DOES LOOKING AT YOUR HEALTH CARE COSTS MAKE YOU UNCOMFORTABLE? JOIN THE CLUB

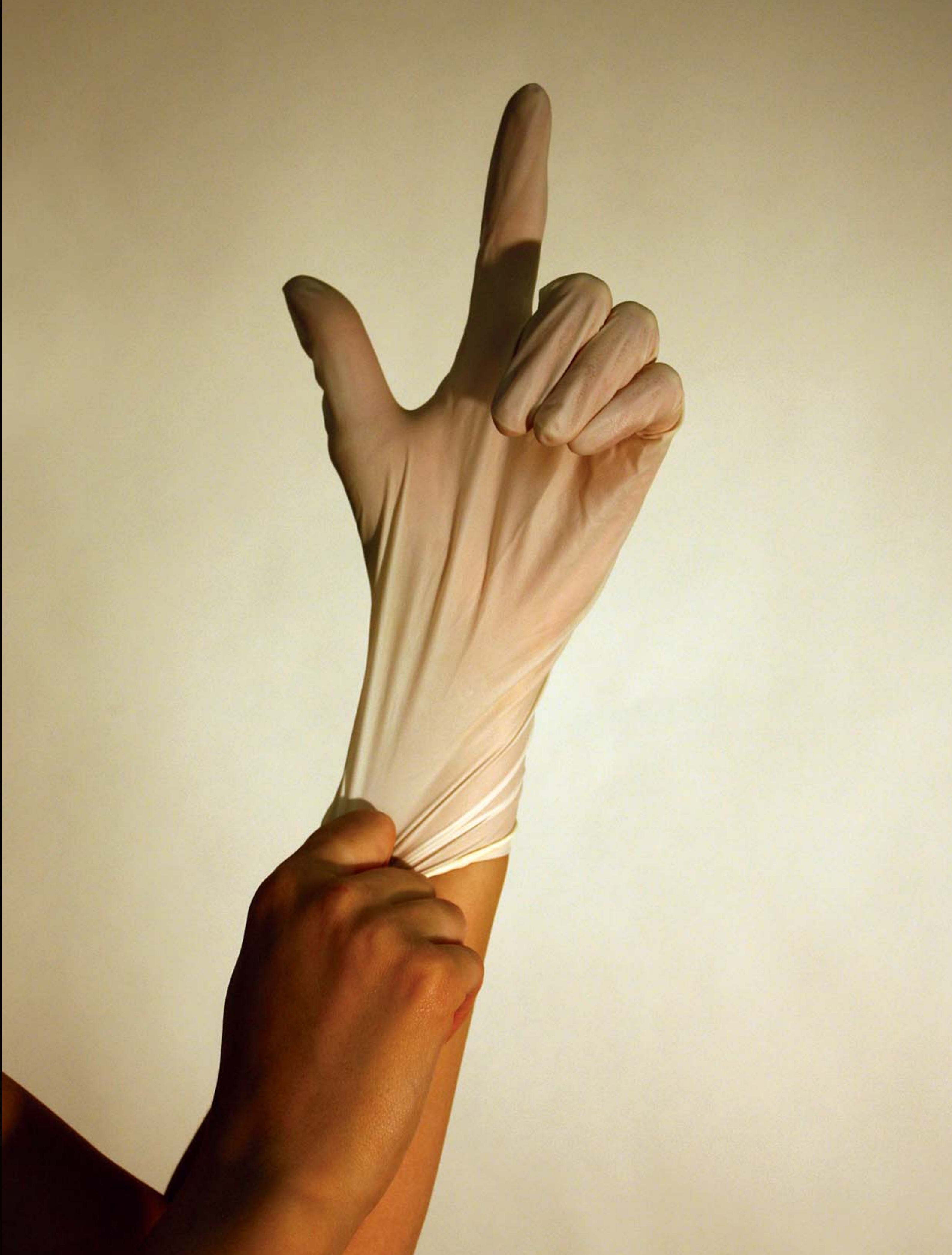
By Greg Billings

How often do you get good news from your health insurance agent? A few months ago, ours happily announced our premiums would only go up 2.1 percent this year. The top of the renewal form featured a highlight: Health costs in our county had gone up 9.2 percent. Demographic changes in our group reduced our exposure by 7.1 percent.

