FORETHOUGHT

A survey of ideas, trends, people, and practices on the business horizon

trend

The New Health-Cost Crisis

Costs are going through the roof again.
It's time for you to act.

by Jeff Goldsmith

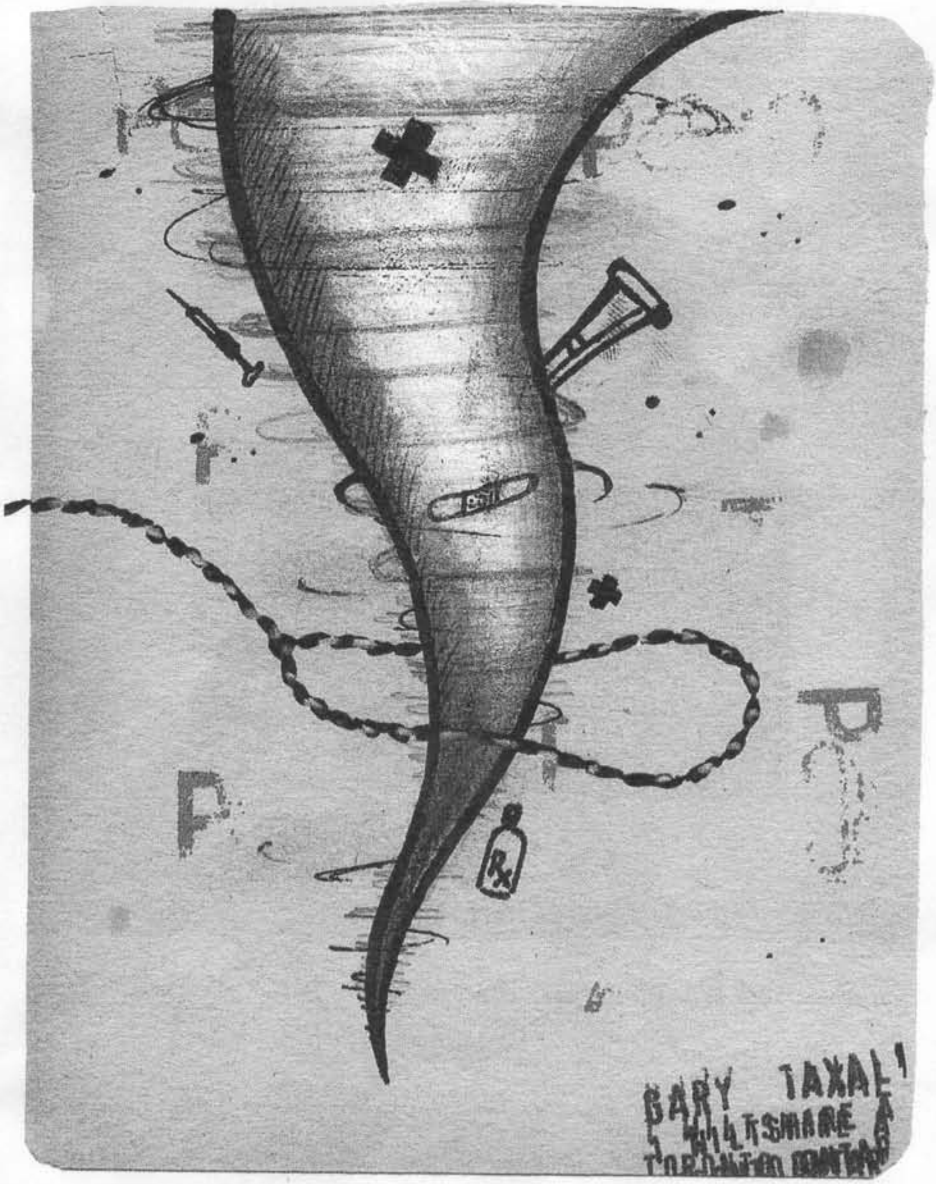
After more than eight years of relative stability, corporate health costs are again shooting up at double-digit rates. Before rounding up the usual suspects–hospitals and doctors (less guilty here than in past run-ups), drug companies (doing what we asked them to do–that is, innovating brilliantly), and your own employees (actually using their benefits)–take a hard look in the mirror. Because this is your fault.

