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## *Weekly Financial Article for the Week of February 18, 2008*

### **KEEPING HEALTHCARE COSTS DOWN**

#### *What can be done to control the price of care?*

HMOs, PPOs and POS plans have long claimed that their intent is to keep healthcare costs low for individuals through preventive care strategies. While these claims are often publicly disputed, new studies and efforts have emerged to try and help healthcare providers control the price of care.

**The factors that *do* keep costs down.** A few years ago, the Agency for Healthcare Research and Quality - a division of the U.S. Department of Health and Human Services - published a research report called *Reducing Costs in the Health Care System: Learning from What Has Been Done*. The AHRQ found that three factors contributed to cost reduction for HMOs, businesses and individuals. First, competition among HMOs: the survey found that group-model HMOs in very competitive markets had premiums that were 11% percent below those in the average HMO. Second, the study learned that premium costs shouldered by a business were cut by an average of \$480 when employers offered employees more than two plans and made a fixed dollar contribution regardless of employee plan choice. Third, the AHRQ cited a carve-out strategy that resulted in reduced costs - in response to a state mental health parity mandate for severe mental disorders, one insurer introduced a spin-off organization. Three years later, the per-member plan costs for approximately 75,000 enrollees had declined by 64% for children and adolescents, and by nearly 40% for mental health and substance abuse services.<sup>1</sup>

**Foundations lend a helping hand.** In many communities, the most frequent visitors to emergency rooms and inpatient facilities are the indigent, the mentally ill, and the addicted. This recurring emergency care strains hospital resources and drives up ER and hospital costs. In the Golden State, a pair of private foundations - the California Endowment and the California HealthCare Foundation - embarked on a five-year grant program, the Frequent Users of Health Services Initiative, to encourage proactive care among these populations to lessen their reliance upon ERs and hospitals. In Santa Clara County (San Jose), the program resulted in a 41% reduction in emergency room visits and a 43% reduction in hospital admissions.<sup>2</sup>

**Bucking the trend in the business sector.** We hear all the time about runaway health insurance costs for businesses, but a Kaiser Family Foundation survey of 2,000 small, medium and large businesses revealed an average 6% rise in health insurance premiums for 2007, less than the average 8% increase for 2006 and well below the 14% jump for 2003. But even with such a surprising downward trend, healthcare costs have risen faster than inflation costs in each of the last ten years.<sup>3</sup>

If you'd like to learn about reducing your own healthcare costs, and possibly reducing the cost of life, long term care, and disability insurance, talk to a qualified insurance or financial professional today.