

OC Metro

Benefits Breakdown

Rising costs put strains on employers and employees.

By Stan Brin

All over the world, employers worry about wages. Not in California. Here, the problem, the make or break crisis, is benefits, and our benefits system is drowning in a sea of rising costs.

We are the richest, most generous, most successful society in the history of the world, yet one out of five of us doesn't have health insurance, while most of the rest of us struggle to find coverage.

Meanwhile, employers labor to pay astronomical workers' compensation insurance bills, but those injured on the job receive relatively low payouts.

"Employers - and increasingly, their employees - are compelled to pay these costs if they want to do business in California," says benefits consultant Kelly Moore of Moore Benefits of Irvine, "and their costs are invariably passed on to consumers."

Everyone agrees that something is wrong, but few can agree on a solution - or that a solution is even possible.

While problems with the first three occasionally happen - Enron's 401k plan was heavily vested in the company's stock, for example - health insurance and Workers' Compensation are the serious drains on corporate finances, and the problem is getting worse, day by day.

Workers' Compensation

The condition of Workers' Compensation is so bad that the first thing Governor Arnold Schwarzenegger did as he assumed office on Monday, Nov. 17, was to call a special session of the legislature to try and fix the problem - along with the budget mess.

What's wrong with Workers' Comp? To understand, one first has to understand the system:

Designed to provide treatment and care for workers injured on the job, Workers' Compensation was the first state-mandated benefit, a private insurance scheme originally enacted during the World War I era.

Before Workers' Comp, injured workers were required to sue their employers to receive assistance, and the courts often ruled that injuries were a known risk - workers knew that injuries were a normal occurrence when they were hired and thus were ineligible for damages. The result was an angry workforce and a frustrated business community.



Benefits 101

Briefly, benefits are anything received by an employee outside of a regular salary.

There are two varieties of benefits, the first form a safety net mandated by law:

- Social Security and disability pensions
- Unemployment insurance
- Workers' Compensation

The first two are stable for the time being, but Worker's Compensation is suffering acute financial breakdown in California. The second category of benefits is those not required by law but offered by employers to attract and keep employees:

- 401k savings
- Life insurance
- Pensions
- Health insurance



In response to labor and management concerns, the state legislature ordered employers to carry "no fault" private insurance that would speed compensation and reduce costly litigation.

There are five types of Workers' Comp benefits:

- Medical care - Provided by the employer or by a designated physician.
- Temporary disability benefits - Paid every two weeks until the employee recovers or is deemed permanently disabled. The current maximum on a proven injury is \$602 per week.
- Permanent disability benefits - Lifetime benefits depending on the extent of injury. For example, those whose disabilities are rated at 25 percent to 69 percent receive about \$170 per week.

- Vocational rehabilitation - Training for workers unable to return to their former careers.
 - Death benefits - Burial expenses of up to \$5,000, plus support for families and dependent children.
- Most claims, even today, are uncontested, involving only minor medical treatment and a few days leave.

A system in trouble

The system worked relatively well until fairly recently. But since 1994, the cost of contested claims has doubled, forcing a majority of the state's carriers into insolvency.

According to Matt Newberry, of Complete Insurance of Irvine, the primary cause of the rise in Workers' Comp was a set of laws that allowed attorneys to find their own treating physician to create much higher claims than before. As a result, average indemnity claims - time off from work - has doubled since then.

As a result, Newberry says, carriers have been losing money for four years. "We've lost 27 carriers to insolvency in the past decade. There are only 12 left, and very often we get only one or two who are willing to write coverage for a specific industry. For many industries, the only carrier left is the state fund, which was originally designed as a carrier of last resort.

State Senator Dick Ackerman of Irvine agrees.

"Workers' Comp definitely needs to be changed," Ackerman says. "There are too many fraudulent claims, or claims without valid medical cause, but last year's reform package did about a fifth of what was needed to be done. We have to get control of both legal and medical costs. When people get into the system, you're looking at \$5,000 to \$10,000 that the insurance company has to pay out whether there is any merit to the claim or not."