Corporate leaders have taken their eyes off the health cost ball. They've opted for managed care products with no "management" in them, such as open-ended preferred-provider-organization (PPO) plans. They've piled on pharmaceutical benefits. They've permitted the patient's share of medical costs to fall. And they've failed to respond decisively to political attacks on the legitimacy of health cost containment. Now these leaders are reaping what they've sown: a new and untimely round of cost inflation.

Properly constructed, health plans should distribute the employer's risk of future expenses equitably among hospitals, doctors, companies, and employees. But over the past few years, much of that risk has been piling up on the corporate doorstep. Thanks to "provider protection" legislation and coverage mandates, health plans often can't question the medical necessity of health services. And since conservation-oriented payment methods such as capitation have failed to catch on, physicians and hospitals continue making more by doing more, unchallenged by anyone. Moreover, many cost management techniques that health plans rely on, like utilization review, actually cost insurers more to administer than they save in care costs. Finally, health care providers are no longer afraid of retaliation by health plans and are less willing to give them discounts. Lacking the tools to contain expenses, many health plans are conduits for unchecked health costs.

Corporate health costs will continue to grow until executives do the following to restructure their health benefits.

Choose plans that create the most value for employees. Some health plans spend far more on overhead than others do. Employers need to look hard at the cost structures of competing plans and pick the ones that provide the most bang for the buck. Many plans, for instance, are streamlining their costs by digitizing their paper-based management systems, putting customer service functions on the Web, and offering online tools to help patients find high-



quality doctors and hospitals. By reducing their administrative costs, these plans can operate more efficiently and direct more funds to patient care; employers should reward them for these actions with their business.

Go with quality. Did you know there can be as much as a fivefold difference in mortality rates of patients undergoing certain types of surgery, depending on which hospital performs the operation? In the long run, quality care costs much less than mediocre care. Helping employees choose the best hospitals and doctors will actually save you money. And if your employees are uncomfortable relying on their health plans to suggest caregivers, point them to Leapfrog, a business-led initiative that helps patients locate the best health care in their communities.

Get employees to pay more. Despite the rhetoric, the consumer's share of the nation's health-cost burden has fallen steadily over the past 20 years. Even during the managed-care "revolution," many employers encouraged employees to switch to HMOs by reducing or even eliminating cost-sharing requirements. Moreover, the structure of cost sharing – deductibles, co-insurance, maximum annual liability – hasn't changed materially in 30 years. Employees won't like it, but employers must increase workers' share of health expenses, targeting high-discretion areas like prescriptions, laboratory and radiology exams, and surgery. Patients who bring some of their own money to the table will make more thoughtful decisions about their care, and they'll challenge their physicians to defend the choices they make.

Move to a defined-contribution approach. Instead of simply entitling employees to a long list of covered services, restructure your health benefits along the lines of your pension benefit: Fund the benefits, but delegate plan and service choices to employees. A defined-contribution plan will reinforce the consumer movement in health care and reduce the role of "other peoples' money" (in other words, your money) in health cost inflation. Two caveats here: First, employers must be willing to find ways to aggregate purchasing power for their workers. That way, the discounted prices applicable to group policies will still hold. Second, existing tax laws will need to change so that employees aren't taxed on the employer's cash contribution to their health coverage.

Health costs are not a force of nature. They are exquisitely sensitive to both political and economic pressures. If the current economic slowdown continues, employers may have to choose yet again, as they did during the 1970s and 1980s, between capital investment in growing their businesses and health benefit costs for their employees. Renewed vigilance and a new approach to empowering employees as responsible consumers of health services are vital to avoid a further surge in health costs.

Jeff Goldsmith *is president of Health Futures (www.healthfutures.net), a firm based in Charlottesville, Virginia, that specializes in forecasting health care trends. He is also an associate professor of medical education at the University of Virginia's School of Medicine.*

Reprint F0110A