COST INCREASES & REFORM

Have you been tip-toeing through the minefield of increases in your organization's health care costs and regulatory changes due to health care reform? It may seem that everywhere there are hidden dangers—rate increases from your insurance provider and new regulations that shift more costs to your plans. How can you control your costs without cutting benefits?

Let's assess the situation. Health care costs continue to increase faster than wages. Double-digit increases were the reality for many in 2011 and, unless you take action, can be expected for 2012. Health care reform is driving some of this increase through changes mandated for 2011 (e.g., covering dependent children to age 26, unlimited lifetime maximums, restrictions on annual maximums, preventative benefits, appeals and external review processes, etc.). Insurers are gradually stepping up their rates in anticipation of changes in health care policy going into effect in 2014. Generally speaking, health care reform shifts risk (unlimited lifetime and annual max) and costs (requirement to cover children to age 26 and Medicare cost-shifting) to employer-sponsored health plans.

SO WHAT CAN YOU DO?

Rather than blindly making your way through the minefield, you can take a systematic approach to evaluating your options for cost control. MCG has the expertise to help guide you through the minefield. We can analyze the best strategy in the ever-changing health care landscape.

Cost control should be your focal point for 2012 and 2013, with an eye on what may happen with reform in 2014. Due to the uncertainty surrounding health care reform legislation, it is best to postpone a major plan overhaul until the dust has settled. After 2014, the emergence of state health exchanges may provide lower cost health care options than through employer-based coverage. Regardless of the outcome of health care reform legislation, the landscape has changed. Both employers and employees will need to become more discerning health care consumers.

MCG'S APPROACH

MCG follows a step-by-step approach to cost control. First we consider the components of your premiums and then we consider potential avenues or **tactics** that are applicable to your organization.

Tactics: Ineffective Responses vs. Useful Strategies

Traditional Immediate Responses

- **Go Out to Bid:** Disruptive and confusing to employees. This response will not necessarily solve the problem, just some symptoms.
- **Increase Employee Per-Pay-Period Contributions:** May be necessary, but not a long-term solution; ought to be supported by statistics (e.g., costs as % of payroll and industry trends).
- **Increase Deductibles and Out-of-Pocket Levels:** Doing so is necessary to keep up with inflation, but should be a last resort every 3-4 years and supported with statistics (e.g., effective coinsurance).

Effective and Underutilized Strategies

- Risk Pool Consolidation
- Risk Management and Funding Alternatives
- Introducing Consumer-Driven Health Plans
- Reducing or Completely Eliminating Broker Commissions
- Take Full Advantage of Flexibilities Allowed by PPACA
- A Defined Contribution Approach

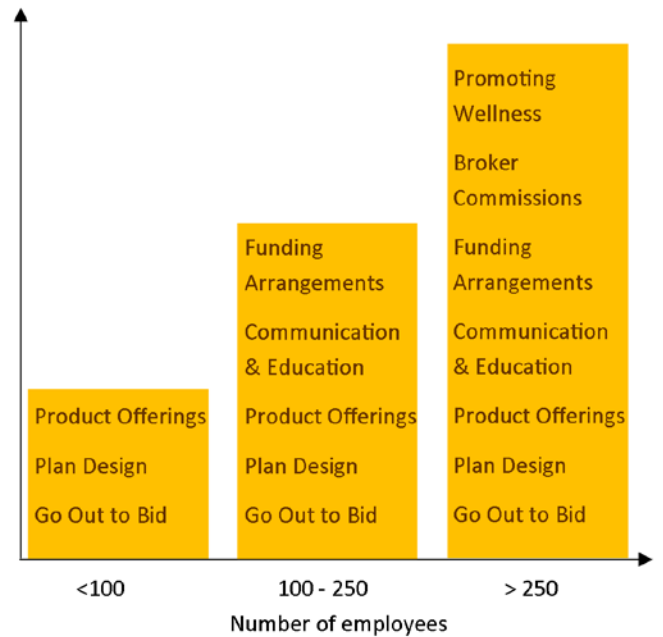
Larger employers (those with more than 250 subscribers to their health plan) have more options to reduce costs. Such strategies may include reevaluating the overall plan design, self-funding arrangements, and communication or education to members about how to wisely use their benefits. A gradual shift to Consumer-Driven Health Plans (higher deductible and health savings account plans) is another way to restructure health plans to lower costs and maintain high quality of care.

MCG’s approach often initially leads us away from the traditional, cost-shifting options of increasing employee contributions, deductibles, or out-of-pocket levels. These methods are sometimes necessary, but ought to be done strategically and driven by statistics – not as a knee-jerk reaction to cost increases. Statistics that indicate a change include rising costs as a percentage of payroll and effective coinsurance.

After 2014, employers will have the option to terminate their health insurance and let their employees obtain coverage through the state health exchanges. This is not a decision to be made on a whim; rather, it should be made after a detailed analysis of the costs of maintaining the health plan and competing with the exchanges, vs. excise taxes and potential negative reception from employees. MCG’s experience working with mid-size employers uniquely positions us to advise what tactics will be most effective for your business.

The coming changes to the health care industry from health care reform are creating a lot of confusion surrounding new regulations and the resulting increase in costs. Let MCG help you navigate through the minefield, helping you understand your options and reduce your costs.

Tactics Available to Address Rising Health Care Costs



CONTACT MCG FOR A COST CONTROL STUDY

The first step of MCG’s Cost Control Study is assessing your company’s status quo. This includes employee demographics; benefit plan expenses and contributions; and benefit products, plan designs, and service providers. We then review and analyze the information, model alternatives and impacts, and develop a presentation of findings and recommendations.

The resulting study outlines short- and long-term cost control ideas and alternatives, laying the groundwork for a strategic medical benefit plan – all the while being mindful of the importance of employee perception and the potential impacts of health care reform.

MCG CAN HELP YOU NAVIGATE THE MINEFIELD AND CONTROL YOUR HEALTH CARE COSTS

