

## Small businesses grapple with health-insurance cost

HOWINGTON PATRICK

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SubHead: Some give up, drop coverage

Byline: Patrick Howington

phowington@courier-journal.com

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Despite the annual double-digit rise in health-insurance costs in recent years, Smith Imported Car Service has resolutely kept paying 100 percent of premiums for its employees.

But those days are numbered. The Louisville car-repair shop is considering putting a ceiling on its spending for coverage - paying a certain amount and asking employees to pick up the rest.

"We've paid the benefit in the past, and insurance costs have increased so much (that) ... we're realizing we just can't afford to do that any more," said Mark Smith, manager of the six-employee shop at 1250 E. Broadway.

To hold premiums down, the company may try a nontraditional approach - for example, pairing a **health-savings account** for employees with a much higher-deductible health plan than the company now has. Managers are weighing alternatives.

Like Smith Imported Car Service, small businesses everywhere have grappled with difficult decisions in the face of health-insurance premiums that have risen several times faster than overall inflation.

Premiums for employer-sponsored coverage rose 59 percent between 2000 and 2004, according to the Kaiser Family Foundation.

And the increase was even greater for many small businesses, which are vulnerable to large swings if one employee gets seriously ill. Small employers in Kentucky saw increases this year of about 20 percent on average, said William Brown, vice president of Administrative Services Group, a Lexington consulting firm that deals with employer associations.

To cope, small employers are trying various strategies - radically changing the type of coverage they provide, shifting more costs to workers, even dropping coverage altogether.

Among businesses with 50 or fewer workers, "there are not that many employers any more that are still paying all of the (premiums)," said Matt Schwartz, president of Schwartz & Associates insurance agency. "It used to be common."

Schwartz, a former president of the Kentucky Association of Health Underwriters, and Jason Weilage, vice president of Weilage Benefit Specialists and president-elect of the underwriters' group, outlined ways small businesses are cutting premiums:

**Raising out-of-pocket levels.** "Deductibles are really starting to jump up," Schwartz said. Instead of \$250 or so for single coverage, many employers are setting deductible amounts at \$500 or more, meaning an employee must pay that amount toward hospital care before insurance kicks in.

"I've got several clients who have taken the leap to not just \$1,000, but \$1,500 (or) \$2,500," Schwartz said.

**Employers are also raising co-payments for office visits and, especially, drugs.** Instead of paying up to \$15 per prescription, it's now common for employees to pay \$60 for some drugs, Schwartz said.

**Capping employers' contributions.** More employers are drawing a line in the sand - defining the amount they'll spend toward coverage and expecting employees to pay the rest.

There are ways to soften the blow - for example, offering employees a choice of plans to suit their budgets, or adding other benefits to offset their higher health-care spending.

For example, to avoid a 16 percent premium increase for its 10 employees, Weilage's own firm raised deductibles and co-payments - and used the savings to set up an investment retirement account for employees, as well as a tax-sheltered flexible spending account for medical and child-care expenses.

The firm held its benefit costs to last year's levels. The strategy was a "way for me to provide additional benefits, and it doesn't cost our company more," Weilage said.

**Setting up personal spending accounts.** Two fairly new setups, called **health savings accounts** and health reimbursement arrangements, have different rules but the same idea: Employers put money into accounts to help pay for employees' medical expenses.

The accounts are paired with a high-deductible health plan, which yields lower premiums. Employers put some of that savings into the personal accounts.

Employers save money, while employees have an incentive to rein in health-care spending to preserve their accounts.

The setups aren't widely used, but they're gaining in popularity. Schwartz said he has set up about a dozen **health savings accounts** for clients.

One is Kentuckiana Pulmonary Services, a Louisville medical practice with about 50 employees. It was facing yet another year of double-digit inflation in premiums this year.

Instead, the firm lowered its premiums almost 20 percent under the new arrangement.

The catch is that employees now have a \$3,000 deductible, so they could have to pay large medical expenses themselves. But they can accumulate employer-provided money in their accounts toward that eventuality.

Keith Vanderpool, administrator of the practice, said he first was skeptical of the idea, but it has been "a win-win."

Educating employees. When Weilage conducts benefit-enrollment meetings, more employers are asking him to include a talk on how to be better health-care consumers. For example, knowing to ask a pharmacist if there's an over-the-counter alternative to an expensive prescription drug can save a health plan money.

Banding together. Two years ago Greater Louisville Inc., the metro chamber of commerce, teamed with **Humana** to offer GLI member businesses a choice of six **Humana** plans at discounted prices. (The Jeffersontown Chamber of Commerce and UnitedHealthcare have a similar program.)

The GLI program puts 349 participating small businesses into one association to determine average rates.

Artemisia, a restaurant at 620 E. Market St., signed up. It is co-owned by Matt Schwartz's mother, Gail Schwartz.

She said the restaurant provides half the cost of coverage for five key full-time employees. Premiums were expected to go up about 7 percent in 2004, but the **Humana**-GLI plan held the increase to as little as 25 cents a month per employee. Rates went up only about \$1 this year, Schwartz said.

Schwartz said she and her co-owner at times have considered dropping health coverage, as some small businesses have done. Kaiser's annual survey found 63 percent of firms with fewer than 200 employees offered coverage last year, down from 68 percent in 2001.

But small businesses are reluctant to take that step, and the restaurant is no different. Health insurance "is a benefit that we feel keeps our employees with us," Schwartz said.

Caption: By David Lutman, Special to The Courier-Journal; Artemisia, where Danielle Stickell is manager, provides half the cost of coverage for five key full-time employees. Some other small businesses are dropping health insurance all together.

Caption: By David Lutman, Special to The Courier-Journal; Jason Miller is bar manager at Artemisia, where owners have considered dropping health coverage altogether.