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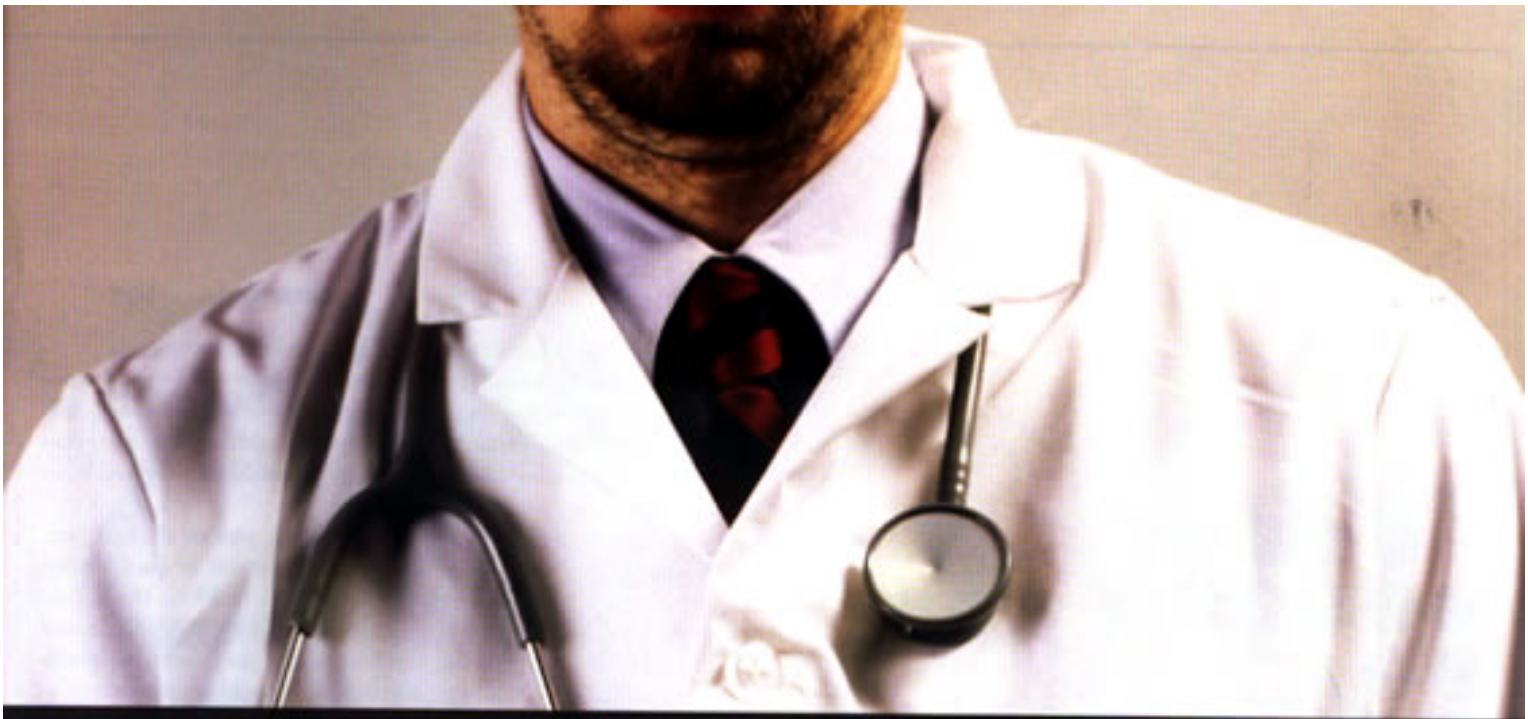

HEALING HEALTH CARE:

(LOW-COST OPTIONS FOR SMALL BUSINESSES)

There's no way around it: Health care costs are a huge hurdle for small businesses. But new hybrid plans offer some hope of keeping your best employees from bolting.

BY JOE FOLLANSBEE

CANLIS GLASS OF

Seattle grew so fast after opening its 3,000-square-foot Belltown gallery and studio in December 2005 that owner Leigh Canlis thought she was going to burn out.

She and her husband, Jean-Pierre, were showcasing his bamboo-shaped glass sculptures in some of the city's trendiest hotspots, such as Hotel 1000, BOKA Kitchen and Turgeon-Raine Jewelers. National collectors were knocking at her door, and Leigh was having trouble juggling two important jobs: keeping customers happy and finding new markets.