Fraud is the target of Gov. Schwarzenegger's special legislative session. "The goal," Ackerman says, "is to limit the system to valid, reasonably justified medical claims."

Naturally, Workers' Compensation attorneys are loath to accept blame for the current situation, for themselves or their clients.

"I don't think that the injured workers are getting too much," says Robert "Mack" Jacobs of the Jacobs & Jacobs law firm of Lake Forest. "The maximum fees lawyers get are 15 percent, and actual benefits paid to injured workers are lower than in other states."

In Jacobs' view, the \$5,000 to \$10,000 Ackerman mentioned is the normal business cost of investigating claims. "This process adds to the business overhead for the plaintiff or applicant's law firm. I don't see the legislature feeling sorry for attorneys and their clients who have to spend additional money and time to pursue valid claims that were wrongfully denied or underpaid.

"A lot of people are now saying that costs of treatment are out of control," Jacobs says, "but that's because people get hurt. And medical charges are already limited by 'Reasonable Value of Services' fee schedules set by the labor code. On the other hand, do you really want the legislature to put a specific dollar amount on what it takes to treat your injury - regardless of your actual need?"

According to Jacobs, a major drain on Workers' Comp funds is the insurance company practice of investigating every claim, "even admitted claims with eyewitnesses. All of this money could be spent taking care of injured workers."

Health costs exploding

However, the one critical aspect of the Workers' Compensation problem - the major source of spiraling costs - may be beyond the control of both sides of this debate: Medical costs are going up by 12 to 14 percent every year.

"The savings have been squeezed out of the system," says benefits consultant Kelly Moore. "There are no more savings in managed care. The days of the \$10 co-pay and 100 percent hospitalization for HMOs are over."

The cost of prescription drugs for those in PPO plans increased 14.5 percent this year according to the Segal Health Plan Cost Trend Survey.

Professor Paul Feldstein of UCI's Graduate School of Management attributes the rise in costs to the growth of technology. "Technology pushes up costs, but it also gives greater value. Improvements in medical technology and advances in drugs and procedures - such as less invasive surgery, outpatient treatment; new imaging equipment - mean that people can be cured and live longer. All of these are very expensive.

The situation is going to get worse as the Baby Boomers get older.

"We have an aging population that will use more medical services," Feldstein says. Meanwhile, the market in medical coverage also is suffering from what he calls the "underwriting premium cycle" during which insurance companies expand market share, under-price and then recoup. "We have been on the upswing as companies realize that they are losing money."

Feldstein suggests that the future of managed care is to manage care more appropriately, "using large MIS systems to find the appropriate care, to provide less care with better outcome."



How companies cope

eMachines of Irvine, the country's third largest supplier of personal computers, meets rising health-care costs head on. The company covers employees, spouses, children and domestic partners.

"We are making a decent profit," says Adam Andersen, eMachines' chief operating officer. "We have a volume of over a billion dollars a year with only 138 employees. They work very hard and deserve to be treated well. It becomes a commitment by the company to bear the costs."

Rather than reduce coverage for its workforce, the company shops for the best deals it can get.

"Every two years, we review our coverage and go looking for the right resources and vendors," says DeeDee DeGelia, eMachines' human resources director. "We have people working on our behalf to help us choose the best plans. We then sit down with our employees make sure that they understand how the benefits work."

As human resources director of Latino Health Access of Santa Ana, a non-profit public health education agency, Cesar Espinoza, doesn't have the same resources to devote to his 70 employees, but faces the same escalating costs.

"Costs went up this year by 14 percent and we've had to take aggressive measures, such as switching benefit providers," Espinoza says, but he has managed to achieve savings by qualifying for a "large group" rate.

As a result, he was able to decrease employee contributions this year to 15 percent and add vision coverage, but costs still went up by 14 percent.

