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Health Costs: Steeper Still

Workers will carry a greater share of soaring premiums in 2010, but employers are taking a hit, too

By Catherine Arnst

U.S. businesses struggling to cover their employees' medical needs can expect no relief next year. The cost of insuring employees will rise by 7%, greater even than the 6% increase in 2009, according to a just released survey by management consultant Towers Perrin. That will bring average spending per employee to $10,212, the first time it has hit five digits.

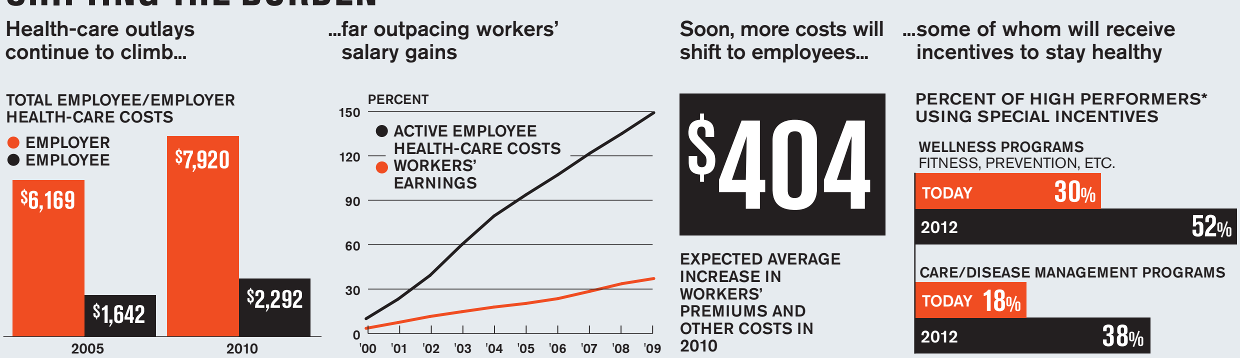
Workers will have it even worse than their employers, due to a combination of premium increases, higher co-pays, and other changes to plans. The new survey of 279 large corporations found that the employee share of health premiums will rise 10% on average, to $2,292, after an 8% increase in 2009. On top of that, employees will have to absorb an additional $200 increase in co-pays and other costs. "Employees are going to feel the impact more keenly at a time when wages are flat or declining," says David Guilmette, a Towers Perrin managing director.

Employers' health-care costs have risen 149% since 2000, which is one reason wages have grown only 37% over the same period. Some two-thirds of insured Americans, 175 million people in total, are covered by private employers. Which explains why so many companies broadly support the health-care reform efforts in Washington.

If Congress fails to act, a bad situation could get much worse, many studies predict. In August the nonprofit Commonwealth Fund estimated that the total premiums for employer-based health insurance will rise 94% by 2020 if current trends continue, to an average of $23,842 per family. Last month the Business Roundtable warned that without reform total health-care costs borne by corporate America will soar 166% over the next 10 years, to nearly $29,000 per employee.

In a Mercer management survey, also released in September, 40% of employers said they would raise employee premium contributions next year, while 39% said they would bump up deductibles and co-pays. Even these increases probably won't be sufficient to avoid collateral damage to benefits. "We know that take-home pay and retirement savings are being sacrificed to maintain health benefits," says Commonwealth Senior Vice-President Cathy Schoen.

SHIFTING THE BURDEN



Data: Towers Perrin 2010 Health Care Cost Survey of 279 companies

*As identified by Towers Perrin

KEITH NEGLEY

In a separate Towers Perrin survey last summer, 90% of the companies polled said cost containment is their most important health reform goal. Most said they would not absorb additional costs that might result from a reform bill. But companies show no desire to drop health benefits, currently offered by 99% of companies with 200 or more workers. "This is far more than just a medical spend," says Dr. Pamela Hymel, senior corporate medical director at Cisco Systems. "It's about enabling people to stay healthy and be productive."

INVESTING IN WELLNESS

Instead of cutting coverage, some corporations are eyeing ways to intervene in their employees' medical or lifestyle choices to hold down costs. Wellness programs are already common. More businesses are also offering programs to manage chronic diseases, running discount pharmacies and providing free blood screening to assess health risks. Towers Perrin found that the companies it identified as most effective at managing their workers' health needs shaved as much as $1,800 per employee off their health-care costs.

American Financial Group, a Cincinnati insurer with 5,500 employees, has been able to keep cost increases at 2 1/2% each of the past five years, says Scott H. Beeken, assistant vice-president for benefits planning strategy. This year, though, the increase will be higher, due to the rising incidence of chronic diseases such as obesity, diabetes, and asthma. "Chronic illnesses are really where the costs are concentrated. It's a challenge for the whole system," Beeken says.

He notes that outlays have been cut by as much as 20% for employees enrolled in the company's disease-management programs—but only half of those eligible are participating. "The rest don't even return a phone call," says Beeken. "We are really struggling with how to get people engaged."

Cisco thinks the answer to getting people engaged is convenience. A year ago it opened an on-site health clinic in its San Jose office for its 17,000 employees and their dependents in that area. The goal is to make it easier for employees to manage all their health needs in one place. Cisco expects to see savings in two to three years.

The companies in the Towers Perrin survey with the best handle on health care costs say they plan to expand these efforts over the next three years. Among this group, 52% will offer wellness programs in 2012, up from 30% now; 38% will offer disease-management programs, a 20-point jump; and 43% will start disease screening, compared with 24% now. | BW |