

Utah Business

OCTOBER 2000

THE MAGAZINE FOR DECISION MAKERS

MUSCLING FOR MEDICAL INSURANCE *Small Businesses Search for Affordable Medical Insurance*

By Suzanne Kimball

On the eve of starting my own public relations consulting service, I quizzed a fellow colleague who had been formerly self-employed about the challenges I would face. His answer was quick, "Taxes will kill you, and it will be hard to get medical insurance." Five years later, as I pay \$550 per quarter on a catastrophic policy, I now profoundly understand that for most small business and self-employed people across the state, finding affordable medical insurance is a huge headache.

It has certainly been a problem for Brent Perry, owner of ASI Appliance Service in Salt Lake. Perry has been in business for almost 20 years, but can't afford to offer his group of 12 employees any coverage. "The first 10 years of business, I didn't even have insurance for my own family," says Perry, who today pays \$1,300 per quarter for his family of five under an individual policy.

According to the National Federation of Independent Business, this year alone the cost of health insurance for small businesses is expected to jump 15 to 20 percent. That's on top of a 10 to 12 percent increase over the last three years. What's more, money spent on prescription drugs is now growing twice as fast as medical costs overall, compounding the dilemma.

Conditions that Contribute

America's Perception of Health Insurance

Sixty years ago, 90 percent of the U.S. population did not own a medical insurance policy. Naturally, the cost of medical services was much less expensive then, making it easier to pay for doctor visits and emergency treatments.

However, those who did have policies purchased them with the intent of avoiding total financial catastrophe in the event of a serious medical problem.

That all changed drastically in the early 1990s when Americans began taking advantage of HMOs, which offered co-payments as little as \$5 with no deductible. The emergence of managed-care plans over the last decade has greatly affected the way the nation perceives what health insurance should cover. "Today," says Brent Hillier, owner of Intermountain Benefit Administrators, "health insurance is seen more as an expected benefit than as a security against the risk of a total catastrophic event." This demand for insurance benefits raises costs, which in turn are hard for small businesses to absorb.

What's more, large employers competing to hire the best and brightest offer very rich health benefit packages, buffering employees in large groups from the real costs of health insurance. The National Center for Policy Analysis Report, developed by Fiscal Associates Inc. suggests, "People are not as price sensitive in the market for health-care as they are...for other goods...because some third party pays most of the cost of health services. When we are using someone else's money, we pay less attention to costs and thus spend more." The report also claims that "generous tax subsidies to [large] employers help 'pay' up to one-half of the cost of employer-provided health insurance...while individuals who purchase their own insurance must do so with after-tax dollars." Employees of small businesses and the self-employed tend to pay dollar-for-dollar for insurance where little or no employer and government subsidization exists.

Demand for Sophisticated Services

Advances in technology within the United States have made it possible for Americans to receive the highest level of medical care in the world. However, insurance rates that most people are willing to pay do not match the cost of that advancing technology. “People enjoying rich benefit plans today are only willing to fork over about 17 percent for medical services,” claims Hillier. “Demanding that kind of coverage at that price” he says, “is like someone buying auto insurance and insisting that it cover a flat tire.” Unwillingness to pay for the high cost of sophisticated care by employees in larger groups is directly transferred to small companies, who must pick up the slack.

Government Cost Shifting and State Mandates

Rising healthcare costs can also be attributed to cutbacks by the federal government of Medicaid and Medicare reimbursements. Because most provider facilities rely on this compensation for 40 percent of their revenue, they mark up pricing to help offset their losses. State governments also contribute to the problem — Utah law now forces insurance carriers to cover all groups comprised of two to 50 people, regardless of any pre-existing conditions, causing insurance companies to rate premiums higher for small businesses to recover claims.

Treat the Problem

Partially Self-funded Plans

Intermountain Benefit Administrators offers a solution that literally saved Utah Food Services from 27 percent annual premium hikes. “Before partial self-funding, our rates were being raised every year to the legal limit,” says David Jensen, general manager of Utah Food Services. Unlike a regular insurance plan, where 100 percent of the company’s money goes to paying the insurance carrier, partial self-funding allows small businesses to save if employees don’t make claims against the plan. Money that would normally cover those claims is retained and can be rolled into next year’s plan or used to reduce premiums.

Partial self-funding requires administrative work on the part of the small business employer, but it also encourages employees to take an active role in keeping costs down through more prudent decision-making about medical services. After a year on the program, Jensen is hopeful that it will help keep costs under control. “At least now we don’t anticipate that rates will be raised every year above the normal 10 to 12 percent industry increases.

Care of Utah

Care of Utah offers small groups the option to purchase a variety of plans rather than forcing everyone onto the same policy. “With our program, employers can set a fixed contribution,” says Care of Utah Chief Operating Officer Brenda Rodgers, “then employees can decide how much insurance they need and make choices from the plans we bring to the table.

“For example, the 20-year-old shipping clerk doesn’t need as much insurance as the 35-year-old sales rep who has five kids and a diabetic wife,” says Rodgers. “The sales rep can purchase a plan that works for his family without penalizing everyone else in the group.” Although premiums for employees are similar to a regular insurance program, Care of Utah is one way small businesses can afford to offer at least some type of subsidized health insurance for their employees.

Insurance Purchasing Pools

According to Utah State Insurance Commissioner Merwin Stewart, “Attempts to form pools through associations or chambers of commerce have not met with much success in Utah. It’s very difficult due to state and federal laws to set up group cooperatives. Although there is no policy against them, what tends to happen with these groups is that healthy people abandon them in order to take advantage of cheaper rates elsewhere, causing premiums for the group to go up. Without strong incentives to keep healthy people in the pool, eventually the cooperative arrangement breaks down.”

Contributing to Personal Emergency Medical Funds

One way small businesses and the self-employed can offset less pressing medical costs is by contributing to a personal emergency-medical fund. Some self-employed Utahns are already pushing toward greater self-reliance by setting aside at least 1 percent of their monthly income for doctor visits and minor medical emergencies.

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