EASING THE STICKER SHOCK

How Southwest Florida employers can apply innovative solutions to reduce health care costs in 2020.

BY DENISE SCOTT

PHOTOGRAPHY BY BRIAN TIETZ

It should come as no surprise that health care insurance premiums are on the rise—again. Costs for businesses to cover employees are expected to increase by a median of 6 percent in 2020, according to the nonprofit Business Group on Health.

And just like in years past, companies small, medium and large are trying to find a balance between shifting increasing insurance costs to workers and not overburdening them to the point that they seek better benefits elsewhere.

"If we can offer competitive and above-market wages, and sweeten it with benefits, we are going to be able to attract good, hard-working, tech-capable people, and also retain them," says Michael Clark, president of Fort Myers-based United Mechanical Inc.

But finding affordable solutions can require a great deal of expertise, negotiation and innovation. The big question is how?

Enter solutions such as self-insurance, virtual care and wellness programs that boost prevention and change the focus from sickness to wellness.

"Seventy percent of the American population is overweight or obese," says Jim Nathan, who served as CEO of Lee Health from 1981 until his retirement in 2017. "Gun violence, suicide, drug abuse—it all gets added into the cost of health care. Our lifestyle issues here prove that American society is not the best way to live."

To learn more about preventive measures aimed at combatting such an unhealthy lifestyle, *Gulfshore Business* interviewed several local experts in the health care and insurance industries, as well as employers, who explain the reasons for the rising costs and how to help mitigate them.

Why Is Health Care So Expensive?

It's estimated that the average annual health care cost for each large employer with 100 employees is nearly $1 million, according to Gray Davis, agency executive and senior vice president for McGriff Insurance Services in Fort Myers.

The Kaiser Family Foundation reports that employers pay on average 82 percent of the health care costs per employee for single coverage and 71 percent for family coverage each year. That equated to $6,896 for single and $19,616 for family coverage in 2018. The United States spends more

on health care than any other country, with costs approaching 18 percent of the gross domestic product (GDP), according to the Journal of the American Medical Association.

Nathan says the American health care system has an ongoing problem of commercial insurance and major employers having to cover the costs for Medicaid and Medicare recipients, and for the underinsured and uninsured. Also, he says, 20 to 40 percent of American health care costs are for non-value-added overhead.

Dr. Allen Weiss, former president and CEO of NCH Healthcare System in Naples, says health care insurance costs are a reflection of the high—and increasing—costs for labor, drugs and other supplies, as well as increasing utilization and fees. But there is a way to reduce costs.

"Avoiding the approximate 25 percent of waste is a huge opportunity," Weiss says, referring to the six domains of waste identified by the Institute of Medicine: failure of care delivery, failure of care coordination, overtreatment or low-value care, pricing failure, fraud and abuse, and administrative complexity.

> **"The mission is keeping people out of the hospital [through the Blue Zones project]."**
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> *— John Chomeau*

Who Bears the Cost Burden?

Unlike United Mechanical, which provides 100 percent health care coverage for employees, many large employers are not able to fully cover it. And small businesses with 50 or fewer employees don't have to offer the benefit at all.

Davis says there has been a significant cost shift over the past five years, moving the burden from the employer to the employee through higher deductibles, premiums and prescription copays. And if an out-of-network doctor is needed, the costs are even higher.

"They have an inability to budget [for that cost], so they're shopping employers for benefits as much as anything else," Davis says, noting employers risk losing good employees.

Steve Wojcik, vice president of public policy for the Business Group on Health, agrees. "Wages have been stagnant for quite a long time," he says. "[40 percent of adults] have less than $400 in savings. The ability to shift the health care costs onto employees is reaching its limit."

So, Wojcik says, over half of the large employers are trying to improve and maintain health by negotiating contracts with hospitals and physicians.

"There's a financial incentive not to do more but to produce better health outcomes," he says. "Hospitals and physicians have an incentive to refer and care for people in the lowest-cost setting—a clinic, nurse practitioner or in the home with virtual care. They provide the same or better level of care in a less-expensive setting."

Negotiation Is Key

Each year, two to three health insurance companies court United Mechanical through Clark's outside benefits coordinator. "[Blue Cross] came back with a package to entice us away from another group," he says. "Every year during the renewal period, we go back and forth negotiating the deductible and final costs."

