

An Rx For Health Care Woes:

Five Ways CPAs and CPA Firms Can Manage Health Care Costs NOW

By Brian Marks, CEBS

It's pretty unavoidable: Health care is an active topic on the national political scene and a large issue for our entire nation. The issues we are wrestling with today are the same we faced when I began my career in this industry some 18 years ago; escalating costs lead to reduced benefits and access.

If we ascribe to the political talk, swift action must be taken to solve this problem once and for all. The consensus now appears to be "let's just fix it."

Some politicians today believe that there is no will within the health care industry to correct the issues that plague the current system — and that all stakeholders are complacent about finding a solution.

The paradox is that these same stakeholders are the ones with the most to lose if a workable solution is not found.

"Just fix it"

So why don't we fix this broken system? The answer: An easy fix does not exist. The health care system in the United States is

immense. Currently, spending for health care services is estimated at \$2.1 trillion, or roughly 16 percent of our Gross Domestic Product (GDP).

To put it in perspective, of GDP we spend roughly 4.7 percent on national defense, 9.6 percent on food and 10.5 percent on housing. More importantly, the expenditures for health care are expected to increase at roughly 7 percent per year until 2017, a factor which has driven us to the current debate on solutions to correct this situation.

Yet, alterations to a system of this size

are not easily accomplished and any one change has a ripple effect. There are many hypotheses to the issues underlying this problem. It is said that insurance carriers are inept, extract huge margins and are rife with administrative waste; providers of health care are overcompensated and have no interest in efficiency; consumers do not take care of themselves and then expect limitless care to cure conditions that could be easily avoided.

Who is correct? Well, *all* are to some degree, depending on the context, but there are clearly no simple solutions.





Currently, spending for health care services is estimated at \$2.1 trillion, or roughly 16 percent of our Gross Domestic Product (GDP).

A quick look at how it works

A potential and effective fix of the health care system is difficult; however, understanding the system dynamics is not. Total cost can be broken out as follows:

Units of Care X Cost per Unit = Total Health Care Expenditures

Therefore, to impact total health care expenditures, we simply need to change either input component for a total cost effect. Of course, this is easier said than done.

Any effort to impact the units of care is

viewed as rationing. Necessary care is in the eye of the beholder. Expensive treatments with low efficacy are viewed as a fundamental right in our nation and immense sums of money are expended in the final years of life. I cannot say if this is right or wrong, but I *do* know that any effort to control consumption runs counter to some people's ideals of personal freedom and choice.

Any effort to control cost is viewed as heavy-handed price control and runs counter to our free market beliefs. Most say that no one should control what a person makes, particularly our best medical providers. In

addition, lower cost treatments or providers are perceived as inferior. Everyone wants to have the "name" specialist on the job when their care or life is at stake. "Let someone else sacrifice" appears to be the pervasive attitude. Again, I will not judge whether this is right or wrong; I just want to frame the issues.

Ideas and more ideas

Nonetheless, there are many proposals on the table to fix this broken system. Though the national reform efforts are many in number, there seems to be little consensus ▷

on how to move forward due to the aforementioned systematic issues. The solutions range from a single-payer, government-run system to minor market “tweaks” to ensure greater access to medical care for the estimated 50 million uninsured.

However, all solutions are affected by the questions of whose care is rationed and whose costs are controlled. I believe that upon investigation, all parties would find some objectionable component within all proposals. This is exactly why I feel a workable solution may be farther off than any of us believe.

Personally, I believe there will be no real impact on health care costs and their pace of escalation until there is a closer tie between the consumer of services and the actual expenditures. What we currently have is a system where the consumer actually pays a very low percentage of total costs. In fact, in 2007, it was estimated that American consumers paid roughly 10 percent of national health expenditures — down from roughly 45 percent in 1960. This situation has clearly exacerbated the rise in costs and the quickly increasing trend.

We should really not be surprised. I would argue that no other product would be immune from the same economics if consumers only bore 10 percent of an item’s true cost. I can assure you my car selection would have been dramatically different. This is why I believe a real solution will be difficult to put together. It will be very uncomfortable for politicians to correct the root cause for the system’s woes when they are dependent on these same consumers’ votes. This does not mean we will not have some change; however, I am skeptical any proposed change will correct the problem.

Five ways to manage costs

So what are we to do in the interim? If you believe, as I do, that any real fix is almost impossible in the near term, we need to focus on the factors we are able to control. There are some very simple steps to take when managing the health care expenses of our organizations or families. Five tips include:

1. Don’t wait for the political health care debate to end to make decisions.

Let’s be realistic. We have little direct control over what may happen legislatively on this topic, or any other for that matter. We can only affect that which is within our control. Of course, there are many things that COULD happen but there is no way to know what WILL happen. Therefore, we can only focus on the health care choices we have today, whether selecting plan options for your firm or yourself.

