

# As healthcare costs rise, what can employers do?

## Healthcare costs expected to rise in 2009, including High Deductible Health Plans

### What have we learned?

Consumerism is still relatively new to the market. The goal is to get consumers to become better shoppers of healthcare services. The success of consumerism depends on several factors, including:

- › Health benefits design, such as a High Deductible Health Plan (HDHP) combined with a Health Savings Account (HSA)
- › Cost transparency
- › Provider selection
- › Consumer buying behavior

As we learn more about utilization patterns for these plan types, we see consumers continuing to use healthcare at an increasing pace, despite the fact that their out-of-pocket costs have increased. We've found that when employers contribute more than 50 percent of the deductible to an employee's HSA, utilization is higher than when contributions are less than 50 percent.<sup>1</sup> We've also learned that utilization spikes after the deductible is met.

As a result, the industry is experiencing higher than expected utilization, especially when the member is enrolled in a 100 percent or HDHP plan.

### What factors contribute to increasing healthcare costs?

In 2007, healthcare spending reached \$2.3 trillion, and is projected to reach \$4.2 trillion by 2016. Contributing factors include:

- › New technology accounts for more than half the rise in total healthcare spending in the past three years<sup>2</sup>
- › Rising cost of care – physician service costs are projected to increase 19 percent between 2002 and 2010; hospital care spending is projected to increase by 21 percent<sup>3</sup>
- › Obesity rates have doubled in the past 30 years – the cost to the economy in lost working days and extra healthcare costs is \$45 billion annually<sup>4</sup>
- › Prescription drug costs are increasing at a rate faster than inflation and are among the fastest growing in healthcare<sup>5</sup>
- › More than 75 percent of employers' healthcare costs and productivity losses are related to employee lifestyle choices<sup>6</sup>

1 2008 Humana study

2 U.S. Department of Health and Human Services

3 The Centers for Medicaid and Medicare Services

4 *Weights and Measures: What Employers Should Know about Obesity*, Research Report 1419, The Conference Board

5 *Prescription Drugs: Trends in Usual and Customary Prices for Drugs Frequently Used by Medicare and Non-Medicare Health Insurance Enrollees*, U.S. Government Accountability Office, Sept. 2007

6 Centers for Disease Control and Prevention

## What do the experts say?

The nation's total healthcare expenditures could be \$145 billion lower than currently projected by the year 2015<sup>7</sup> if changes occur, such as:

- › Healthcare focuses on keeping people healthy, detecting disease at the earliest possible stage, and rewarding chronic care management
- › Patients and their doctors have the information and tools they need to evaluate treatment options and make healthcare decisions based on safety, quality, and cost
- › Patients and doctors have an efficient, interconnected healthcare delivery system that reduces medical errors
- › Health insurance plans move toward a system that more closely aligns payment with quality of care

## What is Humana's response?

Consumer-driven health plans can work only if employers and members become engaged consumers. Humana offers resources to help members control healthcare costs and make healthier, informed choices:

- › **Personal health coach** to help employees quit smoking, manage weight and nutrition, and lower stress
- › **Humana Health Assessment** that provides a confidential report with a health score and personalized tips to enhance and maintain a healthy lifestyle
- › **Employee Assistance Program (EAP) and wellness programs** to help employees get and stay healthy and productive
- › **MyChoice Tools<sup>SM</sup>** to compare hospitals and doctors, and estimate costs for common procedures
- › **SmartSummary<sup>SM</sup>**, a quarterly statement to help keep track of healthcare spending
- › **HumanaFirst<sup>®</sup> Nurse Advice Line** to help answer routine medical questions and access our health programs
- › **Humana Health Plan Guide and Plan Compass**, detailed reports that show employers how employees used their benefits

## What can employers do?

Change takes time. Employers should continue to promote a healthier workplace. Ongoing research shows employers who invest in the health of their employees see a return on their investments through lower healthcare costs, decreased use of healthcare, lower absenteeism, and increased productivity.

Employers also should encourage employees to become more engaged in their healthcare decisions, and consider alternate contribution strategies specifically in the areas of:

- › Coinsurance percentages
- › Deductible amounts
- › Health Savings Account contributions

## How is the insurance premium dollar spent?

Of every premium dollar, 86 cents goes directly toward paying for medical services such as hospital care, physician care, medical devices, and prescription drugs. Here is the breakdown:

### Healthcare claims:

- 35¢** Hospitals (inpatient costs of hospitals, outpatient costs of hospitals, and free-standing clinics)
- 21¢** Physicians
- 15¢** Drugs
- 10¢** Cost of medical liability and defensive medicine
- 5¢** Other medical services

### Provider costs/profits:

- 6¢** Government payments, compliance, claims processing, and administration
- 5¢** Consumer services,\* provider services, education (prevention, disease management, health information technology, and health education)
- 3¢** Insurance carrier profit\*\*



Understanding the relationship between health insurance premiums and the cost of health benefits is essential to explaining cost increases.

Based on a Pricewaterhouse Coopers' analysis, Factors Fueling Rising Healthcare Costs 2006  
© 2006 America's Health Insurance Plans

\* Includes prevention, disease management, care coordination, investments in health information technologies, and health support.

\*\* Profits may range from 3-5 cents depending on carrier.