In determining rate increases, the insurance company analyzes the company's claims history. Clark says United Mechanical can handle the 4 to 5 percent cost increases he negotiates each year. "That gets built into our cost estimates of how we price our work," he says. "But if others are not providing benefits, are you pricing yourself out of work? The other way to look at it is we are able to attract the best people."

If yearly increases were to enter the double-digit range, United Mechanical would have to research other options, including self-insurance. "If we cover 100 percent but the team member can't cover their deductibles, it's not that great of a benefit," he says.

United Mechanical involves employees in a leadership committee on health care. With so many different health care options, Wojcik agrees that it's important to get employee input. "To the extent you can, have your employees as part of the process—what they want and what they're willing to make in terms of choice and tradeoff," he says. "Maybe they're willing to restrict choice for lower premiums."

Wojcik says the smaller the business, the greater the annual health care cost increases. "As a smaller employer, they have less bargaining leverage," he says. "It's like wholesale rather than retail."

Jeffrey M. Folkman, a tax and business attorney with Hahn, Loeser & Parks LLP in Naples, says in addition to that wholesale price, employers who provide health care for their employees get a lot of tax advantages.

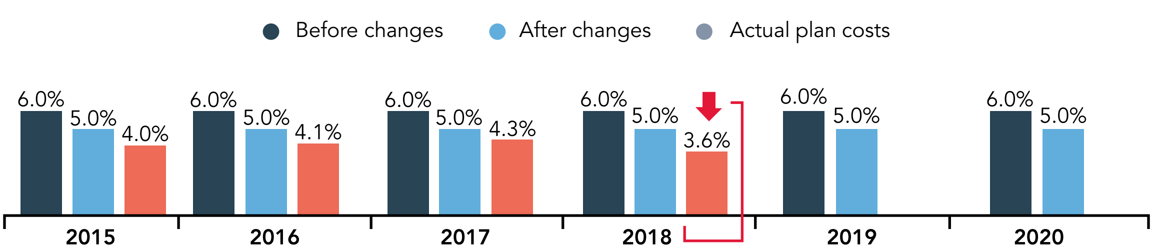
"[Health care] is deductible, and to the extent they're us-

PREVENTIVE CARE ADVOCATE: Allen Weiss is chief medical officer for The Blue Zones Project and former NCH CEO and president.

HEALTH CARE COSTS

Large employers are predicting that for 2020, their health care costs will increase a median of 6% without any cost management adjustments. Taking negotiations and other initiatives (e.g., alternative delivery models) into account, employers are expecting a 5% increase. While this constancy in health care cost trend provides some level of predictability to employers, it is still a sizable increase in health care budgets, well above general inflation and representing millions each year for the average large employer. Actual plan costs for 2018 came in at the lowest in recent years— 3.6% (Figure 8.1).

Figure 8.1. Large Employers' Predicted and Actual Median Health Care Cost Increases, 2015-2020. Source: Business Group on Health.



TELEHEALTHY: John Chomeau, chief population health officer for Lee Health.

ing money they would otherwise be paying the employee in compensation, they'll save on payroll taxes," Folkman says. "Normally, the employer has to pay the employer's share of Social Security tax, so they'll avoid that."

The Reimbursement Option

The most popular insurance plan—and most expensive—is the preferred provider organization, or PPO, which allows employees to go in or out of network for care. But what options exist for employers who can't provide any type of group health plan?

A Health Reimbursement Arrangement (HRA) is a program that reimburses part or all the premiums and out-of-pocket costs of employees who purchase their own health insurance on the individual marketplace. But, says Wojcik, wholesale pricing isn't available to individuals.

"Even with small group coverage, you get a better deal," he says. "But if you're a very small employer and don't have the resources, this is better than nothing to help your employees."

Benefits Attract Qualified Employees

United Mechanical's Clark says the 32-year-old air conditioning and electrical services company provides a variety of benefits to its approximately 200 employees, including medical and vision insurance.

He says health care alone costs the company a "very upper six-figure number" for coverage beyond the basics. Why invest so heavily in health care?

