



Posted on Mon, Oct. 29, 2007

## Health care benefits sticker shock

By JULIUS A. KARASH  
The Kansas City Star

Workers of Kansas City, don't pull your hair out when you sit through this year's open enrollment benefit meetings.

It won't change what most of you will hear: Health coverage will cost you more next year.

The bump-ups laid out for 2008 probably come on top of increases that clipped you this year, and perhaps the year before that and the year before that.

"Employees can expect to see higher deductibles and copays. I don't think there's any question about that, unfortunately," said Ron Dutton, president of **R.J. Dutton Inc.**, an Overland Park-based employee benefits consulting firm.

Benefit enrollment season is in full swing, and companies large and small are wrestling with escalating health-care costs. Some are offering health savings accounts and wellness programs to try to control those costs.

"In our employee meetings this year, there's a lot more buzz about health savings accounts, a lot more questions," said Melissa Campbell, benefits manager at **American Century Investments**. "They're starting to explore it a little more and see if it's right for them."

But there's no magic bullet that's going to cut costs in a way that will make everyone happy.

"This is an incredibly complex and enormous problem, the answer to which will require time, money and resources," said Rick Kahle, president of the Kansas City benefits division of **Lockton Cos. Inc.** "Employers are trying to have their employees not go backward in net take-home pay, but it's a challenge."

### Rising costs

Consider the view from the very top. The U.S. health-care bill is expected to total about \$2.3 trillion this year, up from \$912.6 billion in 1993. The tab is expected to reach \$4.1 trillion in 2016.

The main reasons are an aging population that needs more care, more sophisticated technology to provide that care and higher labor costs for nurses and other health workers.

Higher costs make it tougher for employers to offer health coverage, at least at the levels that some workers and retirees have grown accustomed to.

The percentage of Americans who receive health insurance through their workplaces dropped from 68.3 percent in 2000 to 62.9 percent in 2006. In workplaces where coverage is offered,

some employees simply cannot afford it.

At the average company, the health-care cost per worker will reach \$9,312 next year, according to a report by the **Towers Perrin** human resources consulting firm. That's a 7 percent increase over this year — among the lowest annual increases in the decade.

Still, more of the increase is being thrust on employees, Towers Perrin said. The average employee's share of the premium increase for 2008 is going up 8 percent, more than twice the amount of the typical annual merit raise.

You certainly have to consider the cumulative effect of increases year after year. In 2003, the average employee contribution for health-care coverage was \$1,284, Towers Perrin said, 63 percent of the 2008 projection. The burden is heaviest on lower-wage workers and those who retire before becoming eligible for **Medicare**.

"People who work at low-income jobs have to make heart-wrenching decisions," said Corrie Edwards, executive director of the **Kansas Health Consumer Coalition**. "Do they pay for groceries and rent or their health care? Generally, people are going to choose their rent."

For retirees under age 65, the average annual premium will be more than \$12,000 next year, Towers Perrin said, with about half of that coming out of the retirees' pockets.

The cost of health care has been one of the thorniest issues in the current round of talks between the **United Auto Workers** and U.S. automakers, who say health-care costs are pricing them out of the global market. To provide some relief to **General Motors**, for example, the UAW this month approved the shifting of retiree health benefits to a union-run trust fund.

The complexities, disparities and burdens of the system have led some experts to suggest that the U.S. scrap its system of employer-sponsored health coverage, which grew out of World War II wage and price controls.

## Types of coverage

Health-coverage design varies widely from company to company, often depending on the size of the firm.

Most large companies are self-funded or self-insured, meaning they take on the risk of insuring their employees and pay for their health care directly. Companies that do this typically contract with insurance companies to administer their health plans.

Small companies that provide coverage to employees usually obtain that coverage directly from a health insurer, which charges the employer monthly premiums.

Employees may not know whether their health plan is self-funded, but it can make a big difference to employers.

Companies that go this route have more control over their health-care spending and can tailor-design their plans, because they are not subject to state health insurance regulations. They typically purchase reinsurance or stop-loss policies to provide financial protection against catastrophic claims or unusually high claim years.

Especially vulnerable to health-care inflation are small businesses, who have little negotiating clout with insurers.

“They are the mercy of the insurance company,” said Dutton, president of the employee benefits firm.

Even if an employer is coming off a low-claim year, it can get hit with big premium increases if the insurer’s overall block of small group business turned in big claims that year, Dutton said.

Efforts in the nation’s capital, Missouri and Kansas to ease the burden on small businesses have fallen flat.

The **Kansas Health Policy Authority** recently issued a vague recommendation that the state encourage better insurance rates for small businesses.