The moment was right to hire some help, but Leigh needed someone who could get into high gear immediately. Health insurance, it turns out, became the key to attracting experienced candidates. "It wasn't an option," she says. "I had to offer it if I wanted a quality person."

Leigh hit on a simple idea: She would pay the first $61 of a monthly premium, which would buy a basic insurance plan that covered catastrophic illness, such as a long-term hospitalization. If the new employee wanted something more, he or she would pay the rest of the cost. Leigh found a candidate who chose a package with a premium of $137, which meant the company's third employee would pay $76 a month for extra coverage.

For Leigh Canlis, two lessons were learned: First, employee health insurance is central to building a business. Secondly, even the smallest business can make it work.

SCARY NUMBERS

It's true that reading about health care options can often be a mind-numbing experience. But in this very competitive market, making the right health care decisions can help a small business find success.

In the current health care system, well-educated, experienced workers depend on employers for comprehensive health insurance—including medical, vision, dental, mental health and prescription benefits—to pay for well-baby checkups, physical therapy and even cancer treatment.

Not surprisingly, the largest employers usually provide the best benefits because they are in a position to absorb the cost of always-rising premiums—up 73 percent nationally from 2001 to 2006. That's a disastrous trend for small companies; between 1999 and 2004, the annual increase in health insurance premiums for Washington's small businesses was up to five times greater than the increase in wages or revenue.

The news is even worse for individual policyholders. In early May, Regence Blueshield, one of Washington's largest health care insurance providers, announced that policyholders with individual plans through the company or its subsidiaries will face an average rate increase of 19 percent this month, with some policyholders facing rate jumps of up to 40 percent this month.

Many owners of smaller companies with 50 employees or less (a common definition of "small business" in the insurance industry) feel that they can't afford these costs, even though they recognize the long-term benefit of offering insurance. A 2006 survey by Georgia-based Aflac found that, of 501 small-business decision makers asked, nearly two-thirds said they worry about their company's ability to provide a benefits package that will attract and retain employees. About half of the employers surveyed offer health-care coverage. In Washington state, health coverage through an employer declined from 71 percent in 1993 to 66 percent in 2004.

Such skyrocketing rates have led some employers to try and get around the issue of supplying health-care coverage by paying employees extra to find their own coverage. Anecdotally, it's been reported that a number of employers, including some in the health-care field, offer employees between $100 and $250 a month to drop their corporate health care coverage. However, not only is this usually a raw deal for employees, but according to the California-based Foundation for Health Coverage Education, employers who give raises in lieu of health benefits spend about 14 percent more on the resulting taxes. That's because coverage is tax-deductible for businesses.

For example, assuming a 35-percent income tax rate and the standard rates for FICA, Medicare and workers compensation insurance, the net cost to an employer of a $2,000 raise is $1,477. The net cost of $2,000 worth of health insurance is just $1,300—a savings of $177.

"EMPLOYEES HAVE MORE SKIN IN THE GAME. [CONSUMER-DRIVEN] PLANS HELP KEEP RATE INCREASES DOWN BECAUSE EMPLOYEES WILL BE BETTER CONSUMERS."

—Laurie Kirkland, Washington Association of Health Underwriters

HEALTH CARE ON A BUDGET

● Make no mistake: As the above numbers show, the health insurance landscape is strewn with fear, uncertainty and doubt. Employers in small businesses that are ready to offer or upgrade health care benefits face a dizzying array of insurance companies, benefit packages and premiums.

But new laws, new products and services from private insurers are helping to ease this grief. Despite all you may have heard, there are affordable health care options available. Small-business owners—even those with more than 50 employees that have easier access to insurance because of their workforce size—may be shortchanging themselves if they let the gloomy numbers about the rising costs of health care prevent them from seeking coverage.

Even some private firms are getting into the health-care-provider game. Issaquah-based Costco offers health insurance to certain qualified businesses, and some industry associations and chambers of commerce offer plans. With the help of a skilled health insurance broker, employers can navigate the maze of options to find a program at reasonable cost.

LETTING EMPLOYEES DECIDE

● Variations on the standard health-maintenance organization theme of health care (see sidebar, page 40) are emerging out of a growing trend called "consumer-driven" health care.

Decades ago, most people paid doctors or hospitals directly for their care, and they knew the prices of those products and services. The growth of employer-based health insurance over the years masked those costs because the health plan paid for everything beyond a set co-pay and deductible. The only price most consumers see is the premium.