"Skilled tradespeople are very hard to come by," Clark says.

Health of the Workforce

While it may seem like hiring younger employees is a simple solution to curb the rising health care costs, Wojcik disagrees. He advises not to hire only younger employees under the assumption that they are healthier.

"There are laws against age discrimination in the workplace," he says. "An employer should look at the characteristics of that workforce, hiring and retaining based on experience and expertise. The health care cost differential pales in comparison to having a workforce where experience is valued and necessary."

And, he notes, age is becoming less of a determination of how healthy an employee is, as inactivity and unhealthy diets are more common among the young. "The connection is weakening as the younger generation is not as healthy as younger generations of the past were," Wojcik says.

Folkman says employers are free to choose who they want to hire, but they can't target individual employees to exclude from health care coverage. "With smaller employers, insurance companies typically won't provide insurance coverage unless all the full-time employees, or a high percentage, are offered coverage. Once hired, you can't say, 'We're not going to insure the older people.' That would be discrimination," he says.

Wellness and Prevention Programs

Wojcik says many employers are expanding the scope of health care to include smoking cessation, diet and exercise programs. "They're even broadening it to include emotional health and financial well-being, community involvement, satisfaction on the job, stress management. A lot of these things affect your health," he says. "They're looking at the total well-being of the employee."

Many of those wellness programs are not quick-fix solutions. "But in the short-term, quitting smoking, managing diabetes, losing weight—these all have immediate health impacts," Wojcik says. "And they lead to better productivity, fewer absences and a boost to morale."

United Mechanical is trying to have a positive impact on claims by encouraging healthy choices. The company teamed up with a local gym and pays a greater percentage of the membership fee for employees who use it more often. Unfortunately, Clark says, only 10 to 20 percent of employees take advantage of it.

"Typically, blue-collar jobs have an increased incidence of smoking and obesity," Davis says. "They have to get the youngest, healthiest employees on the plan to offset the cost of older employees' chronic issues. If you don't have an effective wellness program in place, the costs could be higher. But larger employers are pushing back and saying the return on investment isn't there."

> **"Telehealth increases access. Most insurers are offering that, too."**
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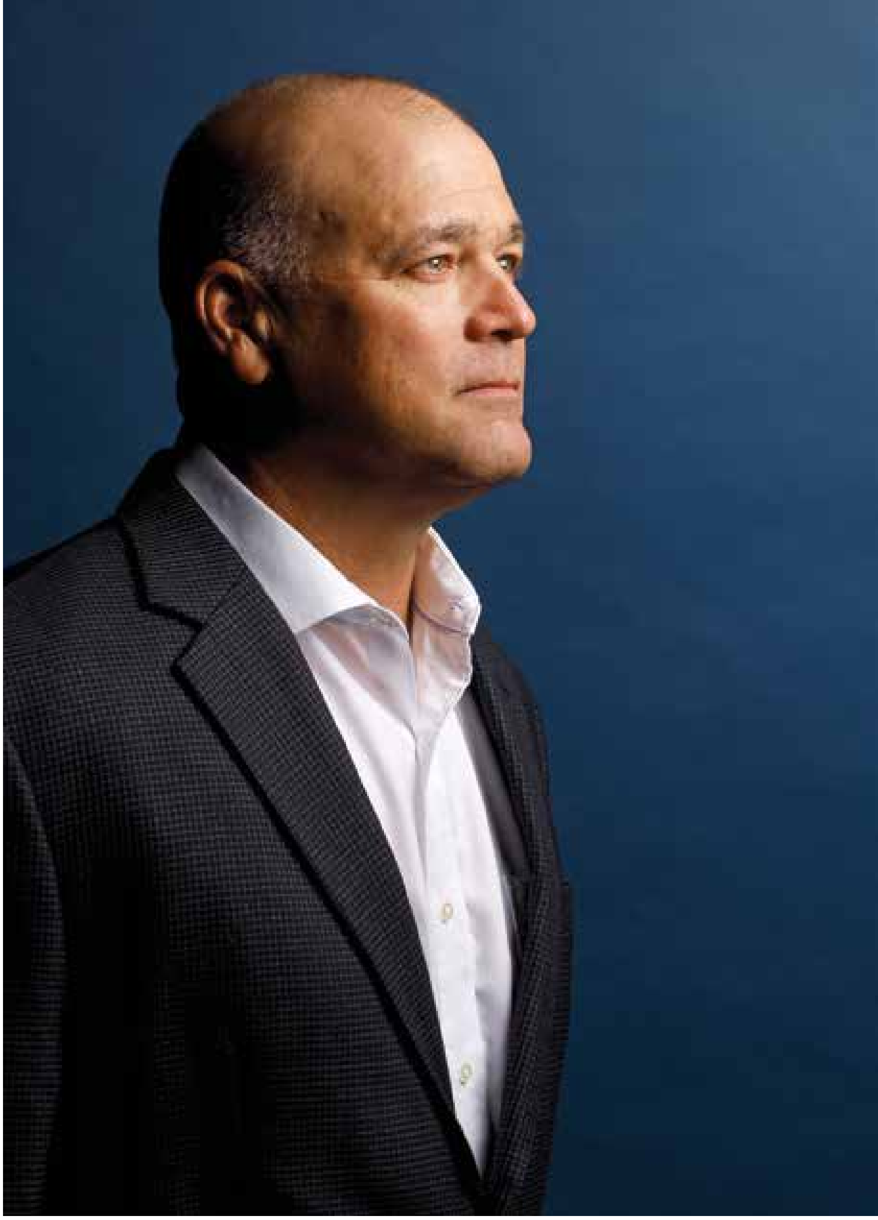
John Chomeau is chief population health officer for Lee Health. He previously served as president and CEO of Magellan Health's Commercial Behavioral Health Division and as president of Aetna's Medicare Health Care Division. He agrees that wellness program engagement rates have not been large enough to produce the desired results. Of those employees who do participate, he says, most already have a healthier lifestyle.

