

viewpoint

CUTTING HEALTHCARE COSTS

Spiraling healthcare costs are a nationwide issue for American business. Yet some companies are managing the problem far better than others.

A new report by Watson Wyatt Worldwide and the Washington Business Group on Health, *Creating a Sustainable Health Care Program 2003*, shows what employers can do to establish a sustainable healthcare strategy. Bruce Peterson, office practice leader for the firm's Group and Health Care Practice in Detroit, explains.

How fast are healthcare costs growing?

Healthcare costs have increased 15% or more annually, and surveys show the cost trend is getting worse. Recent reports say costs in 2003-2004 will increase by at least 15%. At that pace, today's healthcare costs will double within five years. Clearly, increases of this magnitude are not sustainable as they continue to hit hard on the bottom line.

How are companies responding?

In the short term, many are tweaking current programs by cost shifting or eliminating coverage. But that doesn't create a sustainable solution, as these action steps do not address the underlying problem of double-digit cost increases.

Are some companies doing a better job than others?

Definitely. In our survey, 21% of reporting companies outperformed average healthcare cost trends last year and expect to achieve the same result this year. These "high performers" reported an average increase in their healthcare costs of 10%. The average increase was 15% for all companies and 21% for "low performers" in our survey.

What are "high performers" doing right?

High performers are attacking costs in three areas: consumerism, strategy and plan design. They seem to realize they must focus on consumer information and education to change behavior.

The high performers use PPOs and put financial incentives into their systems in ways that sensitize consumers to actual healthcare costs and create cost sharing at the point of care. They take a longer perspective in healthcare planning, using workforce demographics to shape their strategy. They also tend to use national healthcare vendors, emphasize employee self-service, offer disease management programs separate from their

health plan and propose to integrate disability coverage.

High performers are more likely to add or reconfigure services. They tend to develop a solid, simple core plan with broader choices within the plan, as opposed to offering more plans.

What can companies do to improve their healthcare cost situation?

Our study identifies 10 actions employers can take to reduce short-term costs and prepare for long-term reform. The first step is to "clarify the employment deal" by clearly articulating their roles and responsibilities and what responsibilities employees must accept to improve and maintain their personal health. The idea is to put health care in the context of a total rewards approach, and not as a separate item.

Other steps include communicating openly about healthcare issues and the specific impact on the organization; providing Internet/Web-based tools so that employees have access to information on price, quality, service and plan options; and purchasing "carve-out" management of big-ticket items such as catastrophic case and chronic disease management from best-in-class specialty providers.

We also suggest companies create financial incentives for employees to complete a confidential personal health risk assessment, switch from co-pay to co-insurance plans and establish defined contribution features in their prescription drug benefit plan.

How can Watson Wyatt help?

We can conduct a Readiness Assessment to help companies understand where they stand, identify gaps, recommend appropriate action steps and develop and implement a strategy.

We offer consulting services in the areas of plan design, vendor selection, management and negotiations, retiree medical, prescription drugs, disability and absence management and productivity along with healthcare actuarial services for pricing, cost projection and financial analysis.

Watson Wyatt also can assist companies in developing or enhancing their current healthcare communications efforts and their e-health strategy to better link consumers with information they need to be smarter and better-informed purchasers of healthcare.

*For more information, please contact Bruce Peterson at (248) 358-7750 or bruce.peterson@watsonwyatt.com. [CLICK HERE](#) to request a copy of the report, *Creating a Sustainable Health Care Program 2003*.*