

In Focus

End Game - New Game - Our Game!

They Said It

"Even though the proposed assessments are material, they are modest when compared to the average cost of healthcare. To avoid costs and regulations, employers may consider exiting the healthcare market and send employees to the Exchanges." Hewitt Resources in a report prepared for Verizon – CNN, May 6, 2010

Fortune magazine has revealed that four household name companies have weighed the costs of health care reform compliance against ceasing health care plan sponsorship and sending their employees to the exchanges. While it's way too soon to label this revelation as a tipping point, the thought that employers are running these numbers holds breathtaking implications.

The four companies (AT&T, Caterpillar, John Deere and Verizon) didn't intend to publicize the results of their analyses. The disclosures were the result of demands by Congressman Henry Waxman that the companies produce all of their internal documents relating to healthcare reform's compliance cost. And even these demands by Congressman Waxman were not related to the question of employers continuing to sponsor employee healthcare plans. Instead, the Congressman was unhappy that these companies were squawking about losing a huge tax break - their ability to deduct the Medicare Part D subsidy for retiree drug coverage.

What's ironic is that as soon as the Congressional committee read the documents the four companies provided, the committee clammed up. The Congressional majority hardly wanted the public to know that the cost of complying with health care reform was causing major employers to question the wisdom of continuing to carry the cost maintaining their employer-sponsored plans. The companies realized that by discontinuing their healthcare plans, they would pay penalties that were far less than the cost of their plans. Their employees could simply obtain coverage from the healthcare exchanges, and some of them might even qualify for federal subsidies in the process.

The amount of money involved in this potential transfer of health care costs is big - really big. AT&T estimated that it could see its annual health care cost reduce by 75%, from \$2.4 billion to \$600 million. Similarly, Caterpillar estimated a 70% cost reduction.

If you are a shareholder, maybe you can't wait for 2014, when the exchanges are established and create the opportunity for billions in corporate cash to get freed up. If you are an employee, maybe you're saying, "Wait a minute! Let's think this through first."

So let's do just that. Let's begin to prepare for the CFO's email that invites us for a little conversation about whether our company should continue to underwrite employee health care. We can start with examining the strength of the first and sometimes the only reason companies give for justifying the sponsorship of their health care plans: to attract and retain employees. This justification has never really been tested. In this country, employee health care has been linked with the employment relationship since shortly after World War II.

But in just a few years, the linkage between one's job and health care coverage may be far different, perhaps far less a given. "To attract and retain" could well be put to its first real stress test because there just may be viable and less expensive (to employers) alternatives in the form of the exchanges.

So, how will benefits managers answer CFO questions like: Can you name the employees who left our company because they didn't like the health care plan? Can you name the employees our company really wanted to hire who didn't come on board because of the health care plan? If you think these are unfair questions, the advent of the exchanges means you should probably think again.

Okay, so if "attract and retain" doesn't get on base as the leadoff batter, we still have our home runner on deck - namely, benchmark studies! Right now, it's probably true that all of our readership have competitors that sponsor health care plans. Today, the company that stops such sponsorship will stick out and risk losing its employees to companies that do have health care plans. That's the home run reason for employers to keep on sponsoring. And that is precisely what may change once the exchanges go live.

Sure, the polls are still saying that employers don't want to turn employee health care over to the same people who brought us the BMV. But that's today. And yes, a lot is going to happen between now and when the exchanges start up. The lens through which we see that future is not clear; the images, while spooky are no more than shadows.

But wait! The Ghost of Health Care's Future may have visited in time for us to take the kind of action that will make the business case for an ongoing plan sponsorship role. Is it possible that a sustaining reason for employers to sponsor health plans is to help keep their employees healthy and productive? Will the federal government have as great a desire to keep employees

healthy as their employers?

In the end, it may not be our plan designs or our vendor management that really matters. Even if we optimize those we will see costs increase at higher rates than general inflation.

What drives the value of our plan management may end up being the impact we have on the health of our people. If we are aggressive about improving that we can change the risk scores and bend the frequency and severity curves. Happily, health care reform legislation gives us greater financial latitude in this effort. Plus, the comparative long term cost of the exchange option may be more than expected.

Sponsoring employee health care doesn't have to become a put option. If we really want to, we can make it a buy and hold.

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