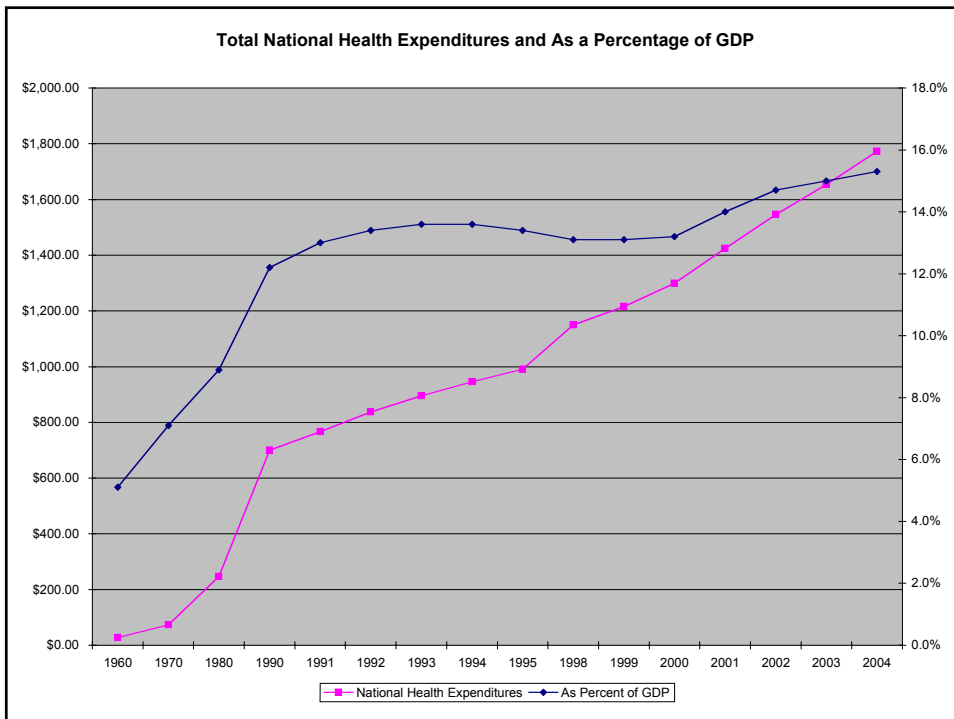


How Employers Should React to Rising Health Care Costs

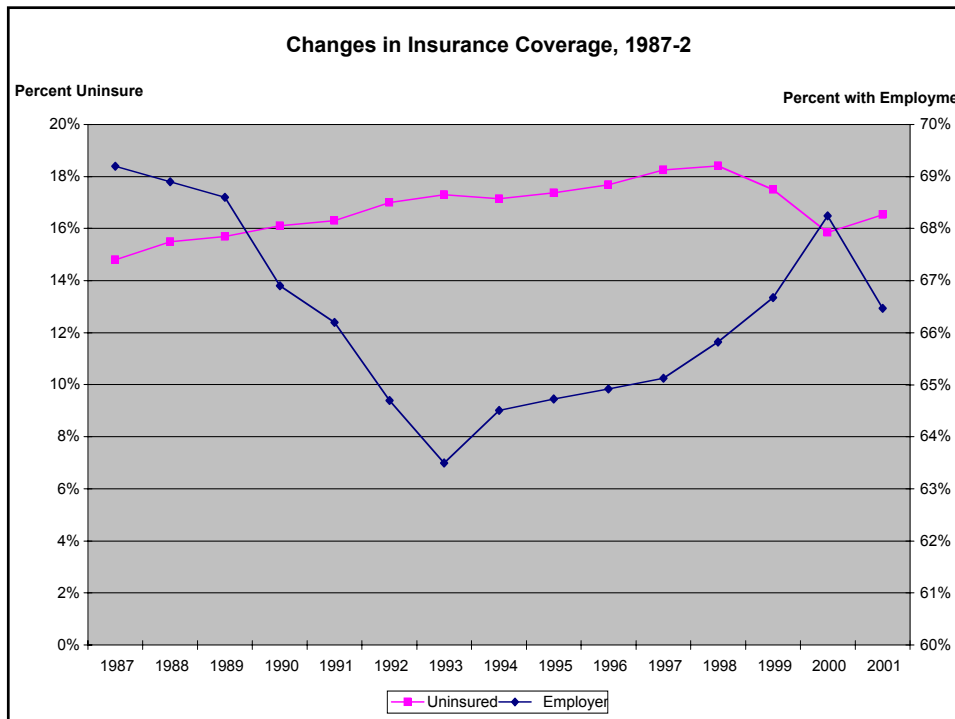
William S Custer, Ph.D
Georgia State University