### **Small businesses suffer**

Small businesses will see average premium increases of 14 percent next year, said Kahle with Lockton. If they have an employee who suffered from expensive health problem this year, next year’s increase could reach 25 or 30 percent, he said.

The **Local Investment Commission**, a Kansas City nonprofit group, has struggled to hold the line on out-of-pocket health-care costs for its 72 employees. Premiums are going up 14.75 percent next year, after this year’s increase of 10.5 percent. The commission will pay 60 percent of next year’s premiums, but employees with family PPO coverage will see their share of the premium go from \$354 to \$398 a month. For those with family HMO policies, monthly premiums will rise from \$328 to \$376 a month.

“We try to give good benefits and keep as much pressure off the staff as possible,” said president Gayle Hobbs. “... But it’s getting more difficult.”

Searching for relief, some businesses are embracing consumer-driven health plans. These plans are designed to hook up with tax-advantaged savings accounts that can be used to pay for health care.

**TranSystems Corp.**, a Kansas City-based engineering, architectural and consulting firm, in 2008 will offer its employees a high-deductible plan that’s compatible with a health savings account.

“We, as many employers, are fighting to control our health insurance costs,” said David Bertrand, TranSystems’ vice president of human resources. “This is just another tool for us to do that.”

The combination of a high-deductible, low-premium insurance plan with a tax-deferred health savings account is designed to make employees more cost conscious and save employers’ money.

Mission Woods-based **Layne Christensen Co.**, which works primarily in the water resources industry, has watched high deductible plans with health savings accounts cut health-related expenses at a subsidiary in recent years. Now it’s offering health savings account plans to employees throughout the company next year.

“I think it will lower our costs,” said John Wright, senior vice president of human resources. “It’s a win-win for the company and individual.”

More companies also are adopting wellness programs. The idea is that helping employees get healthier will lower their need for health care and cut costs. A wellness program run by **Blue Cross and Blue Shield of Kansas City** includes workplace programs for weight management, stress management and smoking cessation.

The program has helped **J.E. Dunn Construction Group** cut its premium increases from the high single digits to 2.5 percent a year, said Rick Beyer, senior vice president of human resources.

TranSystems will begin offering a wellness program in January, Bertrand said. Employees who participate will get a \$20-a-month reduction in their premium.

“Just tweaking health insurance plans, adding deductibles and changing benefits to control costs, doesn’t really solve the problem of increasing health-care costs,” Bertrand said. “If you can get your population of employees healthier, your costs won’t be as high.”

Employees also can expect to undergo greater scrutiny of their lifestyles. Many employers have taken measures to cut employee smoking, for example. Next year, the **MAST** ambulance service will start charging employees who smoke a premium surcharge — 2.5 percent for single coverage and 10 percent for family coverage.

“The additional health-care costs for those people who smoke drive up the cost of health care for everybody,” said Douglas Hooten, MAST chief executive officer. “If you’re to have an unhealthy lifestyle, and smoking has been proven to be one of those factors, then you’re going to have to cover a heavier burden of our health-care costs.”

MAST will also continue to pay for an employee smoking cessation program that began this year.

“Our desire is to promote employee wellness,” Hooten said. “We’re willing to pay these costs up front for better returns for the future.”

The Johnson County Library has assembled resources to help you understand the health-care industry and your choices. Go to [KansasCity.com](http://KansasCity.com) and click on Business.

### **Tips for selecting benefit programs during open enrollment**

Some things to consider when evaluating benefit options during open enrollment, according to Tom Billet, a senior consultant with **Watson Wyatt Worldwide Inc.**

- When looking at health plans, weigh the premiums as well as deductibles and coinsurance costs.

“Many think the best plan is the plan with the lowest deductible, but if you don’t get sick often, you might be better in a plan with a lower monthly premium and higher deductible,” he said.

- With life and disability insurance, determine what the company makes available and consider “buying up” if you want or need more coverage.

- A growing number of companies offer “voluntary” benefits, such as homeowners’ or auto insurance. While workers pay the full premium, they can benefit from group discounts.

- Flexible spending accounts allow workers to set aside pretax money to cover medical expenses and dependent-care costs.

“In most cases, only 20 to 25 percent of the people take advantage of these accounts,” Billet said.

•With 401(k) and other retirement plans, workers should make sure they’re contributing at least enough to get the company match, he said.

---

To reach Julius A. Karash, call 816-234-4918 or send e-mail to [jkarash@kcstar.com](mailto:jkarash@kcstar.com). | The Associated Press

---

© 2007 Kansas City Star and wire service sources. All Rights Reserved. <http://www.kansascity.com>