



Changing Course

Economic hard times will alter the health benefits landscape for insurers, employers and workers.

by Dave Keller

► **What's Up:** The recession is causing many health insurers to face never-before-seen economic issues.

► **What's New:** Workers and companies are seeing fundamental changes to health benefits, affordability and coverages.

► **What's Next:** Reforming health care at any level will prove a daunting task in the year ahead.

During the 1992 presidential election, James Carville, one of President Clinton's campaign strategists, hung a sign in Clinton's Little Rock campaign headquarters that read:

- Change vs. more of the same.
- The economy, stupid.
- Don't forget health care.

That sign could very well sum up the trends in health care in 2008 and where the market is headed in 2009. Carriers will need to determine if they are going to change or endure more of the same results that have driven down stock prices. Businesses will need to grapple with escalating health care costs, even as the economy slows. Politicians will be expected to respond to constituents who are demanding relief from higher costs, as well as those who are looking for solutions for the 47 million uninsured Americans.

Change vs. the Same

Most of the publicly traded health insurance companies have seen steep declines in their share price during 2008. The Morgan Stanley Healthcare Payors Index, which was trading at \$2,218 per share on Jan. 1, 2008, closed at \$993 per share on Nov. 4, 2008—a 55% drop in value. A combination of higher-than-expected combined ratios along with enrollment declines in commercial business will force many carriers to shore up margins throughout 2009 by raising rates and tightening underwriting criteria.

Brokers can expect to deliver renewal increases in early 2009 that are higher than what the market has experienced over the past three years. These higher renewals will be especially troublesome to employers who are already experiencing the impact of a tightened credit market and reduced consumer spending.

Many employers will pass along a

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portion of the increase to their employees, either in the form of higher premium payments, decreased benefits or a combination of both. It's a dramatic shift from the past several years, in which employers that were concerned about employee retention were unwilling to pass along rate increases to their employees. The economic realities of 2009, along with soaring unemployment rates, will enable some employers to pass through at least a portion of the rate changes.

Jeff Brunsberg of Lighthouse1, a national provider of consumer-directed health software solutions, still sees HDHPs as a viable way to address health costs, but only if they are combined with employee education.

"Education is the key to getting employees to understand their benefits on either an HSA or HRA plan," Brunsberg said. "The employer's chance of getting employee buy-in increases if the employee sees the consumer-directed plan as a strategy and not simply a cost-cutting move."

Brunsborg sees the market for HDHPs continuing to grow, but cautions that employee satisfaction will be contingent on providing them the tools to use their plans in the most effective manner.

Dealing With the Economy

With the U.S. economy in a deepening recession, many small-business owners have felt the downturn. The

Prescription Drug Profiling to the Rescue

Payers will be tempted to raise rates to combat eroding margins, but competitive factors will make large increases difficult. Instead of raising rates, some carriers will opt for either more granular or more effective underwriting. Kevin Francis of Ingenix Consulting sees more carriers using prescription data to aid in risk selection. "Carriers have found success in utilizing pharmacy data-based predictive modeling in new small-business underwriting," Francis said. "Studies by vendors, carriers, and the Society of Actuaries have proven the models' improved predictive capabilities over standard demographic techniques."

As more small groups shop their coverage, the use of prescription drug profiling

can help carriers better analyze a group's risk and rate appropriately, he said.



December 2008 *Small Business Economic Trends Report*, published by the National Federation of Independent Businesses, showed its Index of Small Business Optimism at 87.8 (1986=100), the fourth-lowest reading in the 35-year history of the survey, according to NFIB Chief Economist Bill Dunkelberg.

In all likelihood, businesses of every size will continue to be affected by fluctuating oil prices, the increase in the minimum wage and a general slowdown of consumer spending. In order to cope with the changing economic landscape, expect small businesses to shop around and consider changing their

health insurance plans prior to their annual plan renewal date as opposed to the normal practice of evaluating their coverage only when it's up for renewal. Insurance plans that were affordable six months ago may not seem so affordable in the face of an economic slowdown.

Customers are choosing to raise their deductibles to mitigate rate increases. John Kuzara of Excelsior Benefits, a national insurance wholesaler, has seen an increase in sales for gap plans being used to supplement group health plans.

"We have been offering gap plans for the past year but our sales really took off in the last six months," said Kuzara. "We are seeing more customers willing to move to a \$5,000 or \$10,000 deductible to save premium, but they are still looking for some form of protection from the increased financial exposure."

The Kaiser Family Foundation reports that the percentage of businesses between three and nine employees that offer employer-based group health coverage has dropped from 56% in 1999 to 45% in 2007. That trend is expected to continue in 2009, driven in large part by start-up businesses that opt to not offer coverage to employees.