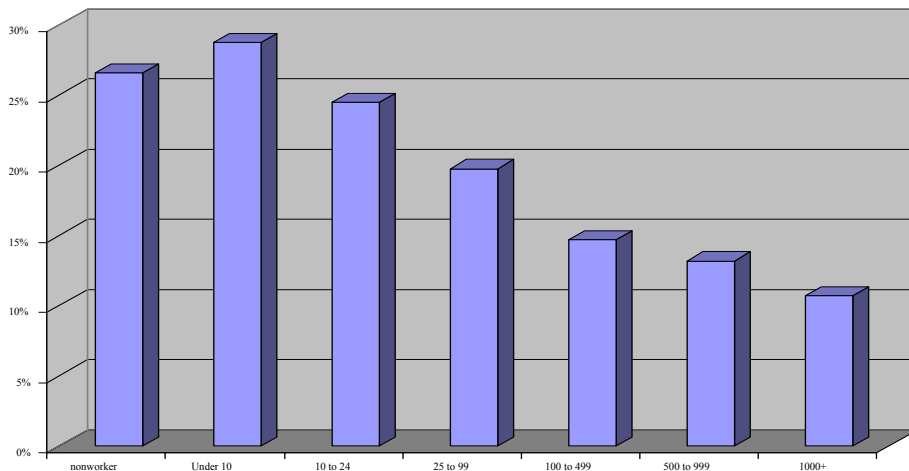
RESEARCH ON CAUSAL FACTORS ACCOUNTING FOR GROWTH IN REAL PER CAPITA HEALTH CARE SPENDING

	Newhouse (1992)	Cutler (1995)
Aging Population	2%	2%
Insurance	10	13
Income Growth	<23	5
Relative Medical Price Inflation	0	19
Avoidable Administrative Expense	n/a	13
Provider Induced Demand	0	0
Technological Change	>65	49

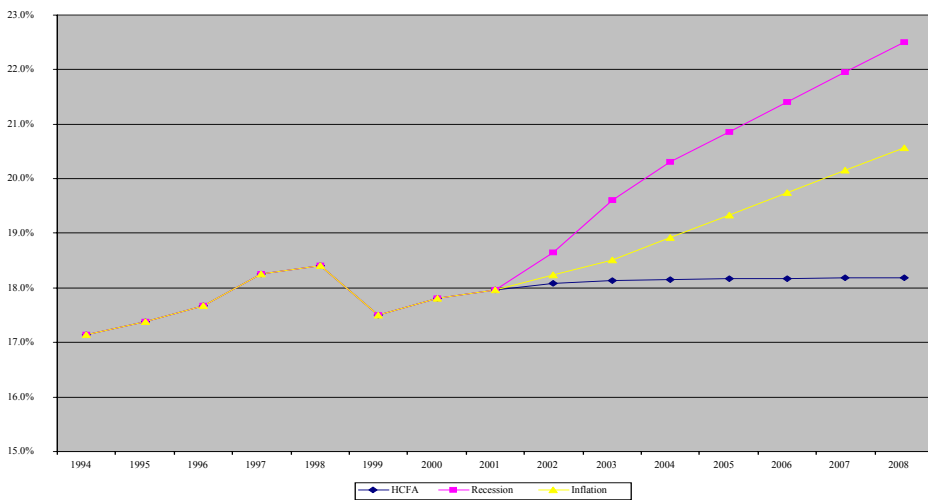
Source: Smith et al. (2000) as replicated in Technical Review Panel on the Medicare Trustees Report (2000).



