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Big Easing Seen in Health Costs

EMPLOYERS: Sluggish economy drives more competitive market

■ By VITA REED

Orange County employers are expected to see their slowest rate of growth in healthcare insurance premiums in nearly a decade next year.

Businesses here are projected to pay 6.5% more on average for healthcare insurance in 2010 versus this year, according to Hewitt Associates Inc., a Chicago-based human resources service company.

Next year's projected growth rate is down from a 9.6% rise for this year and a recent peak of 19% in 2003, according to Hewitt.

The rate of growth is the slowest since 2001, when local employers saw a 5.4% rise in rates during the last recession.

Higher unemployment, the sluggish economy and competition among insurers are behind the tempered forecast for 2010, according to Hewitt.

After seeing thousands of workers pared from health insurance rolls in the past year, some providers could be reluctant to present bigger premium increases to employers still looking to cut costs.

And some insurers may be moderating increases knowing thrifty employers are more likely to shop around this year.

Oakland-based Kaiser Permanente, the county's largest health maintenance organization operator with 392,000 enrollees, expects a "moderation" in the rate of premium increases for 2010, said Juan Lopez, its area director of sales and account management.

Medical costs, plan designs and an employer's size will determine how much rates go up for local clients of Minnesota-based UnitedHealth Group Inc., spokeswoman Cheryl Randolph said.

UnitedHealth has about 180,000 local enrollees and a large operation in Cypress.

The average growth rate projection for 2010 likely is encouraging for employers, which have grown accustomed to higher rates each year. They should welcome any slowdown in growth in the cost of providing healthcare to workers.

National Rate

Still, employers here are projected to see healthcare costs rise slightly faster than the 6% rate projected nationally for 2010, according to Hewitt.

Local employers are seeing slightly faster growth because HMOs that provide a higher percentage of coverage here have been under pressure from doctors and hospitals for higher reimbursements, according to Lee Reichenbach, a Newport Beach-based Hewitt principal.

Demand for higher payments likely was behind the average 9.6% rise in healthcare costs here this year—bucking Hewitt's projection of a 6.7% 2009 increase at this time last year.

Healthcare remains less costly overall here because of the county's larger share of workers in HMOs, which keeps medical costs low but causes higher administrative costs.

Core Realty Holdings LLC, a Newport Beach real estate owner and investor, is looking at a 3.7% rate hike for 2010, said Gwen Bernal, vice president of human resources.

Core is going with a partly self-funded plan offered by Aetna Inc. in which it, rather than an insurer, pays for employee healthcare claims—up to a set amount. Workers have a deductible they have to meet before payments under the plan kick in.

The company would have faced a rate increase of about 8% if it had stayed with its former plan, according to Bernal.

Employers such as Core that run self-funded plans are expected to pay 5% to 8% more for healthcare in 2010, according to Ron Mason, a principal in the Irvine office of Stamford, Conn.-based consulting firm Towers Perrin.

Employers with HMOs, preferred provider organizations or other types of insurance are expecting 8% to 13% higher rates in 2010, he said.

Clients of Newport Beach insurance agency Nixon Benefits are seeing projected 2010 rate increases of 8% to 11% on average for midsize groups of 100 to 500 workers, said Karen Nixon, the agency's owner.

"If it's negotiated well, they're looking at probably closer to an 8% increase," she said.

Employers at the higher end of midsize-groups could see hikes of 5% to 6% if they

continue their current plans, Nixon said.

The trend of workers paying for more of their coverage is expected to continue.

Local employees are projected to pay \$2,073 in 2010, up from \$1,873 this year, according to Hewitt.

Employee contributions to healthcare here have more than tripled since 2001, when the average cost was \$564 per worker, Hewitt said.

On average, workers here are projected to pay 23% of their healthcare cost next year.

Hewitt predicts local employers will pay nearly \$7,000 per employee in 2010.

'Skinnier Network'

Besides higher copayments and deductibles, insurance broker Nixon said some businesses are looking at offering a "skinnier network," or a smaller, lower-cost selection of hospitals and doctors that workers can choose from.

That can drop premiums almost 10% on average, according to Nixon.

Some employers are keeping wider networks but are requiring workers who elect to stay in them to pay more, Nixon said.

Some local businesses are expected to pay more than Hewitt's projected average rate increase, particularly smaller ones.

Heather Armbruster, founder and chief executive of Heathers Senior Care Inc., a Newport Beach-based provider of various types of senior care with about 60 workers, said she figures her company's health insurance rates are "probably going to double" in 2010 if Congress passes healthcare reform that requires coverage mandates.

Armbruster's company now provides health insurance through a professional employer organization, a company hired by small-business owners to provide employee benefits.

Some industry observers wonder whether healthcare reform being worked out in Congress eventually will play into premiums.

For now, the prospect of reform isn't playing a role in pricing because the market is too competitive, according to Reichenbach.

"If there's anything in there for healthcare reform, it's pretty small," she said. "There's still a long way to go as to what it will eventually look like."