Proponents of consumer-driven health care believe that exposing hidden costs to the marketplace and placing more buying power in the hands of consumers will drive costs down. In other words, consumers will shop around for care, and the resulting competition will curb growing health care costs.

"Employees now have more skin in the game," says Laurie Kirkland, president of the Washington Association of Health Underwriters, who notes that 8 percent of her clients buy employer-based health insurance. "These plans help keep rate increases down because employees will be better consumers."

LOOKING TO TIGHTEN YOUR BELT?

Here are some basic health-care plans that every small business should know about.

Workers' Compensation ⇢ The least expensive health insurance option for small-business owners is state-run industrial insurance, also known as workers' compensation insurance. For a monthly premium that varies with the type of job, virtually any worker, including a business owner, is covered for an injury that happens on the job—and nothing more. Workers' comp covers medical, hospital and related services, and pays compensation if an injured employee—even the owner—can't work full time.

David Young, a certified business advisor with the Seattle office of Washington State University's Small Business Development Center, says owners often forget to cover themselves. "Even for businesses that have gone beyond a few employees, you'll still oftentimes find the owner without this coverage, and it's nuts," he says. "Workers' comp provides a baseline of coverage that's difficult to duplicate."

However, the program's limitations of only covering job-related injuries means that employees must sign up for another health care policy to cover other health issues from outside the job and to cover the needs of spouses and family members.

Basic Health ⇢ Low-wage workers may be eligible for Basic Health, a state-subsidized program providing affordable health care coverage to individuals and families through private health plans. Eligibility is based primarily on gross monthly income and the number of dependents. For example, according to 2007 income guidelines, a family of four could earn as much as $3,333.49 monthly, or about $40,000 a year, and get coverage for a reduced premium.

Children of adults covered by Basic Health may be eligible for Basic Health Plus, a free Medicaid program for children in qualified households. As the name suggests, Basic Health covers only basic medical and prescription needs; there are no vision or dental benefits. In 2007, state lawmakers extended eligibility for Basic Health Plus to 38,000 more uninsured children.

PPO/HMO ⇢ Most business owners usually end up working with a preferred-provider organization (PPO) or its cousin, a health-maintenance organization (HMO).

Most workers are familiar with the way PPOs and HMOs work: The employer and the employee divvy up the monthly premium cost, then the employee chips in a co-pay, say $15 to $25, for an office visit or a prescription. The employee's choice of doctors is limited to those within the PPO or HMO network. If the worker goes outside the network, he or she foots a higher percentage of the bill. Annual deductibles—the amount employees have to pay before benefits kick in—tend to be low, just a few hundred dollars.

The typical PPO or HMO plan hasn't changed much over the years, though some insurance companies are trying new ideas. Regence BlueShield, one of the state's largest private health insurers, offers employers a plan called "FourFront," which waives the deductible for the first four office visits per employee and each dependent per year, although you may have to pay for a procedure, such as an x-ray. "It's been one of the most popular programs we've launched in the last five years," says Cary Badger, Regence's vice president of market development.

The two most popular consumer-driven models are high-deductible health plans (HDHP) and health savings accounts (HSA), which are often used in tandem.

High-Deductible Health Plans—HDHPs have an obvious difference from standard low-deductible plans: deductibles can be as high as $5,000 a year. Paired with a higher deductible is a lower premium.

For example, a traditional plan with a deductible of $1,000 might have a yearly premium of $5,800, while a high-deductible plan might have a deductible of $3,000 and a premium of $3,750. Sometimes called "catastrophic health insurance," an HDHP is meant to cover major surgery or long-term cancer treatment. But what if you need care for, say, breaking your foot on a hiking trip? The bill could be for thousands of dollars but still fall short of the deductible.

Health Savings Accounts — That's where the HSA comes in. Governed by IRS rules, it works something like a 401(k) retirement plan; money goes from a paycheck pre-tax into a special account set aside to pay only health bills.

Employers can contribute to an employee's HSA, and the money rolls

PAUL TAYLOR

"FOR MANY LOWER-INCOME EMPLOYEES, [AN HSA] IS THE ONLY WAY THEY CAN AFFORD TO PAY INSURANCE FOR THEIR FAMILIES."