Nathan says the problem is that insurance pricing is done on an annual basis while wellness programs are a long-term investment. “If there were a culture of healthier lifestyles, it could have a positive impact,” he says. “The fun part of health care is being able to improve health care coordination of the highest-risk patients.”

Davis says 80 percent of the costs come from 20 percent of the population. However, the challenge as an employer is that you can’t know which of your employees have chronic conditions because of privacy laws. Instead, you must arrange with your insurance provider to provide chronic care management.

Weiss, who practiced rheumatology, internal medicine and geriatrics for 23 years in Naples, is now chief medical officer for The Blue Zones Project by Sharecare. It is helping communities duplicate the healthy lifestyle choices being made in areas that have a higher percentage of people living to 100.

He says the problem with traditional health care is that the medical industry gets paid for sickness. “As the payment system is changing from volume to value, the focus will change to prevention and keeping people well,” Weiss says. “The public will benefit from this. [Insurance companies] have to start helping people, particularly small em-



FINDING AFFORDABLE SOLUTIONS: (left) Gray Davis, agency executive and senior vice president for McGriff Insurance Services; (right) Michael Clark, president of United Mechanical Inc.

ployers, who don't have the time, energy or expertise to do a prevention program for folks."

Under his leadership, NCH began giving health insurance discounts to employees who embraced preventive screenings. It also became the first Blue Zone-certified health care system in the nation. Weiss says several Collier County government entities heard about NCH's success and began copying the formula to decrease their own health care costs.

