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G. Steven Harris  
Mercer Human  
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# Healthy Spend



## MAKING THE MOST OF HEALTH CARE PLANS

BY SUZANNE WRIGHT

No doubt about it, health care has traditionally been perceived as a cost of doing business. Accordingly, to combat rising health care costs, employers have taken the route of cost minimization—logical from the perspective that escalating costs need to be controlled. However, deeper evaluation of employee health care costs with respect to workplace productivity reveals the obvious: healthy employees consume fewer health care dollars. In fact, recent data has convincingly shown that investments in health can yield a favorable return on investment in a timely manner.

So, it seems the smartest companies are treating health care less as an expense of doing business than as a smart business strategy.

“This is a high-visibility issue and has the potential for huge savings as related to net income. It’s a principal motivator,” says William Molman, general counsel for the think tank Integrated Benefits Institute (IBI), a not-for-profit membership organization that helps both suppliers and employers explore new approaches to delivering health care. “In a recent study, we found that absence-related costs place a huge burden on CFO’s key performance indicators, averaging 76 percent of net income and 21 percent of payroll for participating companies. When properly focused, medical benefits can be an important investment in the health and productivity of the workforce. They shouldn’t just be viewed as a cost to be minimized.”

Related benefits amount to 129 percent of net income and 30 percent of payroll for those studied. Of course, not all absence can be avoided or managed, notably normal pregnancy. Still, the IBI study found that employers leave the equivalent of 85 percent of net income on the table in excess benefits costs compared to companies with best-in-group performance. Clearly, there’s a business case for managing health and productivity.

# ing Habits

## INTEGRATION

In another IBI study, a broad range of employee members were surveyed on their integrated disability management. Integration serves varied goals and cost savings were found to range from approximately 40 to 50 percent when programs went from unmanaged to integrated. Case studies show that employers managed to hold the line against cost increases that may have otherwise occurred. Improvement in employee satisfaction was another key result.

Bryon Bass, product manager for disability management and total absence management for SHPS, an integrated health management provider headquartered in Louisville, KY, agrees that integration with disease management programs is an emerging trend.

"There is a subset of employees who utilize disability benefits that can benefit from disease management programs," Bass says. "An analysis of disability data might indicate that 'back' problems account for a large majority of claims. Many back conditions are chronic and could be considered for disease management intervention."

Molman maintains that whether an injury occurs on the weekend during a touch football game or picking up a box at work, energy is better spent treating the worker versus unearthing the cause of the malady. Having a single intake for a claim regardless of cause is a common feature of 65 percent of the successful programs studied, although it does pose data challenges.

In the study, employers cited three integrated practices as most important to meeting their goals:

- A common return-to-work program for occupational and off-the-job injuries;
- Integrated case management to treat injuries the same regardless of cause; and
- A common intake system for all disabilities and absence.

Survey results show that employers don't have to eliminate internal silos to integrate, although some practices are easier and more successful in a consolidated environment. Nevertheless, return to work should be paramount in designing new systems.

"Ninety five percent of workers want to go back to work," Molman states. "The idea is to keep your employee whole and healthy. This is one of those wonderful areas where it's a win-win for everyone involved."

The traditional way these claims have been administered can be very confusing for all

parties. And smaller employers are impacted more severely than larger employees when it comes to absenteeism since they often can't afford the expense of temporary workers. That's why Molman advocates a single-intake claim system that integrates claim management or return to work and case management.

"If there is a common policy and common management that can chat about who pays, behind the scene, that's a benefit to both workers and the company," he says. "Having a nurse talking to the supervisor to provide the right treatment in a timely fashion is paramount. Why wait two weeks for an MRI? Why not tailor a transitional job to a worker's physical incapacity at full pay?"

"This avoids the 'soaps-and-suds' syndrome, where the employee is home, drinking beer and watching soap operas. We are pushing for productivity, getting workers back on the job, keeping teams together. In California, there's been an 80-percent reduction in litigation in these types of cases."

## THREE Cs

According to Wausau Benefits Product Director Jay Coldwell, the correct combination of the three elements of consumer-driven health plans—coverage, cash, and care—will determine whatever cost savings will be realized.

"Coverage has to involve employees significantly in the financial consequences of medical care without posing undue economic burden. This involves being creative with providing good preventive care and making the right choices for employee contributions," Coldwell explains.

"Cash refers to the appropriate health care account, being HRA or HSA, and funding those accounts at a level that again exposes the employee to the cost of health care without making health care unaffordable.

"Care refers to providing the employee with access to disease managers and health care coaches who help employees avoid health care risks and manage any chronic conditions. This helps control long-term cost increases."

## Changes in employee cost sharing planned for 2005

### Percent of large employers

Will increase employee contributions as a % of premium	38%
Will raise deductibles, copays/coinsurance, or out-of-pocket maximums	36%

## Actions taken to reduce costs in 2004

### Percent of large employers

Tightened eligibility requirements	8%
Eliminated coverage for specific treatments or pharmaceuticals	8%
Changed a carrier or HMO	15%
Dropped a carrier or HMO (reduced number of plans offered)	9%

## PPO design changes

Raised in-network deductible	23%
Raised out-of-network deductible	21%
Raised in-network physician cost-sharing	21%
Raised out-of-network physician cost sharing	10%

## HMO design changes

Raised physician copay	19%
Raised emergency room copay	16%

Source: Mercer Human Resource Consulting 2004 National Survey of Employer-Sponsored Health Plans

Coldwell says he has seen promising results to back up this three-tiered program and claims that employers who already have significant deductibles (approximately \$500), as their most popular plan, "are finding it fairly easy to move most of their employees into qualified high deductible health plans (HDHP) with health savings accounts.

