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No Rest for the Weary

Manufacturers Respond to Out of Control Health Care Costs and Gain Little

By Edmund B. Ura

Manufacturing employers — forced to reduce benefits and ask for more contributions from employees — still saw double-digit annual increases to their health insurance premium costs this year. This continued trend — marking one of the most significant challenges faced by the Michigan manufacturing community — is one of the key findings of the *2004 MMA Employee Benefits and HR Policies Survey Report*, recently published by Management Resource Center, Inc.

The survey includes data from more than 200 companies and is the first combined edition covering both employee benefits programs and human resources policies and practices. Report users can obtain data for all industries or for the manufacturing and service sectors separately.

Benefits programs consistent, except for medical coverage

Manufacturing employers made few changes to their benefit programs, excluding those in the health insurance area. Paid-time-off policies remained consistent with those of prior years, and non-health related insurance programs also remained stable. With most companies having already changed their approaches, the use of section 401(k) plans continued as the primary source of retirement savings for employees.

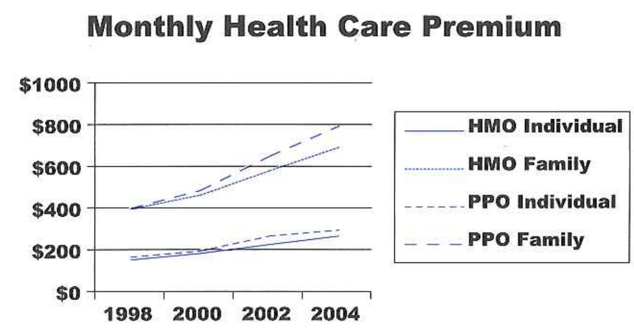
The visible and hidden costs of health care insurance increases

The actual increase in health care costs is no secret and has been well reported. However, lost in the discussion in many cases, is the far reaching impact of the health care cost crisis. In order to remain competitive, employers are forced to maintain health insurance for their employees, even when such cost increases threaten their continued existence. To keep any kind of coverage at all, changes are often made, which are almost always received in a negative way by employees.

The continued cost of maintaining these programs — even if the services are never or rarely used — has more than doubled in the last six years. Added to this cost is the much less measurable cost of decreased morale and the attendant decline in loyalty toward the employer.

Figure 1, below, focuses solely on the monetary cost of maintaining health insurance coverage paid by employers. Displayed are the average monthly premiums paid by employers to maintain Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) coverage for individuals and families.

Figure 1



While data to answer the following question are unavailable, it raises a serious concern: If the cost to employers has doubled over six years, while benefits are being significantly reduced, what would the cost have been to maintain the same level of benefits paid in the late 1990s? The one answer that is apparent from the findings of the survey is that there are probably few, if any, companies that know.

The cost of putting a single employee to work has been exacerbated beyond the limits of many employers, providing one simple answer to the question of why there are fewer new hires.

Consider an employee earning about $15 per hour in a manufacturing facility. Assuming no overtime, and only considering health care and legally mandated employer contributions (as well as not including many "hidden" costs such as paid time off), the effective cost of that employee is more than $18 per hour — an additional 20 percent over base pay.

What do employees get?

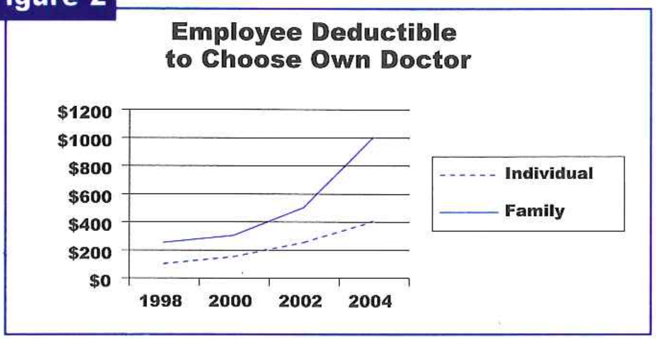
The ability of manufacturers to provide employees with their choice of medical care has eroded at the same time that the cost of providing any insurance at all has grown so dramatically. Those with the ability to make choices have done so, responding by changing plan types and increasing deductibles and co-pays.

In 1998, fewer than 20 percent of Michigan manufacturers reported increasing their deductibles/ co-pays for health coverage, and only about 15 percent were making changes to their prescription drug plans. In 2004, more than 60 percent reduced their benefits and more than two-thirds (69 percent) changed their prescription drug plans in response to increasing costs.

Office visit costs have increased sharply, begging the question of how much more value employers and employees are getting, but certainly explaining why changes are being made. In 2002, employers paid an average of $581 per month for a family HMO plan with a $10-per-office-visit charge to employees. In 2004, employers are paying $693 for a plan with a $15-per-office-visit charge. Similar increases can be seen in PPO plans.

A very significant, but likely overlooked, cost to employees involves their own choice of a doctor. While deductibles and co-pays have risen rapidly, the most significant cost increase to the employee involves those who choose to use a non-plan doctor. Figure 2 below illustrates the cost incurred by an employee before a single dollar is paid by the insurance company.