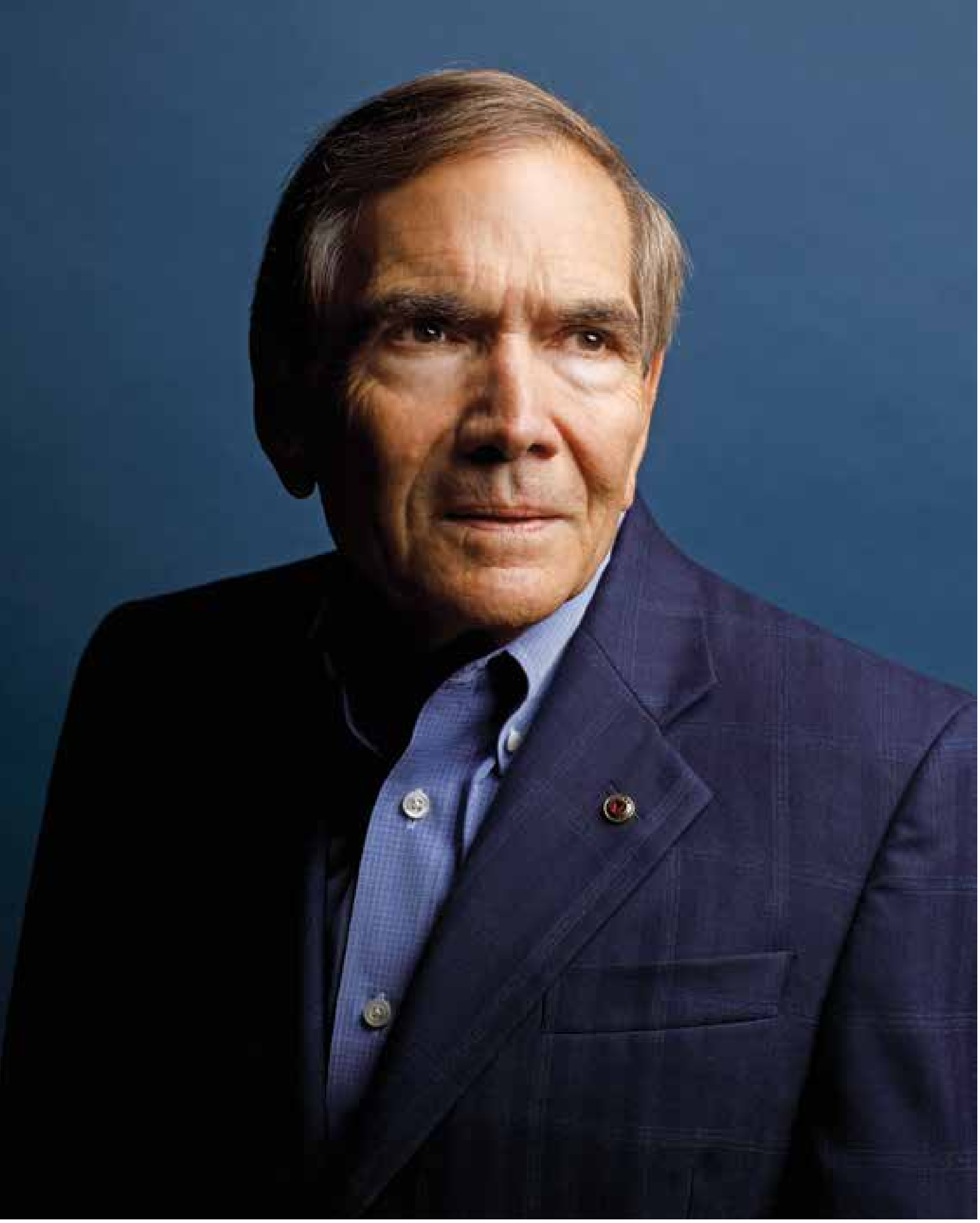
"The mission is keeping people out of the hospital," Weiss says, noting changes he made included removing sugary beverages from the hospital cafeteria and refusing to hire smokers, who are not a protected class. "Rather than be a repair shop, move upstream and keep people from getting diabetes, heart disease. It's much more satisfying."

Telehealth and Virtual Care

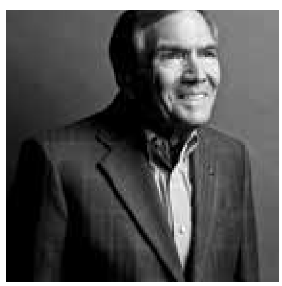
More health care plans are offering telehealth, aka telemedicine, consultations via online chat as well as other digital virtual care services. Davis says telehealth is not a full replacement for traditional health care, but its accessibility provides an opportunity to reach more patients and to interact with complex cases more frequently. And, he says, many new doctors have chosen telemedicine as a career.

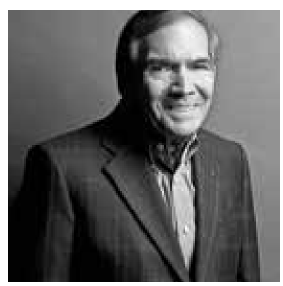
Wojcik says these virtual opportunities meet the needs of today's health care consumer. "It's access on demand," he says. "In areas of mental health, there is a provider shortage. Telehealth increases access. Most insurers are offering that, too."