The key component is identifying the highest value of the health insurance program that is selected, based upon the desired level of benefit richness (i.e. risk exposure) relative to the plan’s cost. There are no right or wrong answers. Some people are comfortable with fairly high levels of exposure and others desire predictable expenses. What must be isolated is which option is best for you or your organization relative to cost.

2. Take advantage of cost-saving measures that are already available.

There are a great many options available that can meet your needs in the market

today. As a general rule, more choice of providers means higher cost. The more restrictive the network, the greater the savings, which is a factor of the lower provider reimbursements negotiated by the insurance carrier.

Many times assumptions are made that a network with greater savings, such as an HMO, is not sufficient; however, that assumption is often not based in fact. It is wise to fully evaluate various provider networks to gauge if they can meet your needs. It has been my experience that in many cases, upon investigation, smaller, more cost-efficient networks can provide solid savings with very little sacrifice of provider choice.

Beyond the network, product design can also offer major savings. The relatively new concept of high deductible health plans (HDHP) or consumer driven health plans (CDHP) can offer solid savings over traditional plans. Both of these plan designs focus on the high deductible concept, typically \$1,500 or higher. However, the product design of the HDHP must meet certain federally mandated structural requirements to allow for the establishment of a Health Savings Account (HSA).

The HSA is essentially a medical IRA that allows contributions to be placed into an account for the reimbursement of qualified medical expenses. The advantages of these accounts are well beyond the scope of this article; however, they can have major advantages for individuals who are willing to assume more financial risk of the deductible exposure and who also have the discipline to fund the HSA with the premium savings generated from the higher deductible.

Generally speaking, the value of this option is based upon the utilization pattern of



the individual and taking advantage of savings that may be greater than the estimated claim exposure. The return is often greater than the exposure when these plans are compared to traditional options. In addition, this approach can dampen costs over the long term as the consumer has more “skin in the game.”

3. Actively manage plans to control your expenses.

There is limited competition in the health insurance industry as consolidation has been rampant. Therefore, there are often only a few competitors in any given situation. Nonetheless, it is wise to make sure all carriers are routinely evaluated. By “taking a plan to market” savings can be captured in many instances.

For the small employer (less than 50 employees) this exercise may involve a fair amount of effort because most carriers require employee medical questionnaires to be completed. Though this can be time consuming, the savings are worth the effort if better rates are obtained from a carrier perceiving the risks differently than the incumbent and/or is willing to take lower margin. Given the level of spending by employers in the U.S. on an average employee’s premium, estimated to be \$7,620 per employee in 2008 by a Watson Wyatt study, even a 10 percent reduction can produce significant savings.

4. Be a wise consumer.

As a wise consumer of health care services, you can personally impact your out-

of-pocket medical expenses. Be aware of your plan design and seek care in the most cost-efficient setting. Utilizing primary care physicians and generic drugs when possible can generate substantial savings. Ask questions about outcomes, quality and the cost of procedures. We tend to spend more time on the research of a car purchase than we do on making health care decisions. Make asking questions of your care providers about alternate plans of treatment and their outcomes a part of your decision-making process. Less expensive treatment plans can sometimes result in the same outcome. One of the key components of the aforementioned CDHPs and HDHPs is the engagement of the consumer with “skin in the game” due to the higher deductible — which leads to lower routine expenditures.

5. Seek good advice.

Focus on solid advice, not sales tactics and relationships. Many times employers trust their largest expenditure, other than payroll, to an individual who dabbles in health insurance in addition to many other lines of business. However, the purchase of health insurance is a very complex decision that is affected by many factors. It is wise to seek counsel from experts in the health care consulting industry.

I suggest interviewing several consultants/brokers to determine the partner who best meets your needs. Focus your questioning on their specific experience and the approach they utilize to uncover the underlying value of various plan options.

Where to go from here?

In summary, there is no “silver bullet” to reduce health care expenditures in Washington or your town.

You need to actively manage plans in the world in which we live with the assistance of the best advice possible. Be aware of, but do not be distracted by, the many factors that influence your health care costs that are beyond your control. Focus on the controllables, such as designing the plan and engaging competitive market forces, so you can directly impact your expenditures. Attack the task of managing this component of your employee benefits as aggressively as you would any other business task.

Determine your needs clearly, find the best option to meet those needs and actively manage all components to the best end result possible. □



Brian Marks, CEBS, is the director of the VSCPA Insurance Service Center, an affiliate of Dominion Benefits. With nearly two decades in the

health care business, Brian can help you and your firm understand health care costs. Check out the Insurance Service Center website at www.vscpainurance.com, or contact Brian at bmarks@vscpainurance.com or (877) 998-7272.