Percentage Uninsured within Firm Size of Family Head



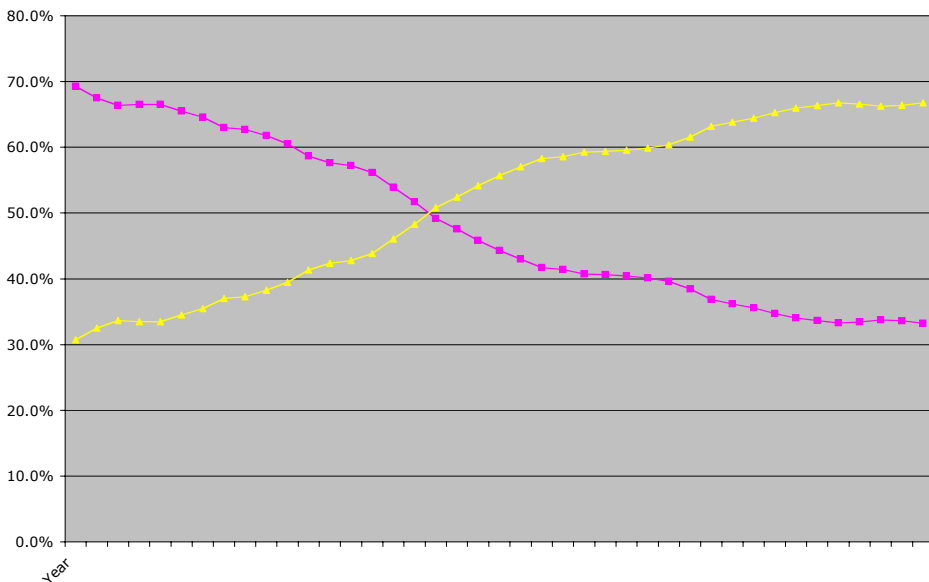
Projected Percent of Uninsured Non-elderly Americans Under Different Assumption



Employer Options

- Reduce Coverage
 - Drop Coverage
 - Increase cost sharing
 - Deductibles, coinsurance/co-pays, out of pocket maximums, life-time maximums
 - Decrease provider's covered.
 - PPOS, HMOs, networks
 - Decrease services covered
 - Plan Design
 - Managed Care
- Shift Compensation

Percentage of Private Health Expenditures "Out-of-Pocket"



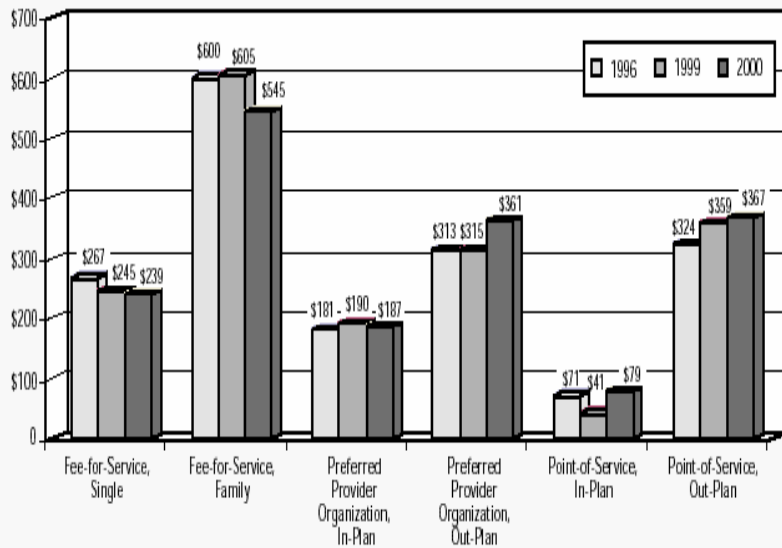
Addressing Moral Hazard

- Medical Savings Accounts
- Consumer Driven/ Defined Benefit Plans
- Middle Deductible Plans

Cost Sharing-Deductibles

- 1990- Median Deductible for single person: \$150
 - 6.25% of per capita health expenditures
- 2000-Mean Deductible for single indemnity plan-\$239
 - 5.9 % of per capita health expenditures
 - \$250 deductible would maintain 6.25%

AVERAGE ANNUAL DEDUCTIBLES, BY PLAN TYPE, 1996-2000



Source: Jon Gabel et al., "Job-Based Health Insurance in 2000: Premiums Rise Sharply While Coverage Grows," *Health Affairs*, Vol. 19, no. 3 (September/October 2000): 144-151.