Wojcik says smartphone apps can even transmit vital signs and other medical data. He encourages small em-



WELLNESS FOCUSED: Jim Nathan, retired CEO of Lee Health.





ployers to ask their insurance providers what options are available, as well as to request demonstrations so their employees can become comfortable using the new technology. He says larger employers often provide telehealth kiosks in a convenient, private location in the workplace.

"Just schedule your appointment, go in the booth and have a session at work," Wojcik says. "There's a lot of exciting potential for things to come on the virtual front."

Chomeau says another benefit of telemedicine is the peer-to-peer interaction of physicians working as a team. "Consults occur across the world with experts," he says.

Self-Insurance

Davis says one way to save 18 percent or more on premiums is for employers to go self-insured. An insurance broker can assist in setting up the program, in which employer funds are put in a dedicated fund to pay claims.

However, he says, self-insurance is only an option for businesses whose employees are healthy. "If it's an unhealthy population, self-insurance is not going to work," Davis says.

Wojcik says a benefit of self-funding is less-frequent rate increases. "A smaller employer every year has to redo its rates and everything," he says. "For self-insured plans it's every three years, and a third-party administrator does the back-office work of the insurance plan. But the employer is on the hook for paying the claims."

Folkman says a self-insured employer can only deduct the health care cost when it's been paid out through the plan. He says for employers with 250 or fewer employees, there is a tax credit. Wojcik says if a self-insurance health care fund is underestimated, the employer subsidizes the additional expense, and the employee contribution may have to be increased.

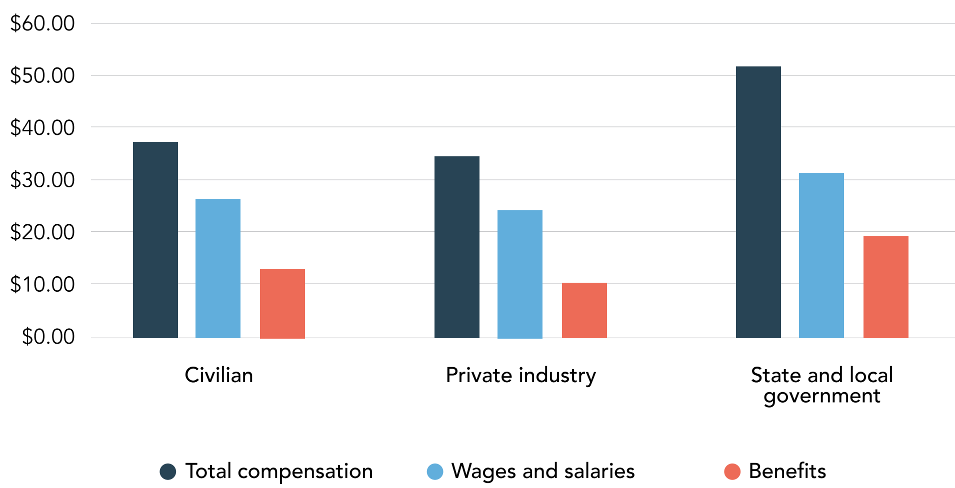
"When you get to around 100 employees, you should seriously look into whether self-funding makes more sense," Wojcik says. "You probably have enough cushion to handle excess cost for a year."

To self-fund, Wojcik recommends speaking to a financial adviser and an insurance/benefits consultant. "As health care expenses keep going up," he says, "the more information you have and the more shopping you do, the better off you are." GB

The U.S. Department of Labor Bureau of Labor statistics reports that as of June 2019, employer costs for total employee compensation averaged $36.61 per hour worked. Wages and salaries averaged $25.12 per hour worked.

The additional $11.48 came from average benefit costs—including health insurance, disability insurance, paid leave, supplemental pay, retirement and savings, and other legally required benefits. Health insurance averaged $3.04 of total benefit costs.

Employer cost per employee hour worked, June 2019



Source: U.S. Department of Labor, Bureau of Labor Statistics