





Rx for America?

By Troy Anderson

Business and the Spiraling Costs of Health Care: Will Reform Work?

The third-generation owner of Commerce Welding & Manufacturing Co. in Dallas, Sheryl Weldon, recently canceled health insurance for her 14 employees. The heart-sickening decision came as Weldon watched the company's monthly health insurance payments quadruple in the last five years to more than \$800 per employee. With revenues down since the recession began, Weldon met with her employees and told them she would have to lay off two people or drop health care coverage. In a unanimous vote, Weldon and her employees decided to eliminate health care coverage for the first time in the company's 64-year history.

"The company has always paid 100 percent of our employees' health insurance," Weldon says. "But we've been getting the maximum legal rate increase every single year for the last 10 years. It was just such a burden. On the one hand, you want your employees to have health care because you want them to be here every day and to be healthy. But on the other hand, with a small business, you can't just afford to do it."

As the debate on how to overhaul the nation's health care system heats up on Capitol Hill, a growing number of businesses, especially small firms, are wrestling with whether to continue providing health insurance to their employees. Some business



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owners fear they'll be forced to choose between keeping their doors open or covering their workers. A recent report by the Kaiser Family Foundation lends credence to those concerns. From 1999 to 2008, annual family premiums for employer-sponsored health insurance more than doubled, from \$5,791 to \$12,680. The amount individual workers paid rose from \$1,543 to \$3,354.

While health care costs spiral out of reach for many small business owners, nearly 10 percent are considering dropping coverage in the next year, up from three percent in 2005, according to a recent survey by the nonpartisan National Small Business Association. The number of small business owners able to provide health insurance to their employees has dropped from 67 percent in 1995 to 38 percent last year.

These soaring health care costs are impeding businesses' ability to expand and compete in the global marketplace and are stunting the country's economic growth, experts say. Overall, employers in the United States spend an average of 11.3 percent of their payroll on health benefits to insure their employees. That compares to just four percent in Japan and two percent in the United Kingdom.

"The cost of health care is crushing small business and becoming an insurmountable barrier to many considering opening their own business," NSBA President Todd McCracken says. "Small business owners – despite creating the overwhelming majority of net new jobs – face a significant

competitive disadvantage in their ability to provide employees with affordable, quality health insurance.”

A recent study by the Small Business Majority, a national nonprofit and nonpartisan organization, analyzed various health care reform scenarios and found that without reform small businesses will pay nearly \$2.4 trillion in health care costs over the next decade. But with reforms, small businesses will save as much as \$855 million, money that can be reinvested to help reinvigorate the economy and start new ventures.

“Small businesses in the U.S. are suffering great harm under our current health care system and will likely fare far better under a substantially reformed system along the lines of what is currently being debated in Washington – as long as such a system offers appropriate levels of assistance to small businesses in meeting their health care obligations,” the authors of the report wrote.

As the failings of the nation’s health system weigh heavily on the backs of America’s businesses and the nation spends an ever-growing portion of its gross domestic product on health care – \$2.4 trillion, or 18 percent of GDP each year – the Obama administration and Congress are considering a range of proposals to reform the health insurance market and the inefficient and expensive health care system.

Throughout the summer and fall, a brawl is looming in Washington, D.C., as elected officials hash out the details of a plan that could cost more than \$1.5 trillion over the next decade and require new and higher taxes.

Some of these proposals include higher taxes on the wealthiest Americans, taxing employer-provided health benefits, and levies on sugary beverages. Obama, whose health care agenda includes a new government insurance option, has called on members of Congress to have a bill ready by October.

In a recent address, Obama outlined goals for fixing the nation’s health care system – one he says is beset by skyrocketing costs and unwarranted profiteering. While Obama would like to provide quality, affordable health care for every American – including nearly 46 million people who are uninsured – he stressed that the reforms Congress is preparing must be built on driving costs down,

improving quality, and protecting consumer choice so people who are happy with their coverage can keep it.