—Tom Gaulke, Provident Horizon Group

over from year to year. Workers dip into the HSA money to pay for health care not covered by their insurance plan. This year 4.5 million Americans used an HSA, a 43 percent jump from the previous year, according to a health insurance industry group. (A similar mechanism, called a "health reimbursement arrangement," or HRA, functions like an HSA, except that the money is controlled by the employer, instead of the employee.)

SAVIOR OR CURSE?

The HDHP/HSA option proved to be a lifesaver for Yakima-based Provident Horizon Group, a not-for-profit, 55-employee firm that provides job training and placement services for people with disabilities. COO Tom Gaulke says health insurance coverage became so expensive in 2003 that he was forced to drop coverage for his workers.

An improving environment for donations allowed him to offer health insurance the following year, but he added a new option: a less expensive HDHP with an HSA for employees. His company contributes $600 a year to each account, and many employees add their own dollars. About half of Provident's workers have signed up, and Gaulke foresees a day when most of his employees will have HSAs. The accounts help more than the individual employee, because they can use the money to buy other health insurance.

"For many lower-income employees, this is the only way they can afford to pay for insurance for their families," Gaulke says.

HSAs have their critics. Economist Paul Krugman, a columnist for *The New York Times*, argues that high-deductible plans let insurance companies off the hook for low-cost preventive care that could avert major problems covered by their insurance plans. For example, if a plan covered a $150 visit to a foot doctor, it might prevent a $30,000 amputation covered by insurance. (Many HDHP plans cover preventive care before applying the deductible.)

Futhermore, many employees already have trouble managing complex self-directed retirement accounts. Could they handle the ins and outs of the complicated HSA structure? Few management tools exist, and they can be hard to use.

Leigh Canlis, the owner of Canlis Glass, was unimpressed with the HSA idea. "It sounds confusing to me," says Canlis, who was concerned about the accounting complexities of the system. "I'm already paying my bookkeeper enough per hour to handle my current needs."

GET WELL, STAY WELL

The smartest companies realize that preventing worker ailments is far better—and cheaper—than paying for treatment after the fact. As a result, many firms are turning to so-called "wellness programs," which insurers also pitch as an employee perk.

Employers who buy a health plan with a wellness program ask employees to fill out a confidential online questionnaire that documents the worker's eating habits, exercise routine, stress levels and other health indicators. If the employee reaches a certain score, depending on the tool, he or she might get a call from a nurse who doubles as a "lifestyle coach."

Wellness programs aim to identify the small minority of individuals in an insured group—such as a specific company—who often account for the bulk of the group's medical costs. For example, an individual with diabetes may need large amounts of care, and a nurse/coach could boost productivity and cut premium costs by helping the employee manage the disease more effectively.

"This is a better way to generate a return on your health insurance investment," says Greg Swint, vice president of marketing and sales for Group Health Cooperative.

MORE INFO, PLEASE

But the biggest problem with "consumer driven" care may be the most important component: information.

Standard economic theory posits that efficient markets require transparency in pricing. In other words, you have to know what products and services cost to make an informed choice and to foster the competition that promotes lower fees.

Health care prices are notoriously opaque; doctors and hospitals often don't really know what their work costs because medicine is so complex and customized to individual needs. Business owners and workers can't just look up the cost of knee surgery in a catalogue, for example.

"Not everybody has reached transparency yet, and we all recognize that," says Rick Grover, Premera Blue Cross' vice president and general manager for the Washington market. Regence's Cary Badger says consumers want price information that's understandable and digestible. "[Consumers] are going to look for people who can help them connect the dots," he says.

Premera is taking some steps toward transparency. In April, the insurer launched a new online tool called the "Out of Pocket Estimator" at its Providence Everett Medical Center. Now patients can see an estimate of their portion of a hospital bill before they check in, instead of getting a shock in the mail weeks later. It's not a comparison-shopping tool, but Premera says its members wanted more up-front information about their bills so they can plan ahead.

There is no doubt that health care is a highly complex issue that few people actually understand. But don't despair. Smart employers, even ones with just a few employees, realize that a health benefit is an investment in their business. In industries where highly skilled workers can pick and choose their situation, a comprehensive health package can make the difference between keeping skilled employees or seeing them go to a competitor.

If business owners make the time to seek out the right program from the plethora of options and take advantage of new services offered by insurers, they can enjoy the longer-term, tangible blessing of a healthier, more productive, more satisfied workforce.

"Over time [having a quality health plan] will have an impact in a way that will moderate cost trends," says Swint of Group Health. "It may not pay off in the current year or over some months, but it will pay off over time."