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Small firms hit with health rate sticker shock

By WILL ASTOR - 11/27/2009

Richard Webb figures he dodged a bullet, but he already is worrying about what bad news he might have for his employees in 12 months when he has to pick a new health plan.

Webb is CEO of Pierce Industries LLC, a machining, fabricating and remanufacturing firm with roughly 30 workers. Like other companies with fewer than 50 employees and companies of any size in an HMO plan, Pierce Industries is limited by state law to participation in a community-rated risk pool.

And like other community pool employers in the area, he is suffering from an advanced case of sticker shock after seeing health insurance rate quotes for 2010 with increases well into double digits.

Excellus BlueCross BlueShield and MVP Health Care, which between them write most of the region's health insurance, announced double-digit rate hikes this month for plans in the community pool. MVP said its community pool rates would rise 12 percent to 25 percent.

The Blues, meanwhile, announced community pool hikes ranging from 10 percent to 18.9 percent. But like Webb, whose 2010 Excellus quote was 22 percent higher than the current rate, some companies are seeing bigger premium hikes.

The 22 percent rate hike is being applied to products the Blues intend to phase out, said James Redmond, Excellus vice president of communications. Since such plans are not open to new enrollment, their increases were not included in the company's rate announcement.

Dismay among small-business owners is widespread, said Lawley Benefits Group LLC partner John Cogan III, whose clientele includes small firms here. Some, like Webb, are switching to a quarterly rolling rate option, which contrary to its name guarantees a rate for 12 months.

Others are looking at high-deductible plans, an option under which employers and enrollees trade lower premiums for steeply higher out-of-pocket costs in the form of deductibles of more than $1,000 and as much as $3,000. Employers who are electing to stick with more traditional HMO and HMO look-alike EPO and PPO plans are moving to products with higher co-payments and deductibles.

As health coverage continues to take ever larger bites out of employers' operating budgets, Cogan predicted, they increasingly will look to shift costs to workers.

In its most recent survey of local employers' health benefit plans and expectations, the Rochester Business Alliance Inc. found that a scant 13 percent of the respondents planned to absorb a majority of premium increases; the rest expected to pass them on to their workers. The rising cost of health coverage remains a top concern for employers, the RBA survey found.

RBA members will keep looking for ways to manage health insurance costs, spokeswoman Ellen Rosen said. Coping methods identified by employers include asking workers to pay a higher share of premium hikes and moving to products with higher co-payments and deductibles.

Premium hikes are disproportionately hitting small businesses and organizations, many of which are in a community-rated risk pool. In its Nov. 1 rate hike announcement, Excellus claimed that when community-rated plans were lumped with self-funded and experience-rated groups, the insurer's overall average 2010 rate hike would be 5.7 percent. Experience rating and self-funding are mechanisms not considered practical for smaller companies and in New York are prohibited by law for the smallest companies.

In community rating, firms are lumped into a single risk pool with each one paying a rate based on the whole pool's average expenses. New York insurance law requires insurers to use community rating for companies with 50 or fewer employ-ees. In experience rating, each company or organization is a separate risk pool made up of only its own employees.

A self-funded company similarly is its own discrete risk pool, but the company or organization rather than an insurance company pays medical claims.

Because smaller risk pools are subject to greater variation, experience rating and self-funding generally are not considered practical for smaller organizations. Some put the self-funding floor at 500 employees, while others say 1,000. Experience rating is less practical for groups of 150 or fewer, Cogan said.

Over the past several years, larger local employers including the University of Rochester, Eastman Kodak Co., Xerox Corp., the Rochester Institute of Technology, Monroe County, the city of Rochester and all Monroe County school districts have moved into experience-rated or self-funded plans, leaving a smaller community pool. Also contributing to the area's community pool shrinkage are policies followed by MVP and Excellus of selling only experience-rated plans to groups of 51 or more employees that sign up for non-HMO products.

Smaller local community-rated pools mean higher rates and tougher choices for companies left in them.

For the next year, Webb plans to switch from Pierce Industries' current insurance carrier, the Blues, which does not offer the quarterly rolling rate option in this area, to MVP Health Care, which does. The MVP plan will keep his costs roughly where they are now until it expires in November 2010-when, Webb fears, he will face health insurance alternatives as grim as those he just finished scrutinizing or worse.

High-deductible plans might give employers some relief, Cogan believes. To work properly, however, such plans should be tied to health savings accounts into which both employer and employee contribute, he said. Money goes into HSAs on a pretax basis and, if used for health care expenses, is not taxed when withdrawn.

Preventive care such as annual physicals and colonoscopy scans typically is free for enrollees in high-deductible plans. But until they have laid out the deductible amount, enrollees pay the entire cost of non-preventive office visits to a primary-care physician or specialist. Once an enrollee has spent the deductible, the insurance company pays claims.

MVP and the Blues currently offer similarly designed high-deductible plans in which enrollees are required to lay out amounts ranging from $1,300 to $3,000 before the insurer pays many claims. High-deductible family plan premiums, however, cost perhaps $400 a month less than other plans.

For a high-deductible plan to work well, employers and employees should plow any savings on lower premiums into an HSA, Cogan said.

Webb said he looked at high-deductible plans but did not think they would be a good fit for all of his workers. He was unsure whether he wanted to be tied to a company contribution to workers' HSAs and worried that employees with high medical expenses would have problems covering costs.

Until now, most local employers have had similar qualms. Though high-deductible plans have made strides in many areas, the Rochester market has largely resisted them. That is changing, however, MVP and Blues officials said.

Although they still account for a relatively tiny slice of Excellus' Rochester-area business, the Blues' high-deductible plans showed the most growth of any product line this year, Redmond said. And while it is too early to say yet how they will fare in 2010, interest in them among sticker-shocked employers so far is high, MVP spokesman Michael Traphagan said.