If nothing is done, Obama argues, everyone’s health care will be put in jeopardy, and within a decade Americans will spend one dollar out of every five on health care. Obama says the plan can’t add to the nation’s mushrooming federal deficit and its costs will be covered through spending reductions, the elimination of waste,

fraud, and abuse, and by “appropriate additional revenues.”

“That’s why fixing what’s wrong with our health care system is no longer a luxury we hope to achieve – it’s a necessity we cannot postpone any longer,” Obama told the nation. “The growing consensus around that reality has led an unprecedented coalition to come together for change. Unlike past attempts at reforming our health care system, everyone is at the table –

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patients' advocates and health insurers; business and labor; Democrats and Republicans alike."

But Republicans oppose the plan, saying it could drive private insurers out of business, leaving Americans with no choice but government health coverage. The American Medical Association, a 250,000-member physician organization, and the U.S. Chamber of Commerce, the world's largest business federation representing three million businesses, have expressed concerns about the bills released so far.

Polls show most Americans believe they and their fellow citizens should have access to quality health care, but they overwhelmingly oppose such a proposal if it includes coverage for illegal immigrants. And most voters don't believe that buying health insurance should be mandatory for all Americans.

Bruce Josten, executive vice president of government affairs at the Chamber, says the national organization is disappointed because the proposals won't reduce costs and

increase access to health care without negatively impacting small businesses. The Chamber believes comprehensive health care reform can be enacted this year, but the proposals so far are not reasonable and bipartisan. The creation of a government public plan option would inevitably result in a government-run health care system, Josten says.

"We believe that market-driven health reforms are the best approach to reducing costs, promoting efficiency, wellness, and quality of care," Josten says. "Using convoluted subsidies, employer mandates, and legal structures to force people into a connector and then into a public government-run plan fails to tackle the underlying challenge of controlling costs, improving care, and expanding coverage. Congress should focus on reforming the insurance market for individuals and small groups - not locking payers into an unsustainable system."

Ben Keel, Jr., president and owner of Katy-based Financial & Insurance Consultants, believes a government-led shake-up of the nation's health

care system will ultimately result in higher taxes, longer waits, and fewer health care choices. He says many businesses will simply drop employee coverage.

"If we were to go to some kind of government-run plan, I think everybody pretty well recognizes the efficiency is not going to be there," says Keel, past president of the Houston Association of Health Underwriters. "If you like the way the post office or the IRS runs, you might like the government insurance plan. I think we are going to see much bigger Tea Parties than the ones we just experienced across the country. We are already taxed enough."

Keel points out that Canada has a public-funded health care system plagued by long waits, where people have difficulty obtaining health care beyond what is deemed medically necessary. Also, Massachusetts approved near-universal coverage in 2006 and rising costs now threaten the viability of the plan. The state has been forced to raise taxes and residents have lost their "freedom of choice," Keel says.

"Do you really want somebody telling you which doctor you've got to go to and how long you will wait for an MRI?" Keel says. "There are a number of stories about people in Canada who wound up dying because they couldn't get an MRI or heart surgery. These government-run health care systems have been tried all over Europe - Great Britain, France, and other countries - and it's virtually bankrupted their governments. It doesn't work. What do you think we know that is going to improve on their systems?"

Dr. Guy Clifton, the Runnells Distinguished Professor at the Department of Neurosurgery at the University of Texas Health Science Center in Houston and author of the new book *Flatlined: Resuscitating American Medicine*, says Obama's desire to provide insurance to the nation's 46 million uninsured people will cost an additional \$150 billion a year. But he says the health care reforms now under consideration won't reduce or slow the growth of health care costs.

Instead, Clifton says any reforms need to address perverse financial incentives in the system that are responsible for tremendous amounts of waste - contributing to health insurance

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premiums that have grown at nearly twice the rate of the economy for decades. As Clifton argues in his book, the only way the nation is going to slow the growth of health care costs is to change the way hospitals and doctors are paid. Research shows that much of the care people now receive may be medically unnecessary or ineffective.

“About a third or more of health care services delivered are unnecessary for health,” Clifton says. “If patients were fully informed, and physicians had access to better information, these

unnecessary services are the ones we could eliminate and save a great deal of money.”