Total HMO Enrollment and Growth Rate: July 1990 to July 2000

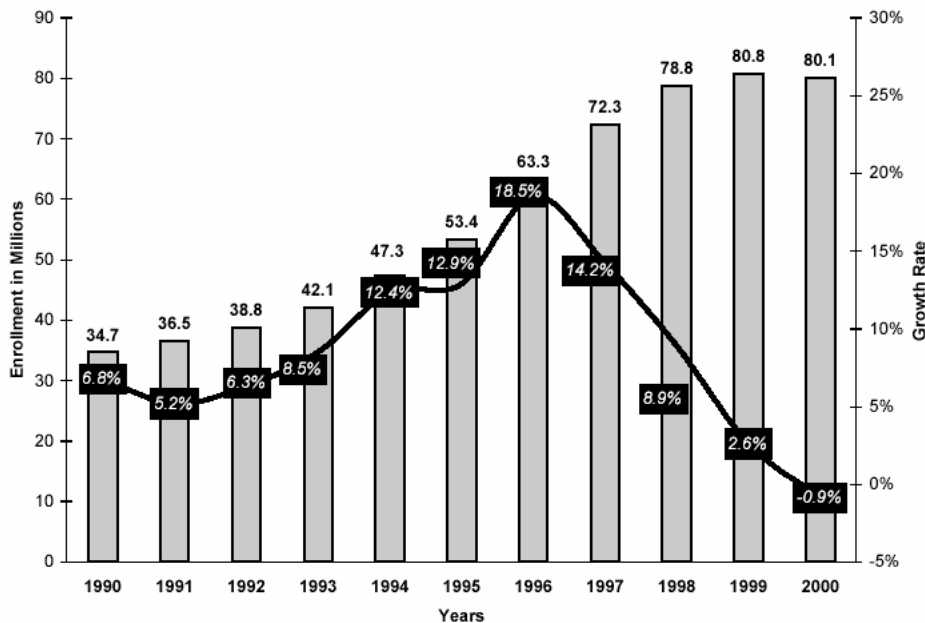
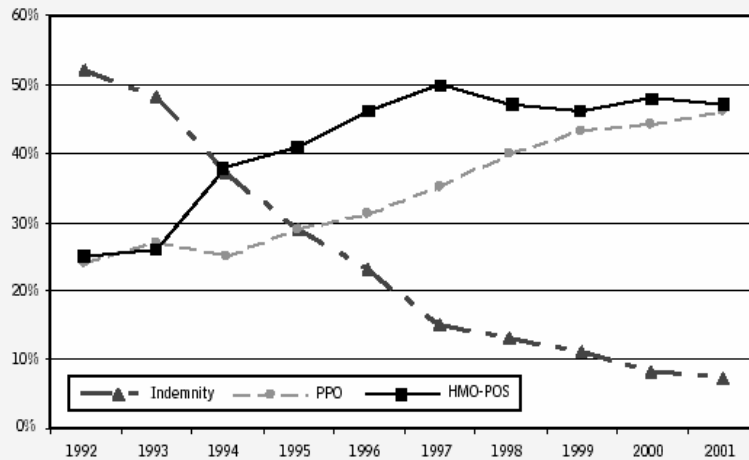


Figure 7
PERCENTAGE OF EMPLOYEES PARTICIPATING IN HEALTH PLANS, BY PLAN TYPE, 1992-2001



Source: William M. Mercer, 2001.

Copied from EBRI Issue Brief # 247, July 2002

Medical Management

- Retrospective case reviews
- Second surgical opinions
- Preadmission certification
- Concurrent stay review
- Utilization management
- Disease management and prevention

Quality measures

- Structure
 - emphasis on certifications, registrations
 - licensure is not enough
- Episodes of care
 - practice parameters
 - outcomes studies
- Population based measures
 - longitudinal studies

What does it mean for Employers?

- Costs likely to continue to increase
- Need to understand labor market
- Need to develop comprehensive compensation strategies
 - Plan design effects need to be considered