

Healthcare Costs

When annual open enrollment and medical renewal for health insurance occur, many companies look inward to see how they can save money on their premiums. This month's newsletter helps you decipher the costs behind the premiums and ways that individuals can save money.

Demystifying the Premium Cost

The price quote that employers see when setting up or renewing health insurance plans can often seem like a random number. Insurance companies put an amazing amount of research into their premiums, though, with influences coming from the individual company's demographics as well as habits of society at large. Here, we will explore the main components of health insurance.

Premium costs come from two main sources:

1. The company's demographics
2. Medical Cost Trends

Company Demographics

This comes from the actual employees and family members on the health plan; the higher the utilization (a company with a lot of sick people), the higher the premium. Many factors are taken into consideration.

- Past and present health conditions
- Age/Gender
- Group Size
- Area where employees reside
- Industry in which employees work
- Risk (high claims)

*Please note that employees' health conditions are confidential and it is illegal to discriminate against employees on the basis of any of these factors.

Medical Cost Trends

National trends in medical costs greatly affect insurance costs as well. Insurance companies look at several areas to predict costs for the next year to set the premium costs.

- Medical cost inflation
- Utilization
- Copay amounts (when copays stay the same, the premium increases to offset the cost)
- Government (a shift, for example, from Medicare to private sector coverage)

Slow Growth

Surprisingly, growth in health insurance premiums has been declining since 2003 according to PricewaterhouseCoopers' Health Research Institute. This deceleration saves everyone money since it keeps premium costs from rising too quickly. Among the reasons for the slow growth:

- **Less spending on prescription drugs.** Acceptance of generic drugs is a huge factor in controlling costs, as are mail order usage and more prescription drugs available over the counter.
- **More transparency in pricing.** Doctors and hospitals are being held more accountable for itemizing charges on their bills, allowing patients to become consumers.
- **Cost sharing with employees.** Employers are sharing premium costs with employees by using copays, higher deductibles, and HRAs and HSAs.
- **Focus on total health.** Cancer and disease prevention is being aided by reduction in tobacco use, screenings, and more effective treatment, but sedentary lifestyles pose an increasing risk. Wellness programs are helping employees to be more active and healthy.
- **Advances in technology.** Better medical technology aids in diagnosis and treatment, but this refers more to the electronic connectivity between health systems. Providers, hospitals, and vendors are beefing up their IT systems and thus their efficiency. Widespread adoption of electronic medical records, for example, is estimated to save \$162 billion per year by improving health care management, and reducing medical errors, death rates, and employee sick days.

Source: PricewaterhouseCoopers' "Behind the Numbers: Healthcare Cost Trends for 2008."

Employee Savings

Consumers can have quite an impact on premium costs as well as their own out-of-pocket expenses for health care. Following these tips can help save money for you and your employees.

- **Be Healthy.** A healthy group has lower premiums and fewer trips to the doctor. Quit smoking, eat healthy, lose weight if needed, and exercise.
- **Stress Less.** Stress-related illness costs companies through higher insurance premiums and lower productivity. Take advantage of www.Lifeworks.com, Nextep's Employee Assistance Program, or consider offering work/life balance programs to your employees.
- **Buy generic drugs.** The copay for generic drugs is considerably less than for brand names. Generics must meet the same standards as their brand-name counterparts, so there is no reason to pay extra money when there is an alternative.
- **Use mail-order pharmacies.** For ongoing prescriptions, mail order can save 33%. You can usually order a three-month supply for the cost of two copays.
- **Use minor emergency clinics.** Instead of going straight to the hospital's emergency room, go to the nearest minor emergency clinic when possible. The out-of-pocket expense is *largely* reduced and clinics can handle more scenarios than you may think.
- **Use Wellness Programs.** Many companies are seeing financial returns by offering Wellness Programs to their employees and subsidizing such things as gym memberships and healthy snacks. Several insurance companies also offer incentive programs for healthy lifestyles. PacificCare, for example, offers HealthCredits in which you can earn prizes for setting up health and fitness plans. For more information, go to www.pacificare.com
- **Open a Flexible Spending Account.** At the beginning of each year, employees can opt to set aside a fixed amount of money from each paycheck *pretax* for out-of-pocket medical costs, including copays, glasses, medicine, even contact lens solution. For more information, go to www.eflexgroup.com.

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