Before you ask for his e-mail address, you'll want to hear the rest of the story.

The renewal document included a little footnote indicating our current program had been discontinued. The new product featured higher copays and dramatically higher deductibles. The renewal didn't disclose that a comparable policy would actually be 42-percent more expensive. This followed a 28-percent bump the year before. Parsing the numbers revealed that the insurance company was using a not-too-clever ruse to disguise a huge reduction in coverage.

The premium increase — and isn't it interesting they call the fee a "premium" — doesn't appear to be a direct consequence of increased cost of care. The Bureau of Labor Statistics, in fact, pegged medical inflation at just 3.2 percent last year.



Insurance companies operate on the same mathematical basis as Las Vegas casinos. With state regulators' help, they set rates, and the odds always favor the house. Health insurers collect money from patients and pay it to providers, the same way casinos collect money from losers and pay it to winners. By government mandate, health insurers get to keep a few points as profit. Their profit is essentially guaranteed, so they have no incentive to reduce costs (or bets) because, in the long run, the bigger the bill, the higher their profits. Other ways for them to profit include denying coverage and increasing the portion customers pay through deductibles and copays.

Providing health care remains a pervasive problem for most employers, and it's not just about the money. Music retailers I spoke with are sincerely interested in taking care of their employees and accept that health care is a reasonable component of compensation.

Menzie Pittman, founder of Contemporary Music Center, which has two locations in the Virginia suburbs of Washington, D.C., also saw health insurance costs jump last year.

"When the price of something goes up 34 percent, you expect an improvement in quality, but there was no change," he said. "I had to come down a tier in quality [of coverage] and increase the deductible and copay to keep the coverage affordable."

And as bad as it's been for business owners, it's been far worse for our employees and their families. Many employers have stopped paying the family portion, begun charging employees for a share of the expense or done both. Some have terminated coverage altogether. Copays and deductibles have risen dramatically, increasing employees' out-of-pocket health expenses.

The burden of health and workers' comp insurance is causing some music stores to adopt a new business model. Ellen McDonald has structured Hartland Music Center in Hartland, Wis., as a confederation of independent contractors. Complying with all the state and federal tests and requirements hasn't been easy, but McDonald said, "If you can find good people to work as independent contractors or part-time, there are many advantages. And not having to deal with health insurance is just one of them. To pay insurance for everyone is insane. You can't afford to do it."

A NECESSITY WE CAN'T AFFORD

It used to be easy. We bought coverage for everyone. There was one rate for singles and another for families. If we weren't big enough to form a group, we could get insurance through the chamber of commerce or other industry or civic organizations. It was a significant expense but not overwhelming, and coverage was excellent. Times have changed. First, families got rated by size, then employees got rated by age and gender — at least in Florida. Ironically, it's illegal to discriminate based on gender or age in every other area of employment, but somehow, the insurers got a free pass and created a huge disincentive to hiring young women or people over 50 — and a bigger disincentive to hiring full-time employees at all.

Over time, health insurance rates went up faster than any other cost of doing business. According to a study by the Kaiser Family Foundation, between 2001 and 2007, while wages rose 19 percent and inflation went up 17 percent, premiums for family health coverage nationwide increased 78 percent. Rates have gone up even more since 2007, far outpacing increases in medical costs. In 2009, we were able to reduce almost every expense, but health insurance costs still went up nearly a third, even though we reduced coverage and instituted a health savings account (HSA).

The problem we face providing care for our employees isn't only economic. It's structural. An employer-based health care system is fatally flawed and ultimately unsustainable. Employer-provided health insurance ties people, especially sick people, to their jobs, restricting mobility and inhibiting economic and personal growth. An employer who fires a nonperforming worker, who happens to have health issues, can be perceived as cruel, and COBRA forces an ongoing relationship with former employees. There are incentives for gender and age discrimination (mentioned earlier), and finally, the system gives a huge advantage to big employers who can afford human resources professionals to study, monitor and handle health care issues.

THE LITTLE GUY LOSES

There's a revealing chapter in bicyclist Lance Armstrong's book, *It's Not About The Bike*. He describes how Mike Parnell, CEO of his sponsor Oakley, went to bat for him with a health insurance carrier that wanted to deny coverage for his pre-existing condition, cancer. Unfortunately, few of us have the clout of a CEO willing to fire his insurer or the celebrity of Armstrong when dealing with health insurance companies. Advantage: big guys!

