Shelter from the storm

By Dave Keller

Without a doubt, the turbulent economy will remain the driving force for health insurance trends in 2009. Small and mid-size employers will be squeezed to cut expenses, and benefit costs are one of their largest budget items.

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The U.S. economy is heading into a period that some economists predict will be the worst recession in the past 50 years. The impact of the downturn will be felt in ways not related to tighter credit markets and ratcheted-down consumer spending.

Recent fluctuations in the stock market and home prices have left a large segment of the baby boomer population unable to retire for financial reasons. Wild swings in the market have created a feeling of vulnerability in a generation of workers who already were savings-challenged when it came to retirement. A recent AARP poll indicates that one-third of workers age 45 and above is now considering delaying retirement because of concerns about having enough money once they leave. These older workers, many of whom are unexpectedly remaining in the work force, will drive up the health care costs of businesses, further creating stress on employers' ability to control premium increases. This stress will be felt the most by small business owners whose premiums are disproportionately affected by the health status of these older workers.

NEW PRODUCTS AND SERVICES

Bob Stubbe, executive vice president of Madison National Life Insurance Co., sees a direct correlation between the economy and CI sales.

"We started to see the trend around mid-year 2008 when industry-wide critical illness sales began to increase as the deductibles on health plans began to rise," Stubbe says. "We have built an entire individual medical plan called The 360 Plan on the idea of having the customer raise his deductible and use the premium savings to fund the premium for critical illness benefits and life insurance."

CI coverage can provide financial assistance to consumers as they see their out-of-pocket exposure rise. If they are diagnosed with a covered condition, the policy will provide them the means to not only help fund their out-of-pocket costs, but to also help pay bills while they are receiving their medical treatment.

Another product expected to see growth fueled by the change in the employee benefit landscape is gap plans designed to supplement qualified high-deductible health plans. According to a recent survey by the Centers for Disease Control more than 20 percent of people under the age of 65 who are enrolled in private insurance coverage are covered under high-deductible health plans. These underlying products offer protection to those who have purchased a QHDHP but have not had the opportunity to fully fund their health savings account.

Framework Health Plan's Bill Henson says he believes these types of supplemental plans will be popular with employers and employees alike in 2009.

"Business owners and human resources managers want to make sure that when they roll out an HSA to their work force that the employees can absorb the financial impact of a large claim," he says. "Supplemental limited medical insurance policies such as the Framework Passage Plan provide first-dollar benefits to their employees while still allowing the health plan to meet the definition of a qualified plan. The employees get the premium and the tax savings of an HSA plan but get to offload some of the risk of the higher deductible."

These gap plans offer a per-day reimbursement for inpatient hospital stays, as well as an accident benefit. While the member will still be expected to pay for daily care out of his or her own pocket, the gap plans will help to soften the blow of a high cost claim. Generally gap plans are worksite products that can be sold as employer-sponsored or voluntary plans, but a growing number of associations are also offering gap plans to their members.

Wayne Nelson of Communicating for America, an association focused on the unique needs of people living in rural markets, was a driving force behind CA offering bundled gap type benefits to their membership.

"We were looking for a value-add for our membership and our surveys showed that providing a bundle of products that help protect them in the event of a high dollar claim was at the top of their list," Nelson says.

As the market for HSA-qualified plans continues to grow, expect to see plan

What now?

The pressure on businesses to cut benefit costs will impact the market in multiple ways.

- Employees who receive employer-sponsored benefits can expect more cost sharing in the form of higher co-pays, more out-of-pocket expenses and higher premiums.
- Employers, especially those in the micro-business market (two to 10 employees), will increasingly drop employment-based health coverage and direct their employees to purchase individual plans.
- Medium-med plans will see large membership gains as cash-strapped employers and individuals look for a way to control premium cost while keeping their insurance coverage intact.

designs mature also. More carriers will enhance wellness and preventive options to create differentiation in a market that is rapidly becoming commoditized.

One of the core principals of high-deductible health plans is that members will take a greater responsibility for their health because they are funding a large portion of their claims with their own money. Carriers already are taking advantage of members' interests in preventive care by offering first-dollar coverage for routine physicals, mammograms, well child care and other preventive measures. Expect to see more payers offer co-pays before the deductible is met for certain preventive prescriptions such as blood pressure and anti-depressants.

In addition to plan design changes to make HSA-qualified plans more attractive, expect more marketing of the HSA account itself. Brian Dow, who oversees health savings accounts for the Freedom HSA plans, says that consumers are becoming more selective about the features of the accounts.

