

# Copier Careers White Paper

## Health insurance costs rising at the fringe

Talking about rising health insurance costs is becoming almost as common as talking about the weather.

Average working people and small companies are being socked by costs for health insurance at a level as high or higher than rent or mortgage payments. The National Coalition on Health Care in Washington, D.C. estimates by 2006 the average family health insurance premium will exceed \$14,500 per year and the average family's premium costs will have increased by more than \$5,000 in just three years. "The costs are high and I don't see it ending right away," said Robert Piché, Owner of Maxi-Marketing, a Minneapolis, Minn. insurance firm. "More technology, more drugs being used – I don't know where it's going to go."

Piché is a former President and CEO of a Wisconsin insurance firm. He says that Minnesota health insurance premiums are rising an average of 10-15 percent per year. The National Federation of Independent Business, Lansing, Michigan, has put health insurance as the top concern every year since 1986. Charles Owens, State Director of the NFIB, testified before the Michigan Senate Health Policy Committee in March 2003, that "One thing that everyone testifying today will agree on is that health insurance costs for small business have reached a crisis point."

Health Maintenance Organizations were a talked-about method for managed care in the late '80s and '90s that would help drive costs downward and shift focus to prevention. But Piché says in Minnesota, HMOs are "not acting like HMOs." While assigning people to particular clinics, they are going more toward allowing access to any provider. Insurance is also managed by non-profits instead of private-sector insurance providers, he says.

"Usually the non-profits and HMOs dominate the market here," he said.

Piché says it's common for people to pay more for health insurance than rent.

## Business insurance plans move to a new level

Business-sponsored plans account for about two-thirds of health insurance coverage in the U.S. The higher costs for small businesses such as copier firms have spawned various remedies, including reduction of benefits or innovative partial self-funding plans. Piché says employers are offering fewer benefits and passing more cost on to employees. The choices, he says, are higher deductibles and higher co-pay.

"Health benefits are probably the most important benefit the employee looks at," Piché said, "and if you offer a good health plan, you are at an advantage."

The sticker shock of moving or retiring can be considerable, Piché said. Costs for COBRA plans, which allow participation of an employee after leaving a company's insurance plan, can make the prospective wanderer stay put.

The 2003 Medicare Act may have been criticized, but it created a vehicle to help small business through Health Savings Accounts (HSAs) effective Jan. 1, 2004.

The HSAs, in tandem with high-deductible health insurance (at least \$1,000 individual and \$2,000 for a family) allow individuals and employers to contribute each year for qualified health expenses. These funds can be used for health insurance deductible, Medicare premiums (not supplemental Medicare), COBRA benefits and, for the unemployed – health insurance premiums. If an employee retires or leaves, the account stays with the employee.

HSAs are established at a bank or health insurers and employees and employers can contribute. The amount contributed to an HSA is tax-deductible up to the policy deductible, whether you itemize or not. The tax write-off can't be more than \$2,600 for an individual or \$5,150 for families. The interest and investments are tax-exempt.

The concept replaces an earlier savings plan, the Medical Savings Accounts (MSAs) or Archer Medical Savings Accounts. These plans had higher deductibles and were more restrictive about businesses that could qualify. U.S. Congress created the MSA option in 1996 that combine tax-deferred bank or savings accounts with a low-premium/high-deductible insurance policy for funding health care expenses and medical insurance. These plans expired the end of 2003, except for existing participants.

Many companies have Flexible Spending Accounts (FSAs, also called FLEX accounts) set up through a qualified employer. These plans use before-tax earnings for medical care at an amount specified by the individual employee.

The HSA advantage over the FSA is that any amount in a flexible spending account is forfeited at the end of the year. HSA funds accrue year to year and if the employee dies, the surviving spouse can withdraw funds for medical expenses.

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## A copier firm moves to HSAs

Copy Images in Edina, Minn. paid 100 percent of an individual policy's premiums six years ago. The company was notified last year that its group health insurance policy was going to increase 16-17 percent.

"We have had low double-digit increases each year," said Charlie McGoldrick, President, "and we just decided we couldn't handle it."