Currently, hospitals and doctors are paid based on the volume and complexity of procedures and treatments. The sicker a patient gets during hospitalization, the more the hospital gets paid, Clifton says. Hospitals are paid more for preventable complications, so there is little incentive for hospitals to be efficient, he says.

In place of this system, Clifton says hospitals and doctors should be paid based on “outcomes of care.” For a patient coming to a hospital, the doctor and the hospital would be paid a lump sum based on the admitting condition of the patient. The fee would be larger for sicker patients. The lump sum would be based upon the cost of care delivered at a very good hospital with low complication rates.

“What that would do – for hospitals and doctors that are not efficient or have high complication rates – is force them to fix their model or go out of business,” Clifton says. “The more efficient the hospital is, the higher the profit margin would be. And for primary care doctors, they would be paid a base amount, with up to a 30 percent bonus for care that keeps people out of hospital emergency rooms unnecessarily. It’s the same as the business concept of a base rate and a performance bonus.”

On top of prodding doctors and hospitals to make more cost-effective medical decisions, health care providers could achieve more efficiency by moving toward computerized medical records. Dr. Nancy W. Dickey, president of Texas A & M Health Science Center in College Station, says advances in medical technology in recent years have significantly improved health care in the U. S., and that doctors now have an abundance of diagnostic and intervention tools at their disposal.



“The problem is that we overuse some of those tools, and that contributes to the high cost of medical care,” Dickey says. “So right-sizing our technology – so that we use it when we need it, but don’t overuse it – is important. And eliminating care that is not proven to be effective will also lower costs.”

Despite the gargantuan task and disagreements on the details, Obama has called on Congress to have legislation ready by the fall to reform the nation’s health care system. In June, U.S. Senator Edward Kennedy (D-Mass.) introduced the Affordable Health Choices Act, a bill designed to reduce health care costs, allow Americans to keep the coverage they have if they want it, and make health insurance affordable to those who don’t have coverage. Kennedy argues the bill will reduce health care costs through stronger prevention, better quality of care, the use of information technology, and by rooting out fraud, abuse, and unnecessary procedures.

Other legislation is expected to be introduced by Senate Finance Committee Chairman Max Baucus (D-Montana), Democrat Henry A. Waxman (D-California), and Senator Charles E. Grassley (R-Iowa).

U.S. Representative Gene Green (D-Texas) says the legislative proposals would provide health insurance to the one in four Texans who are uninsured, together with slow increases in health insurance premiums for businesses.

“I don’t know how it will ultimately pan out – there are too many moving parts – but I know there is support nationwide for some type of coverage for the uninsured; and having been an

employer for a number of years, business owners should see a slowing of the increases in their premiums that have been substantial in the last 10 or 15 years,” Green says.

But if legislation is passed taxing employer-provided health benefits as a mechanism to raise funds to cover those not currently insured, Dickey says that could constitute an unacceptably high expense for small businesses.