"Consumers are going to look for accounts that offer personal service, ease of use and great savings. This means the focus will move away from the availability of debit cards toward an integrated service model that doesn't nickel and dime their savings. Many first generation account offerings were nothing more than relabeled checking accounts that focused on the convenience of spending and all the associated bank fees. The consumer will need us to put the savings back in health savings accounts."

While mid-size and large businesses are still overwhelmingly offering employer-sponsored health coverage, micro-businesses are increasingly dropping major medical coverage and leaving employees to navigate the individual medical market on their own.

These new entrants into the individual medical market likely will be overwhelmed by their choices and the cost of securing coverage. Expect to see more carriers implementing a segmentation strategy and creating products specifically designed to appeal to cohorts of customers as opposed to the entire spectrum of potential purchasers.

Many carriers have already developed products that are designed to appeal to the "young invincibles," a segment that is generally uninsured and between the ages of 20-34. Segmentation is not limited, however, to carriers. Many agents are beginning to develop a segmentation strategy that allows them to quickly determine which carrier is the best fit for a particular client. With the growth of Internet based-Web sites such as eHealth.com, agents are finding out quickly that selling IM off of a spreadsheet is not a sustainable business model.

"Agents that want to compete with online sales agencies need to offer multiple products that appeal to different segments of customers," said Jeff McCabe, Midwest region sales manager for IHC Health Solutions. "In today's Web-based environment, people who are simply price shopping will do it online, the value proposition for an agent remains the same as it was 20 years ago, service and advice."

RATE INCREASES

One of the most intriguing trends of late 2008 that will likely carry over into 2009 is that small groups and individual policy holders are moving their plans off anniversary dates. Historically, carriers could accurately predict policy lapses knowing that a certain segment would move at or around the policy anniversary and a much smaller group of cases would move during their rate guarantee period.

Recently, however, more groups and individuals have chosen to move their coverage off anniversary and purchase a more affordable product. This rush to buy down benefits will impact agents significantly in 2009 if the trend continues. Agents will find that no case is safe, especially groups and individuals who are sensitive to the economic downturn. It is more important than ever that producers create multiple touch points with their clients so they are available when their clients are looking for ways to cut premium.

Carriers who are under pressure to improve bottom line results will need to begin delivering higher renewals in 2009, especially on HDHP. While health care inflation has been relatively calm over the past 24 months, many carriers have not kept up with the inflationary trend in hopes of retaining membership. The cumulative impact of two years of lower than trend increases, increasing medical loss ratios, along with a sagging economy, likely will drive carriers to play catch up in 2009.

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THE GROWTH OF MEDIUM-MED

When we look back on 2009 the trend that will likely be viewed to be the most disruptive force is the growth of medium-med insurance policies. These plans offer more coverage than limited medical insurance policies, but do not offer the same lifetime or calendar year maximums as major medical plans.

While the market is still evolving, medium-med plans appeal to people who are struggling with the cost of major medical plans. These plans offer first dollar coverage for office visits and prescription drugs as well as inpatient and outpatient care. Unlike traditional limited benefit plans, medium-med plans pay for covered care at a co-insurance level as opposed to an indemnity payment on a per-occurrence basis.

The savings from medium-med plans comes from the internal limits for prescription coverage as well as for outpatient and inpatient care. According to the Medical Expenditure Panel Survey, in 2005 only 6.2 percent of the population between the ages of 18 and 44 had medical expenses greater than $7,500. That indicates that for most Americans, especially those younger than 45 and generally free of chronic conditions, purchasing a policy with a $20,000 annual limit for outpatient care and $100,000 annual limit for inpatient care may make financial sense.

In addition to cost savings, these types of policies are attractive due to the limited underwriting they allow. While the individual market especially has earned a reputation for being unfriendly during the underwriting process, the inherent limitations for medium-med plans may allow for a quicker and less intrusive underwriting process.

CONCLUSION

The economy and terrorism now rank above health care in terms of the domestic concerns of Americans. While Washington will look to tackle health care reform, the looming budget deficit and increased spending for the economic bailout will likely limit what the incoming president and Congress can achieve quickly.

However, it is going to be impossible in 2009 to separate the economy from health care, and agents who fail to do so will find their book of business is at risk.

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ONLINE EXTRAS

For more information about the surveys and research Keller talks about here, check out the April 12-23 AARP survey at www.aarp.com, the CDC numbers at www.cdc.gov/nchs/data/nhis/earlyrelease/insur200809.html and the medical expenditures survey at www.meps.ahrq.gov.