Strategies To Manage Rising Healthcare Costs

US corporate healthcare costs have been increasing between 12% to15% for the last three years. For the small to medium size employers, the average increase has been about 20% per year. The factors contributing to the increases are rising utilization (i.e., hospitalization, out-patient doctor visit, prescription drug) and cost of services. Based on a Tower Perrin survey, the average 2003 annual healthcare cost is $3,192 for employee-only coverage, $6,480 for employee-plus-dependent and $9,216 for family coverage.

As healthcare costs become the largest component of employee benefits, many firms are looking for ways to manage the rate of increase. To effectively deal with the cost increase factors, a comprehensive approach has to be used. Employers are making benefit design, cost sharing, and premium structure… etc changes.

Health plans are making benefit design changes by offering choices (i.e., HMO, PPO and POS) with various levels of deductible, co-insurance, benefit limits…etc and different required employee premium amounts. The choices would allow an employee to select an affordable plan that meets his/her healthcare needs.

Cost sharing is implemented through deductible, co-insurance and employee premium contributions. Deductible varies from $250 to $2,500 annually, for individual and family coverage, before the health plan pays for any medical claims. The most common co-insurance percentage, the portion of a claim that a health plan pays after the deductible, is 80%. Employee premium contributions are usually based on coverage (i.e., employee, 1 dependent or 2 or more dependents). An employee typically pays 20% to 30% of the healthcare premium. For dependent coverage, an employee usually pays close to the full cost of the premium. Besides sharing costs, the intent of deductible, co-insurance and employee premium is to bring awareness on the cost of healthcare coverage and the responsibility on service usage.

If prescription drugs are offered, health plans are using a three tiers design with employee paying a low copay for generic drugs, moderate copay for drugs on an approved list and high copay on negotiated price for brand name drugs. The three tiers employee copay design is to encourage the usage of generic or approved drugs instead of using the highly promoted brand name drugs.

To help employees reduce the cost sharing burden, many employers have set up Flexible Spending Accounts allowing employees to use pre-tax money to pay for healthcare services not reimbursed by the health plan.

With rapidly rising healthcare costs, employers should evaluate the possible changes mentioned above with careful consideration on the employees' needs and ability to share costs. In implementing changes, it is important to clearly communicate with employees on the coverage choices/ features and financial effects to help them make informed decisions.

Our experiences include working with organizations to review their claims experience and implement benefit design, cost sharing practice, premium structure…etc changes to manage healthcare costs.