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Cost Control in the Age of Health-Care Reform

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The U.S. is spending approximately \$800 billion a year on health-care. To combat the rising increase in expenditures, the President has proposed a plan of "pay or play." The plan is based on the theory of "managed competition." The goal of the theory to "foster the purchase of thrifty health plans..." The plan would require all employers to provide health insurance to their full-time employees or to pay a portion of the cost of obtaining coverage for workers and their dependents through newly created purchasing pools. The President will also appoint a National Health Board to set an annual "global" budget governing health expenditures and devise a standard health-care package that all insurers will be required to provide. Even though employers will be required to insure their full-time employees, there are ways that they could reduce their health-care expenditures. They could be more selective and hire healthy employees, start a preventive medicine program, and/or implement an early retirement program. Employers could increase their product prices to cover the expenditures. They could also reduce the amount of full-time individuals. Employers could pick inexpensive insurance programs or help their employees become more aggressive and knowledgeable purchasers of medical services. In addition, they could start an incentive program to reward individuals who stayed healthy.

Past history has shown that it is the fate of all Presidents to become bogged down with an issue. For Lincoln, it was slavery. For Nixon, it was Watergate. For Bush, it was the escalating deficit. For Bill Clinton, the issue is the U.S. health-care system.

Presently, the U.S. is spending approximately \$800 billion on health-care yearly. At least 35 million Americans are without health insurance, and Clinton says that "100,000 are losing coverage each month." (Dentzer 26-27)

The Plan

Currently, President Clinton is proposing a plan of "pay or play." This plan requires all employers to provide health insurance to all their full-time employees or to pay a portion of the cost of obtaining coverage for workers and dependents through newly created purchasing pools. These pools would be set up all over the country-ideally one in each state.

The National Health Board (NHB) would be appointed by the President to set an annual "global" budget governing health expenditures and devise a standard health care package that all insurers will be required to provide. The NHB would work with the states to determine how much money to issue to each pool.

Approximately 15 health insurance plans will compete to provide the standard package at the lowest price. The pools will make information available to consumers to help them choose a plan. Also, insurance reforms will outlaw practices such as screening out people with existing medical conditions. In addition, the President is considering taxing some portion of employer-paid health benefits as income to the employee. (Dentzer 26-7)

Clinton's plan is based on a theory called "managed competition." The goal of this theory "is to foster the purchase of thrifty health plans and one way to do that is to tax those who choose richer plans." (McIlrath 1) The effects of this plan on people will vary. Larger firms, that already offer insurance to their employees and their dependents, will continue to do so, as long as they meet a standard benefits package. Workers for smaller firms could be offered health coverage directly or set a fee to obtain coverage from the local insurance pool. The self-employed could get low-cost insurance through the insurance pool, obtaining the same rates and coverage as others.

Medicare beneficiaries would be left alone, but they may receive incentives if they enroll in a managed care program. Managed care programs refer to the same type program provided by many health maintenance organizations (HMOs), both of which limit the patient's choice of physicians. "It also refers to the care provided by indemnification insurance plans that offer a free choice of physician but manage care by monitoring claims and denying or reducing payment for those deemed unjustified."

(Relman 133)

Medicaid beneficiaries would receive the same basic coverage as everyone else. The costs to the federal and state governments for this program for the poor would be shared, as they have done before. The unemployed will also purchase through pools with the help of tax credits or other subsidies from the government.

Cost Saving Alternatives

Lets now assume that the plan is implemented. Since employers will be required to insure their employees, how will they keep their health care costs down?

One way to keep costs down is to be selective of the people they hire. Studies have shown that small businesses face a high increase in their insurance premiums, even when one or two employees become ill. (Schorr B7) The more claims filed, the more insurance premiums go up. Therefore, employers will pay more attention to a potential employees health. If a potential employee is overweight, they may not be hired due to the increased possibility of having heart problems, and/or being diagnosed with diabetes. If the individual is a chain smoker, this increases the chances of them having lung cancer. All of the conditions mentioned above need immediate and constant attention, which is very expensive. Thus, employers will try to prevent such costs as much as they can.

A second way to keep costs down is to have preventive medicine programs. This would include a wellness program, serving healthy food in the cafeteria and/or having an employee

work-out room. Kennecott Copper instituted a wellness program and discovered that its medical-care costs dropped 55%. Also, Prudential Life Insurance started a fitness program which reduced the company disability average from 8.6 to 3.5 days per year. In addition, a study showed that when people with hypertension were enrolled in a work-site program to promote a healthy lifestyle, their health claims were reduced to less than the claims of people without high blood pressure. There was study that reported a 78% decline in total claims paid. (Bricklin 30)

A third way to keep costs down is to increase product price. Currently, Ford adds \$800 to each automobile to account for its health care expenditures. (Dentzer 26)

A fourth alternative is to reduce the amount of full-time employees. Employers are only required to insure their full-time employees. Companies would now hire or keep more individuals on a part-time basis. This was proven in a California study. Currently, "while managed care covers a greater portion of the population in California than in any other state, fewer California workers receive health insurance from their employers." (Wojcik 4) Only around 56% are insured by their employers, compared to 64% elsewhere. Also, 87% percent of the uninsured have jobs or are in families headed by at least one working person. (4)

A fifth way could be to implement an early retirement program or to cut back on retiree health benefits. "Thirteen million retired individuals receive health benefits from their

former employers and one-third of them are at risk of because their contracts permit cuts in benefits," (Schorr B7) A reason to have an early retirement program is because older individuals usually require more health care attention than younger individuals.

A sixth way is for employers to pick inexpensive programs. The initial idea behind the program was to have an arrangement where a doctor would give a decision on what care is and is not needed. However, many managed care programs are money-driven. "... Stories abound about clerks at the end of the telephone line telling physicians that recommended procedures are unnecessary ." (B7) Thus, to control cost, the programs are not giving their patients the care they need.

Instead of picking inexpensive programs, employers could help employees to become more knowledgeable and more aggressive buyers of medical services. Employers could get employees involved in comparison shopping. For example, some companies, like Quaker Oats Co., provides profiles of local hospitals, which includes average charges, length of stay, etc. Others, like Dominion Resources Inc., offer information about prescription - drug prices. At International Paper Co. employees have access to data about the cost and quality of doctors and hospitals. The employees also get financial incentives for using the information. The database includes information on how much the company is willing to pay and it includes a list of doctors that fall into that price range. (Ruffenach B1)

A seventh way to reduce costs is for the employer to start an incentive program to reward individuals who stayed healthy. For example, last January Forbes started a program that rewarded employees who stayed healthy and avoided filing claims for routine medical expenses. The company offered its employees up to \$1000 in aftertax income. If an individuals claims were less than \$500, Forbes would not only pay the difference between the total and the \$500 but they would also double it. In addition, individuals would pay no income or payroll taxes. If the individual submitted \$200 in claims, they would receive a reward of \$600 ($\$500 - \$200 = \$300 * 2 = \600) Since the programs inception, Forbes insurance premium rates have almost declined 10%, while the average rates have been increasing 20-25% for everyone else. (Forbes 25)

Conclusion

Based on my research, I have come up with seven alternatives employers could implement to help them reduce their health-care expenditures. I feel that the President's ideas are a good start towards controlling and/or reducing the U.S. health-care expenditures. However, in order for his plan to be more effective, the President should also look into other areas for controlling costs. For example, he should consider placing restrictions or limits on malpractice claims.

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