"These employers may subsidize the HDHP employee contribution, but are usually not contributing to the HSA," he says. "Employers are considering matching employee contributions to HSAs as a way to make the HDHP more affordable to most employees."

## PLAN DESIGN

Additional concerns for employers are vendor consolidation, integration with health management programs, (i.e. disease management, employee assistance programs, wellness and prevention programs) and integration with absence programs (i.e. FMLA administration).

“From plan design to return-to-work strategies to integration with complementary programs, employers are beginning to realize the importance of disability insurance and its role in health and productivity management,” Bass says. “Developing an effective solution is highly dependant upon a company’s culture and overall benefits objectives. In this regard a magical pill does not exist.”

Bass says that effective disability management programs focus on interventions that positively affect absence duration, frequency/incidence, cost, and employee satisfaction. The building blocks in establishing a great program include plan design, vendor selection, and internal practices. He notes that employers who neglect to focus on these three components generally experience results that are well below industry standards.

were crucial or somewhat important to their health and productivity losses. “It speaks to an openness to understanding prescription drugs have a great effect on disease prevention and wellness.”

The recently released *2004 National Survey of Employer-Sponsored Health Plans* by Mercer Human Resource Consulting found that prescription drug benefit costs peaked for employers of at least 500 people at 18.3 percent in 2000 and has been declining to a predicted 13.3 percent this year. However, the study said it may be due to a significant increase in the use of a three-tiered co-payment design; in which employees pay increasing amounts for generic drugs, brand-name drugs named on the company’s health plan, and brand-name drugs not specifically listed on the plan. The Mercer survey said 64 percent of large-scale employers’

## LEADING TRENDS

According to Michael Thompson, principal with PricewaterhouseCoopers Human Resource Services, after looking at strategies being deployed by leading employers, “it is clear that health care is entering its next generation—one with renewed focus on both the individual and the impact of health on business performance. Leadership and execution will be the keys to deliver on the promise of enhanced health, improved quality and reduced trend in health care costs.”

Thompson identifies several trends in health and productivity management:

- Focus on population health from the employer perspective. Do we understand the opportunity and leverage the employment relationship to improve health?
- Emphasize primary prevention and

wellness. How do we deal with root cause health behaviors at the front end to mitigate health care costs and lost productivity?

- Create a leadership and healthy culture environment. Leverage the lessons we learned about safety and quality on the role of leadership and culture in execution and sustainability.
- Link health care to a human capital strategy. We broaden the perspective from simply ‘showing up’ to how effective people are while they are at work and how we can attract and retain people by being a great place to work.
- Ensure top-down communications alignment. Create a greater connection between messages about health and the business. We help employees step into the conversation of the CEO.

- Integrate across the health care continuum. Link and leverage programs from wellness, prevention, disease management, absence management, etc.
- Utilize internal resources to enhance ROI. Tie together local management, HR and occupation health resources to assist in execution.
- Disciplined execution. Employ fact-based prioritization and data-driven process excellence.
- Enhance health literacy. Deal with root cause issues related to how to engage the system and personal health.
- Connect mind/body/spirit. Understand and act upon the relationship between mind, body and spirit. Renew focus on stress drivers as key impactors on health and productivity.

— Suzanne Wright

“Plan design in itself plays a significant role in overall absence,” Bass says. “Some plan designs incent absence by paying employees 100 percent of their salary while disabled. Others do not impose an elimination period. Crafting a plan design that balances company culture and allows for effective management of absence is an art in its own right.”

Bass says the use of vendors to assist in management of absence and disability is of vital importance. “There are many vendors available and the quality varies widely. The best vendors act in a consultative manner, providing employers with the tools needed to evaluate their programs and make the necessary changes.”

Echoing IBI’s research results, Bass has found that “well-articulated processes and procedures for both employees and their supervisors in how absences are reported (to whom, how, when) will eliminate much of the confusion early in the lifecycle of a claim.

“This is important,” he insists, “because this early time sets the tone for how the claim will proceed. Treatment of employees—and how they perceive treatment—by their employer is known to have a great impact on absence and disability measures of duration, frequency, cost and, not surprisingly, employee satisfaction.”

## PRESCRIPTION DRUGS

Managing pharmacy benefits also is important to the bottom line of health and productivity issues. In fact, Molman says that when IBI surveyed CFOs about prescription drug costs, 81 percent said they

prescription drug retail card plans used this type of cost sharing last year and more are expected in the future.

Still, some employers, such as Pitney Bowes, have found that employees have a low compliance in general—and specifically when co-pays are high, usage is further reduced—so they have instituted a plan that allows for a flat co-pay rate for both brand-name and generic drugs, a move Molman applauds.

## SMART MONEY

“The smart money is saying if you view medical expenses as a cost to manage, you can’t cut costs enough,” Molman says. “You have to invest in your workforce. Employees are better guardians of their own health when it’s preventative in nature. It’s a whole different mindset.”

That sentiment is backed up by the Mercer study, which found national employee enrollment in traditional indemnity plans was still at 29 percent 10 years ago, but had dwindled to just four percent last year (see chart page 50). Meanwhile, CDHP enrollment showed up on the survey for the first time in 2004 with just one percent of employees covered, but that number also is expected to increase.

“It’s been more of a quiet evolution, rather than revolution,” Molman concludes. ❧

Suzanne Wright is a frequent contributor to Benefits & Compensation Solutions.