Many of these new businesses will provide the convenience of list-billed, individual policies rather than jumping into a group plan. Jeff McCabe, regional manager of

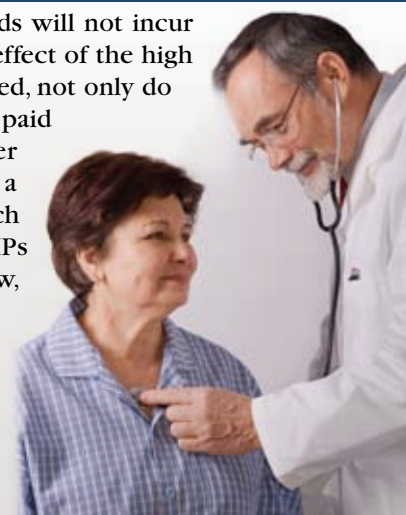
Deductible Leveraging's Impact on Health Insurers

Carriers that sell high-deductible health plans will begin to see the effect of deductible leveraging on their blocks of business. Deductible leveraging occurs when a deductible remains constant as the underlying claims trend increases. Because the deductible has remained constant, the insurance carrier is actually paying more each year for claims of a similar nature.

While health plans of all deductible levels are affected by leveraging, HDHPs see the most dramatic effects. In low-deductible plans, the carrier generally does not expect to have a large cohort of customers who do not incur a paid claim, so the leveraging flows through the claims experience in a more predictable manner.

But in high-deductible plans, carriers expect that

many of their insureds will not incur a paid claim. As the effect of the high deductible is leveraged, not only do more insureds incur paid claims, but the payer is responsible for a higher payout on each claim. Because HDHPs are still relatively new, the 2009 renewal groups will be among the first to feel a strong adverse impact from deductible leveraging.



Health/Employee Benefits

IHC Health Solutions in Columbus, Ohio, has noticed the trend of micro-businesses—those with three to 10 employees—moving to list-billed individual plans.

“We are seeing a growing number of small employers choose list-billing over small group plans,” McCabe said. “The ability to offer different plans to employees at different life stages seems to be appealing to business owners. We are seeing substantial growth in our list-bill portfolio of the \$10,000 and \$20,000 deductibles.”

Ancillary benefits will also be affected by the changing economic landscape. As costs escalate, expect to see convenience give way to economic reality. More businesses, especially those between 25 and 250 employees, will shop their life, disability, health and dental independently and forgo the convenience of single-source billing.

Tim O’Meara, director of sales at Madison National Life Insurance Co. in Madison, Wis., said, “Madison National has definitely seen an increase in stand-alone life and

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—Tim O’Meara,

Madison National Life Insurance Co.

disability sales in 2008, which we expect to continue into 2009. Clients are willing to shop a little harder and move away from the name carriers if they can find a financially sound carrier with good rates.”

For the past three years, consumers have been quietly driving the growth in convenient care clinics, also known as retail clinics. These medical clinics, which are gener-

ally staffed by registered nurses as opposed to physicians, provide treatment for a limited number of acute conditions. Because the clinics have a limited range of services, they are less expensive than a primary physician visit and can usually treat the patient in as little as 15 minutes.

Web Golinkin, CEO of RediClinic, has seen the growth particularly spurred by convenience. “Initially, we anticipated that convenience care clinics would appeal to lower income and uninsured consumers who do not have a physician relationship,” Golinkin said. “Actually it is middle- and upper-middle income people who have insurance and a physician relationship who are driving our growth. They are looking for convenience.”

Adaptability to change is a key trait of top-performing group health insurance brokers. In 2009, that adaptability will very likely be tested in many brokers as the confluence of political and economic climates creates an environment that we’ve never seen.

Without question, in the battle between change and more of the same, change will be the clear winner. **BR**

The Obama Factor

One of the influencing factors for group benefits in the coming months is the impact of the 2008 elections.

The Obama administration and the Democratic controlled Congress will be under incredible pressure to help secure coverage for 47 million uninsured Americans. While Massachusetts has been at the forefront of health care reform, almost all states are investigating some version of government-sponsored insurance coverage.

Although it is highly unlikely that the funding can be found for a single-payer system, expect to see expansion of Medicaid programs and government subsidies for low-wage earners to purchase insurance. The Obama health care reform model requires guarantee-issue health insurance and the creation of a National Health Insurance Exchange to facilitate the purchase of individual medical policies from a centralized source. Any dramatic expansion of a federal role in health care will be difficult to fund. The *Summary of the 2008 Annual Reports*, produced by the Social Security and Medicare Boards of Trustees, indicates that Medicare’s hospital insurance trust fund will be depleted in 2019.



Barack Obama

Considering the current state of the economy, balancing Medicare with a government expansion of the under-65 market could be a difficult process.

Wayne Nelson, president of Communicating for America, an association that represents small business and agriculture, believes many state governments are finding that meaningful health care reform is more difficult than they anticipated.

“There was a great deal of excitement after Massachusetts announced its reform package,” said Nelson. “However, what states are finding is that the stars were really aligned for Massachusetts to get its program funded, and that launching a program is a difficult proposition from both a cost and a political perspective.”

A big change that could impact groups, however, is the recent expansion of the federally funded State Children’s Health Insurance Program. Any increase in SCHIP eligibility would pave the way for certain working, low-income parents to shift their dependents from their employer’s plan to a government plan, thus lowering the cost for both themselves and their employer.