Copy Images went to a higher deductible-HSA plan. After using the HSA to meet the deductible, coverage is 100 percent. The employee also can use FLEX spending from pre-tax earnings to pay for the deductible and expenses such as glasses or orthodontics.

The company pays individual premiums and McGoldrick said there was considerable savings on premiums. Copy Images was able to add dental and a disability policy from the savings.

"I believe you're going to see more of this," McGoldrick said about the plan.

## Health insurance remedy at all levels

It's not uncommon to pay thousands for an emergency room visit or five dollars for one pill. Of course, the costs of equipment, doctor and nursing care are part of the costs for an ER visit. But such hidden costs as the physician's malpractice insurance and paperwork and billing costs affect all of those insured, too. The question is what to do about it.

The ability to deal with such issues as rising drug costs, Piché says, is something that needs to be addressed nationally. The lack of a consensus by the 1993 National Task Force on Health Care shows how difficult it is to achieve a national majority in favor of any given solution. A number of groups are now advocating a number of remedies that could be taken to the national level. President George W. Bush's FY 2003 Budget included a proposal for a refundable tax credit for individuals without employer-sponsored health coverage. Under the Presidential proposal, there would be a tax credit of \$1,000 for individuals and \$3,000 for families. Bush supports reduction of frivolous medical lawsuits.

Presidential hopeful Sen. John Kerry, D-Mass. has not detailed his health-care proposals, but has called for broadening health coverage through repeal of some of President Bush's tax cuts.

There are trends some improvements to health insurance are local, organization-related or narrow to the individual. Here are some of the health care and health insurance trends that appear to have the most momentum among small businesses:

**Health insurance plan limitations will grow.** With premiums increasing rapidly, few employers will part with additional revenue to fund family health insurance, although some have done that in the past. With smaller companies such as those prevalent in the copier industry, one catastrophic illness in a group can drive up the group insurance rates significantly. Coverage of some items may decrease for employees, too, and tiered structuring will be more widespread.

**FLEX and HSA-driven plans are growing.** As insurance costs rise, employers will be looking at such options as Health Savings Accounts and Flexible Spending Accounts to self-fund deductible costs out of tax-deductible earnings. HSAs from the 2003 legislation are a way small businesses can move to move to higher-deductible plans while still assisting employees with medical costs.

**Mandates, tax laws and other health-care issues need reform.** Mandates in any area, including insurance coverage, seem to reverse the desired effect; a mandate for a particular class has a way of increasing costs for all subscribers. The NFIB supports removing coverage mandates for insurance companies. The NFIB also advocates:

- a) Removing health insurance costs from the single business tax wage base, which would lower business health care expenses by lowering taxes.
- b) Legislation enhancing benefits of Association Health Plans (AHPs), which allow coverage for trade associations across state lines. President Bush has also supported allowing AHPs to make insurance more affordable.

**Universal health insurance is an option.** The National Coalition on Health Care estimates that in 2002 there were 44 million uninsured, mostly young adults. That amounts to 15.2 percent of the U.S. population. These people were responsible for \$35 billion in health costs, the organization estimated. The NCHC calls for less cost shifting for the uninsured, plus universal health insurance as a step for controlling expenses.

**Individuals need to take responsibility for health-care decisions.** A considerable number of people studying health-care economics believe when insurance companies pay all costs, many consumers don't realize the cost of the care they receive. That may change as the costs escalate and as costs come out-of-pocket, whether non-taxed or not. Individuals can keep plans affordable by seeking generic drugs, when possible, and lowering emergency-room visits. Others include using in-network providers (costs less than non-network providers of service) and improving their own health and lifestyle.

## Recognize the metamorphosis

Health insurance is usually only part of a package that includes pension, disability, life insurance, sick and vacation leave, but is one of the most important benefits in the small business orbit that includes most Main Street copier companies.

Metamorphosis into plans that use a combination of medical-based savings accounts and higher deductible may be a trend that saves on premiums and encourages the individual employee to be more responsible for his or her own medical costs.

Both employers and employees will have to come to terms with the fact that overall escalating costs in health insurance will cause changes in coverage. While it's true the business of insurance is changing, Piché said, "What business isn't changing right now?"

It's your responsibility to apply for jobs that will help you maintain a good résumé.