

STRATEGIES FOR CONTAINING THE STEEP INCREASE IN EMPLOYERS' HEALTH CARE COSTS

**Prepared for Consideration
by the UI General Education Task Force**

Background

In recent years, employers across the country have experienced significant increases in the costs they incur in providing health care coverage for employees and their families. Projected increases for 2004 range from 10 to 20%.¹ As an employer, it is expected that The University of Iowa will incur costs of over \$69 million in providing health care coverage for employees and families in the current calendar year. This forecast does not include the institution's costs for students and retirees.

Nearly all employers in both the private and public sectors are taking concerted actions to contain their health care costs. There are no easy or simple solutions. However, even for organizations who are deeply committed to providing health care coverage for employees and their families, prudent stewardship and competing needs for limited resources necessitate careful review of traditional programs and practices.

Strategies for Containing Health Care Costs

Among the strategies that employers are adopting to maintain coverage while containing their rapidly rising health care costs are:

- A. Eligibility Management.** This strategy involves reviewing and, where indicated, modifying the current practices with respect to features such as:
- When employees are eligible to enroll (upon employment, after one month, after three months, or whatever).
 - Under what conditions part-time employees are eligible and the proportion of the premium and the co-pays for which they will be responsible.
 - Existing "coordination of benefits" rules ² and how they are being managed.

¹ "Controlling Health Care Costs", CFO.COM, 3/14/04.

² "Coordination of Benefit" rules define when the employer plan is the secondary payor for an individual who also is covered by another health plan; e.g., the spouse of a UI employee.

- B. Case Management.** Nationwide experience indicates that approximately 85% of most organizations' health care expenses are generated by less than 30% of plan participants.³ Treatments for chronic conditions (e.g., asthma, diabetes, depression, and hypertension) represent a large proportion of total costs. Accordingly, employers around the country are reviewing and strengthening their "case management programs" – programs that engage physicians, nurses, and pharmacy benefit managers to employ "best practices" in coordinating patient care for those with the chronic illnesses, promoting self-care where appropriate, and improving the overall health care for affected individuals over the long term.
- C. Employee/Employer Cost Sharing.** This entails the structure of cost-sharing arrangements (i.e., deductibles, co-payments, co-insurance, and monthly contribution levels) and appropriate cost-sharing differentials among treatment options and settings so employers and their families are encouraged to seek the most cost-effective courses of treatment and the most efficient providers. Virtually all employers are re-examining and refining their plan design in these areas as one strategy for dealing with the dramatic increases in health care costs. A recent survey by Watson-Wyatt Worldwide and the Washington Business Group on Health found that 83% of surveyed companies are increasing employee premium contributions and 80% are planning to increase employee co-payments.⁴ In most instances, plan design in these areas probably is the most controllable factor affecting the employers' health care costs and deserves attention as part of an overall plan for containing health care costs.
- D. Prescription Drug Plan.** Studies by the National Institute for Health Care Management and other organizations have found that spending for prescription drugs is one of the fastest-growing components of employer and employee health care costs. Across the country, employers are striving to obtain the best possible prices on covered drugs, sharing rebates which pharmacy benefit companies receive from drug manufacturers, and introducing attractive mail order programs. In place of having only co-payments (e.g., \$10.00 per prescription), plan designs increasingly include a percentage co-pay (e.g., 20%) so that the cost is appropriately shared when more expensive prescriptions are obtained.

³ L. Wieners and L. Harris, "Disease Management Primer: Managing Dollars by Managing Disease", Employee Benefits Journal, September, 2003, p. 57.

⁴ "Employers to Employees: Feel our Pain", CFO.COM, 3/14/04.

E. Other, Long-Term Strategies. Among approaches employers are adopting with the goal of achieving long-term cost-savings are:

- Encouraging and financially supporting wellness and healthy living activities for employees and their families; e.g., physical fitness centers, healthy eating classes, smoking cessation programs, etc.
- Designing and implementing “consumer-driven health plans.” These plans take various forms, but the basic idea is for the employer to make an annual allocation of funds to each participating employee’s “health reimbursement account” which the employee can use to pay for pre-defined, routine medical expenses. The intent is to provide the employee with an incentive to be cost-conscious in obtaining health care services and to stay well. If the employee doesn’t use the annual allocation, the employee may be allowed to retain the balance or accumulate it in their “health reimbursement account” for future health-related needs.

Recommended Course of Action

The University of Iowa provides several of health plan options for employees and, by contemporary standards, the health care benefits for employees and their families are relatively generous. A thorough analysis of the existing program clearly is beyond the scope of our task force’s charge. However, given the magnitude and rate of growth in UI health care costs, we strongly encourage President Skorton to retain an independent firm with acknowledged expertise in this area to conduct a complete assessment of the current program including plan design, current practices with respect to the strategies outlined above, and services provided to the University by external vendors. We believe an expert firm that (1) has conducted similar analyses in other complex organizations and (2) has solid knowledge and experience in working with institutions of higher learning could provide a comprehensive report and recommendations within 60-90 days.

An independent study of this nature could provide an objective assessment of UI’s current program and costs in relation to “best practices” and contemporary benchmarks. It is our belief that this approach would provide valuable insights and identify significant opportunities for cost savings while still maintaining high-quality health care coverage for UI employees and their families.