Taking control

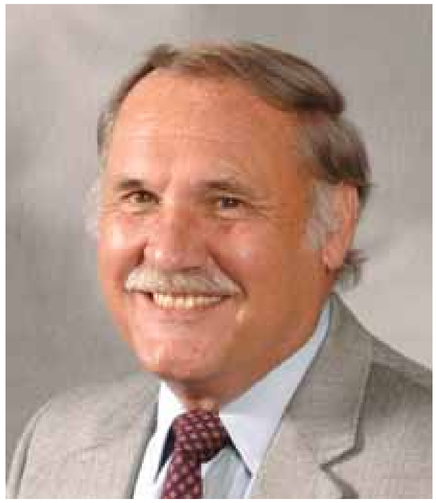
Managing health care costs through system knowledge and support **Interviewed by Leslie Stevens-Huffman**

Politicians argue about it, unions strike over it, and CEOs pick up most of the tab for it. The rising cost of providing health care coverage to employees poses challenges for CEOs, but many feel powerless when it comes to changing or influencing such a complex system.

Understanding how the health care system works will help CEOs initiate cost-saving measures within their own company, says George "Jody" Root, partner and head of the health care practice group at Procopio, Cory, Hargreaves & Savitch LLP. Root also says that CEOs can influence cost-control efforts outside of their own companies by supporting firms that offer health care coverage to the county's uninsured population. Support from CEOs is vital because the cost of health care for the uninsured is one of the external factors that exacerbates the rise in health care premiums for companies.

"Think of our health care system as a table with four legs," says Root. "Every time something happens to one of the legs, the others have to adjust. The opportunity for CEOs to achieve cost management lies in their understanding of how the four parts of the system impact one another."

Smart Business spoke with Root about how CEOs can manage internal and external health care cost drivers.



George "Jody" Root
Partner, head of health care practice group
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What are the factors that influence the cost of health care?

Our health care system has four separate parts:

- Two provider groups, which are the hospitals and the physicians
- The payors, which are usually insurance companies and the businesses that pay for the insurance
- The patients

These are the table legs, and they all must be level in order for the system to work properly. Frequently, something happens to one leg and the others strain under the excess weight.

In addition, there are two other factors that impact the cost of health care: One is the pervasive employee belief that health care is an entitlement, and the second factor is the cost of coverage for the uninsured population. A huge population group, almost 24 percent in certain geographic areas, has no coverage at all. When they seek treatment in an emergency room, the providers pass along those unreimbursed costs to the insurance payors in the form of higher fees, and subsequently, the insurance companies raise their premiums. This shifts more weight onto the company payors who have to pay those higher premiums for employee health coverage.

How can CEOs reduce their company's cost of providing health care to employees?

First of all, you need to understand what coverage is available outside of your company's health plan to make certain that every payor is doing their part. For example, in San Diego County, 25 to 26 percent of the population is Medicare-eligible. In California, there is no age ceiling for retirement, so it's important that employers coordinate their company's medical benefits with Medicare.

Also, some employees may qualify for Medicaid coverage for their children. Identify those employees and let them know that coverage is available for their children.

Last, encourage employees to use clinics instead of emergency rooms for nonemergency situations. Using lower cost clinics will reduce the company's costs, and it also keeps the table level by not throwing too much weight onto the provider leg.

How is insurance coverage impacted by the four parts of the system?

Companies can provide coverage to workers three different ways:

- Indemnity plans: These plans, such as PPOs, provide more traditional coverage. Employees like PPOs because they control when and how they use the benefits; providers also favor PPOs, but employers don't like the cost.
- HMOs: Employers like HMOs because they're less expensive, but the other legs of the table don't favor HMOs. New payment plans are coming that will compensate providers based upon the quality of the care they provide. This will motivate CEOs to purchase coverage based upon the quality of the plan's providers if they want to realize the cost savings afforded under this new payment philosophy.
- HSAs: These high-deductible plans are not always popular with employees because the plans don't measure up to their health care entitlement beliefs, but payors like them because they are less costly.

What actions can CEOs take to influence the other factors that drive health care costs?

Employee education is one of the best ways to help combat employee entitlement mindsets. Also, there's a new plan coming to San Diego called Healthy Kids, designed to provide coverage for the kids of working families who don't have coverage elsewhere. This will help reduce the indirect financial burden that gets placed on employers from treating uninsured children.

Also, CEOs should consider supporting two nonprofit groups in San Diego that were organized by employers to provide coverage for the uninsured population. San Diegans for Healthcare Coverage and the San Diego Business Healthcare Connection collect donations and grant money and use the funds to pay medical costs for the uninsured.

These are longer-term solutions designed to keep the weight of the table from shifting onto the business payors.

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