Most of us understand the upfront issues — deductibles, copays, lifetime caps and so on. Fewer really understand what would happen if one of our employees or someone in his or her family got really sick. Given the demands of running a business, there's limited time to examine health insurance programs, which change every year. Big companies, government entities and unions have human resources departments and the means to self-insure or hire experts who can analyze policies and negotiate with insurance carriers from a position of strength.

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Small businesses are at a permanent disadvantage.

The U.S. health insurance industry is an oligopoly, with most policies underwritten by a handful of dominant players. Most parts of the country are served by only a few of them.

"We went across the board and checked comparable plans, but the only way we could cut costs was to reduce the coverage to nothing," Pittman said. "There are really only three companies, and they are in lockstep with each other. It's an area where the consumer is held hostage. I am trying to offer my employees an acceptable level of insurance, but this year, their deductible doubled. Everybody understood that it was a function of the economy, and I could only afford to keep covering them if we made this sacrifice."

A 2002 report from the Government Accountability Office echoed Pittman's remarks, finding that the five largest carriers, when combined, represented three-quarters or more of the market in 19 states and represented more than 90 percent in seven of these states. As you might expect, the big five don't compete on price. Today, Blue Cross Blue Shield, in all its incarnations, may have 40-percent market share nationally and nearly 90 percent in some states. Would buying insurance from exchanges or across state lines really reduce costs when the sellers are the same?

IS THIS HEAVEN? NO, IT'S IOWA

While bigger — as long as you're really big — is still better, the main factor of affordable health care now seems to be location. Martha Meyer, manager of benefits and payroll at West Music in Coralville, Iowa, has 140 associates in her company's plan. She reported that West's premiums increased 5 percent this year and would've been 12 percent without changes in the deductible. Over the last few years, its health insurance increases have been running only 10–12 percent. What's up in Iowa?

The Hawkeye State has some of the best health care in the nation, ranking third in the Gallup-Healthways Well-Being Index and barely edged out by sparsely populated North Dakota and Hawaii, which is notorious for its longstanding state-run heath insurance program. Iowa also finished second in access to health resources. It has a strong state department of health and vigorous insurance regulation. (Insurance companies in Iowa can't rate for age or gender.) Iowa also has a state-run shared-risk pool for catastrophic illness, which significantly reduces the exposure of the insurance carriers. Our home state, Florida, rates near the bottom in these indexes and has no shared-risk pool. Could it be that states with vigorous health programs and aggressive insurance regulation are a better insurance risk?

Being a big employer doesn't seem to help much in Indiana, which also fares poorly on the Gallup-Healthways Well-Being Index. Sweetwater of Fort Wayne has 385 employees and serves as the poster child of employee benefits in the music retail industry. Along with a 401(k) plan, cafeteria, fitness center and game rooms, its associates have a menu of health insurance options, including a wellness-incentive program. Employees who enroll in a high-deductible policy with a company-funded HSA account and achieve goals related to body fat, smoking, blood pressure and cholesterol can reduce their health insurance payroll deduction to less than half the cost of co-workers who choose to not participate in the program and select conventional coverage.

"We have really pushed hard to educate our employees about wellness, and it has made a difference for us," said John Hopkins, vice president of operations. Still, Sweetwater experienced a 15-percent rise in health insurance expenses last year, and its rates have jumped as much as 30 percent in a single year.

SQUEEZING OUT SMALL BUSINESS

For nearly all music stores, and even most suppliers, employee benefit programs, such as those at Sweetwater, are impossible. Sweetwater has two human resource directors who devote 25 percent of their time to health insurance issues. West Music's Meyer said she has been spending 20 percent of her time on health insurance and expects it to consume as much as half her time eventually. Those of us with small stores, whose duties include everything from serving customers to emptying waste baskets, don't have enough time to become health insurance experts.

After presenting our new health coverage, one employee took matters into his own hands. Within a half-hour, he had a quote for a better policy through the same insurer, via AARP, at a cost less than his share of our plan. When I told my agent that my employee could buy insurance from the same provider cheaper as an individual, he wasn't surprised.

