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Businesses can take heart that insurance premium increases will be less than in years past

Kansas City Business Journal - by Ellen Jensen Contributing Writer

Area businesses are bracing for another increase in health insurance premiums as budget season approaches.

The average increase will be in the neighborhood of 11 percent to 13 percent, according to several local insurance brokers.

"When health care costs are increasing, insurance companies are always going to project conservatively when they set their rates," said Ron Dutton, CEO of **RJ Dutton Inc.**, who expects increases to fall in the lower end of the range.

A June study by **PricewaterhouseCoopers**' **Health Research Institute** predicted that medical costs will rise 9.6 percent in 2009, down from 9.9 percent in 2008.

"I think things are more favorable than they've been in terms of we're getting down to a single-digit inflationary trend," Dutton said. "It's a frightening thing to say that that's a favorable thing, but we've had double-digit inflation since the 1990s."

Several factors drive the annual rate increases. Besides the general rate of inflation, which is 3 percent to 4 percent, demographics play a role as baby boomers age and seek more medical care, said Glenn Jennewein, a consultant with **CBIZ Benefits & Insurance Services Inc.**

However, not only are more people seeking medical care, but the average number of procedures per person has increased as well. Fear of malpractice lawsuits has doctors ordering more tests than they might otherwise, and patients request additional tests if a definitive diagnosis wasn't made the first time, said Mike Bukaty, president of **Bukaty Cos.**

Another factor is that the covered population is not well, said Rick Kahle, president of **Lockton Cos. LLC-Kansas City Employee Benefits**.

People are filling up hospital emergency rooms and inpatient facilities, and they have a broad range of health problems. As a whole, the U.S. population doesn't take good care of its health, depending on medicine or medical intervention to fix problems caused, in many cases, by lifestyle choices.

The **American Medical Association** recently said that at least 25 cents of every health care dollar is spent treating diseases or disabilities that result from potentially changeable behaviors, such as smoking, poor diet, overexposure to the sun and lack of exercise.

State and federal mandates also contribute to health care premiums, said Dennis Kadel, vice president of the **Robert E. Miller Insurance Agency**'s benefits division.

The number of state mandates has increased 25-fold since the 1960s, and more than 1,800 mandates throughout the country require insurers to cover — or offer coverage for — specific benefits and services, allow access to certain providers or extend benefits to specific populations, **Aetna** CEO Ron Williams said in the March 2006 Pennsylvania Health Underwriter.

"It's all good that certain procedures must be covered by health insurance companies, but in the end, these costs are shared by everyone," Kadel said.

Providers also are getting more money for the same services each year. When hospitals negotiate with insurance carriers, they have received about a 7 percent increase on average for the past couple of years, Kahle said.

A number of reasons drive the types of increases hospitals are getting.

Previously, hospitals had been willing to give price concessions for volume and exclusivity, but the trend has moved toward open networks, so carriers are negotiating multiple contracts to form a broader network.

Also, the percentage of underinsured and uninsured has been rising. After climbing steadily for six years, the number of Americans without health insurance dropped by more than a million in 2007, to 45.7 million, the **Census Bureau** reported recently. Officials said the drop was the result of growth in government-sponsored health insurance programs, most of them focused on children. The number of people covered by private insurance continued to decline. The report doesn't take into account the economic downturn that began late last year.

At the same time, hospitals compete to offer the latest and greatest technology and facilities. The PricewaterhouseCoopers' report pointed out that spending on hospital construction rose nearly 20 percent in 2006 and 2007. Those outlays, often financed through a number of years, probably will affect hospital costs beyond 2009.

Doctors and other health care professionals want their compensation increases as well, CBIZ's Jennewein said, and there is a high demand for nurses right now, so staffing high-quality nurses is expensive.

To cope with increased health insurance premiums, companies traditionally have shopped around for lower-priced plans through different carriers, shifted more of the burden to employees, decreased benefits or dropped insurance altogether. To try to meet these needs, carriers now offer a wider array of products with various designs so companies can chose where they would like to be, said Carolyn Watley, president of CBIZ Benefits & Insurance Services.

More companies offer consumer-driven, large-deductible health plans along with Health Savings Accounts to cut down on their premium increases. They might not be right for everyone, but they tend to influence consumer behavior, Kadel said.

However, an unintended side effect of higher-deductible health plans is that hospitals are forced to write off even more debt because a substantial percentage of individuals with high-deductible plans cannot meet their out-of-pocket obligations when they get into a hospital setting, Kahle said. On average, hospitals are collecting about 50 percent of those fees, and those in rural areas may be able to collect just 15 percent.

“The hospitals are grappling with this issue,” he said. “They try to get as much as they can upfront with some form of guaranteed payment, like a credit card.”

Changing plan design is just a short-term fix that works only until the following year’s increases, and these solutions often result in more indigent care, underinsured and uninsured, which perpetuates the cycle, Kahle said. When fewer people can afford to pay for care, providers charge more for services, causing carriers to increase their rates even more to make up the difference.

“Some companies could go out of business because of this issue,” Kahle said. “The disconnect between how fast revenues are growing and the rate of health care cost increases cannot continue if organizations are to remain healthy and competitive in the global environment.”

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