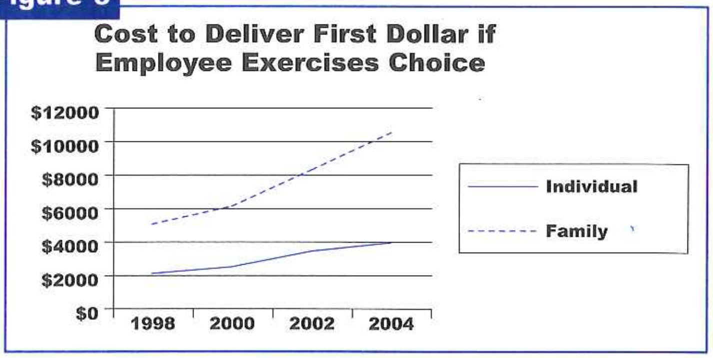
Figure 2



The true impact to both the employee and employer far exceeds what is evident when any individual aspect of the health insurance crisis is examined. It involves cost and choice and illustrates just how much control both employers and employees have lost. Much can be argued about how forcing employees and their families into either an HMO or PPO system controls costs, however, the bottom line from an employee's perspective is that it forces them to make a change to some aspect of their lives.

In 1998, a single employee was likely to pay $100 to his doctor before insurance began covering costs, and then would pick up about 20 percent of the cost of services. This system cost his employer about $2,000 per year. In 2004, if the employee wanted to continue to see the same doctor (who hadn't joined the plan), he would pay $400 before insurance paid anything and 40 to 50 percent of the cost after that. For that privilege, his employer is now paying $3,552. (See Figure 3.)

Figure 3



The bottom line is that the total cost for an employee to exercise his or her choice in doctors, and actually have the insurance company pay a single dollar in benefits, has gone from $2,100 to just under $4,000 in six years, an annual increase of 11 percent. The corresponding family cost has risen from $5,100 to $10,500, an increase of 13 percent per year.

Explanations help little

Managers, particularly those in charge of the financial and human resources aspects of their businesses, see a huge cost item increasing at a rapid rate and can appreciate the need to cut benefits or hold back in other areas of the cost of employment. Many employers hope to be able to justify pay freezes or minimal increases by explaining the cost of health care.

The problem, however, is that employees are not in a position to understand how health care costs figure into the "big picture" of operating a business and it is fundamentally unfair to expect a positive reaction (or even one that is not negative) from employees.

Management must understand that it is all a matter of perspective and, no matter how sympathetic an employee may be to his or her employer, there is generally little mileage to be gained in trying to combine the costs of health care into the entire employee cost package and "sell it" as anything other than what it is. The "big picture" for an employee (and this goes for executives as well as employees working the line) is their own personal income and their own personal cost.

An employee compares benefit levels, not benefit costs. Employees look at their deductibles, co-pays and maximum out-of-pocket costs, as well as the amount they must have withheld from their pay to receive the benefits. Whether it costs the employer $500 or $800 a month to secure those benefits is not even slightly under the control of the employee and is of little practical concern.

From an employee's perspective, it is the employer's job to find competitive benefits at whatever the cost, just as it is the employer's job to find the best price for steel, components or tooling. While management may want to combine all of the costs of employment into a single figure, employees will not see it that way. The employee sees the costs of goods and services and their own ability to secure them based on their salary or hourly wage. When prices increase, buying power is eroded and the explanation that "we can't keep up because of rising health care costs" may be a valid one but does not help the employee with grocery bills.

How to react

The way to respond to rising health care costs, as well as the cost of all benefits, is to ensure that the total benefit program is best tailored to employees and their needs. Many employers have a fundamental misunderstanding of employee benefits programs and how to get the best results for what they spend.

The "best" benefit program isn't always the most effective. For example, a workforce that is typically young and single will not appreciate the value of long-term disability insurance or rich savings or retirement plans. Much more mileage may be gained in a tuition-assistance program that costs less than a health insurance program if many in the workforce are trying to develop themselves. If a workforce is composed of a large percentage of employees who provide the second income to their household health insurance benefits may be of little concern and thus not as greatly appreciated.

The bottom line is that employee benefits planning should be more than a simple reaction to premium increases. Employers should carefully look at the characteristics of their workforce and the types of needs they have and design programs accordingly.

Additionally, employers should consider that the way they make themselves the most attractive is to appear to meet the needs of people today, and not, necessarily, the needs of those when the benefits program was created in the first place.

For more information

Copies of the *2004 MMA Employee Benefits and HR Policies Survey Report* are available from Management Resource Center, Inc. (MRC), by calling 734-454-2500 or completing the form below.

Edmund B. Ura is president of Management Resource Center, Inc. (MRC), in Plymouth. MRC is an independent consulting firm offering business and compensation strategy and planning, and research and management consulting. For assistance in interpreting report findings, or for more information on employee benefit and policy practices, contact Ura at ebura@mrc-consulting.com or 734-454-2500.