He explained, off the record, that insurance companies are pricing small groups out of the market because of exposure to pre-existing conditions. If a small business hired an employee whose spouse had cancer, there would be no way the insurer could permanently exclude them. Individual policies are based on underwriting decisions about who to accept and what conditions to exclude. That employee qualified for an individual policy this year, but there's no guarantee it will be renewed.

With no financial benefit to having a group, we decided to offer our employees a raise sufficient to cover the costs of their individual policies. Similar to the transition from employer-funded pensions to 401(k) programs, employees are now responsible for managing their own health care policies and benefit from the cost savings. But if they get really sick, their insurance carrier can raise their rates — or just drop them.

Like the rest of the country, I watched last year's health care debate from the sidelines. I'm not very political, so I never bought into the scare tactics from the right or the rosy scenarios of the left. My wife, a lifelong nurse, assured me there wouldn't be death panels and that there are thousands of practical things that can be done to reduce health costs. I tried to tell my ideological friends this was a very serious problem for small business and more than a red/blue, right/left theoretical argument. My real-life concerns fell on deaf ears.

Unfortunately, no one I spoke with thought the Patient Protection and Affordable Care Act, known to many as the health care bill, is going to completely fix these problems. Meyer, who has studied the subject and attended several seminars about it, said that, while the bill was signed into law last March, the Department of Health and Human Services is still writing the regulations, so no one knows how it will evolve. Requiring coverage of pre-existing conditions and college students appears to be a step in the right direction, and enrolling young, healthy people

BETWEEN A ROCK & A HARD PLACE

While writing this article, I had a kidney stone too big to pass through my system. Untreated, I would have lost a kidney and might have died from an infection. Along with excruciating pain, a few thousand dollars in out-of-pocket costs and missed work, I had nearly $50,000 in medical bills.

That's right: $50,000 for a kidney stone, and I have a full-time nurse, my wife, who made sure I didn't have unnecessary procedures. Of course, that was the list price, and there are lower numbers for the insurer and even lower costs for Medicare or Medicaid. There are reasons why a kidney stone costs $50,000, and physician ownership of service providers and the referral system is part of it. But that's a story for another day, and my wife, Sara, will have to write it. *— G.B.*

into the pool of insured is essential to the basic economics of insurance, but the small-business subsidy will be useless for most of us. Companies the size of West Music will be too big, and companies like Pittman's won't qualify.

NO PLACE FOR IDEOLOGIES

I'm no expert on health insurance or heath care — I'm barely an expert at running a small music store. What I know about the subject I've learned trying to provide health care for my employees over the last 35 years. But a few things are clear. The increased cost of health insurance doesn't appear to be solely a consequence of an increase in the cost of care. There appears to be a strategy to squeeze out undesirable (i.e. sick or potentially sick) clients. And the health insurance industry seems to be trying to break the backs of small business health insurance groups. I don't know if this is part of a grand strategy to transform their business model so they're insuring mostly healthy individuals, with a generous subsidy from the government, and leaving sick people for someone else, but it sure looks that way. And a subsidy for individual insurance policies is a major part of the new law.

"I like to be positive and think that it's going to get better, but I believe it probably will get [more expensive]," Hopkins said. "Companies that weren't doing things right may be better off or may be forced to do some things right. But companies that were already doing things right are going to get hit negatively."

The new law also hasn't addressed the structural deficiency of an employer-based health care system or insurance carriers' anti-competitive nature. Numerous studies have concluded that Americans pay much more for health care and receive fewer benefits than other economically developed nations. And everyone knows, notwithstanding the steps taken last summer, the government is going to have to revisit health care, and it's going to have to do so sooner rather than later.

As small-business people, we are going to have to put ideology aside and confront this problem in a realistic, pragmatic way. Maybe the immediate problem will be solved for us by insurers. The burden of providing health care for our employees, at least for those of us who are small, may soon be so overwhelming that we can no longer offer conventional group coverage. But our employees and their families are still going to get sick and occasionally suffer catastrophic illness. They're going to have to be taken care of one way or another because our businesses can't survive without them.

We're going to have to get past the debate on whether we're going to pay these costs through taxes or through tribute to oligopolies and figure out the most efficient, effective way to do it. The current system is neither efficient nor effective, and the one we appear to be facing looks downright brutal. **MI**