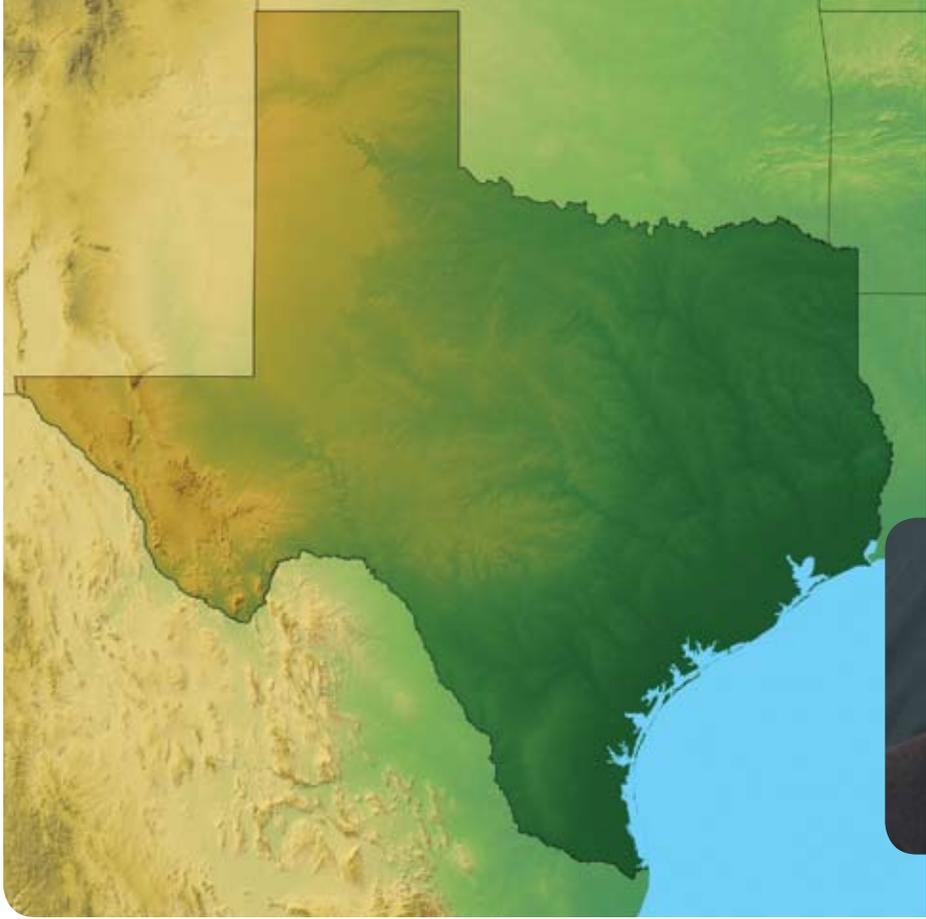
“If they are teetering on the brink to stay open and then a new tax comes along – it could have a negative impact on small businesses,” Dickey says. “But I think there are some positive impacts here as well. Presumably, if we can get everybody covered, the effectiveness of treating employees for high blood pressure and screening for cancer will be beneficial for employers because their employees will be healthier and miss less time from the workplace.”

Surprisingly, the U.S. health insurance industry supports a major revamp of the health care system.

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“Breakable bones, a tendency to bleed when cut, vulnerability to germs and viruses. These are all preexisting conditions.”



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Ralph Holmes, the Dallas-based president of Aetna's southwest region, says his health care benefits company is in favor of legislation that will help insure more Texans.

The industry helped kill President Clinton's health care overhaul in the 1990s. Today, however, the industry expects the number of people purchasing health insurance to continue to decline as baby boomers become eligible for Medicare. The industry is lobbying for a purchase requirement – boosted by taxpayer subsidies – for those who can't afford health insurance.

Ralph Holmes, the Dallas-based president of Aetna's southwest region, says his health care benefits company is in favor of legislation that will help insure more Texans. Currently, about 25 percent of the population in Texas is uninsured, but about 70 percent of the employees of small businesses are uninsured, he says.

"However, we would not like to see the burden borne disproportionately by the small business owner, who is the engine of economic growth," Holmes says. "That could end up creating more uninsured than we have today."

At Core Benefit Services, Inc. in Houston, Mike McLaughlin, president of the firm specializing in employee benefits, says Obama's plan calls for holding health insurance companies accountable, but these

companies are often the "whipping post for everything."

"The truth is they actually do a great job overall," McLaughlin says. "Yes, premiums are high, but that is directly related to the underlying cost of care. If you compare how insurance companies perform compared to Medicaid, Medicare, and the post office or almost anything else in government, they are phenomenal performers."

Despite the complexities of health care reform, Sheryl Weldon thinks it "will be wonderful," as long as small businesses are not asked to carry the bulk of the burden. As she waits to see more of the details from bills introduced on Capitol Hill, Weldon – just like her employees – is waiting without health insurance.

"I can't have insurance for myself and not for everyone else," Weldon says. "If President Obama can do for us what he's laid out in his goals for health care reform, we'd definitely love to have health insurance coverage. In a small business like this, these people are your family and there have been a lot of sleepless nights." **N**

Troy Anderson, an award-winning newspaper reporter based out of Southern California, freelances for a variety of national and regional magazines.