"We didn't want our staff to have to pick up the extra costs, but we don't think we can do that in the future."

Can the Canadian system work?

Some of those worried about annual double-digit hikes in the cost of health coverage often look to other countries, where coverage is universal, paid out of taxes - and cheaper.

Every Canadian, for example, is covered, from cradle to grave, by an all-encompassing, state-run, tax-supported system.

One advantage of the Canadian system is that taking medical costs off the shoulders of business helps make Canadian goods and services more competitive in the world market.

Another advantage is that the Canadian system consumes only eight percent of gross domestic product while the largely private American health care bill is half again higher. Canadians never fail to point out that they expect to live an average of two years longer than Americans despite a much higher population of immigrants from developing countries.

But is the Canadian experience worth duplicating?

That depends on who you talk to. Many American experts, and a growing number of Canadians, believe that the apparent success of the Canadian plan is an illusion.

"Our health care system isn't just sick; it's killing people," says Canadian National Citizens' Coalition President Stephen Harper.

Canadian author David Gratzer reports that at any given moment, more than 100,000 Canadians are on waiting lists for medical treatment, and that only one in five Canadians diagnosed with cancer get to see an oncologist within the recommended four weeks. Canadians routinely wait 35 to 45 days for radiation therapy, while Americans wait just 10. Canadians' average wait for an MRI scan is nearly half a year while Americans wait just three days.

"The American health care system comes up with most of the world's advances in medical treatment, from drugs to procedures to equipment," says Moore of Moore Benefits. "The Canadian system counts on our system to supply advances in health care."

And indeed, the cheap drugs sold to Americans visiting Canada are actually developed and manufactured in the United States.

Even proponents of Canada's centrally planned system admit that it depends on American medical providers to ease shortages. Thousands of Canadians vote with their feet and venture south every year for treatment to escape long waiting lists.

"Americans wouldn't put up with it," Prof. Feldstein says. "It's a different culture."

One compromise between the government-run Canadian system and the private American system might be the mixed system that has been operating in Australia since 1984.

Called Medicare, it consists of two parts. The first is a no-frills, state insurance program into which everyone pays. Above that is a voluntary "cover" from private insurance companies that allows most Australians access to private hospitals and speedier elective surgery.

Says Australian writer Catherine Milne, currently living in Las Flores, "We don't have an 'American border' to handle waiting lists, and we don't need one."

The Medicare and private cover system also covers injured workers. "We argue about how much cover to buy, and what it covers, but no one wants to abandon our Medicare system." OCM

Mandated Benefits Need Fixing Too

The mandated benefits system as it stands is fraught with problems and inequities.

Successful professionals don't need social security but the economy depends on those who do.

Unfortunately, many of the benefits the government promises just don't work as originally intended:

n Medicare and Social Security go to everyone older than 65 regardless of wealth, but the disabled have to be poor and remain poor to get it. Officially, they aren't allowed to earn a dime - which also means that they aren't allowed to pay into the Social Security system. As a result, when the disabled eventually reach retirement age, they are still stuck at the bottom.

Unemployment insurance payouts haven't kept pace with inflation. They are now so low that even at the highest rate, an unemployed wage earner wouldn't receive enough to pay more than half of a typical Orange County rent or mortgage payment - and that's before taxes.

State disability payments are so low that the state attorney general's office automatically sends detectives to the homes of south Orange County residents who qualify for them.

The logic, according to one state detective, is that "no one on disability could possibly afford to live in Orange County."

A situation of that kind doesn't serve the interest of society or of business. No one wants to encourage workers to kick up their heels and remain on a "permanent dole" of the kind made famous by the film "The Full Monty." The problem is finding a balance. OCM

Health Insurance: Understanding Your Options

It is very difficult for consumers to understand all the options in complex and ever-changing system health insurance plans, but an agent can help find the proper balance of premium and benefit.

Benefits consultant Kelly Moore of Moore Benefits urges consumers to shop around and look for a carrier that has lower costs for your individual or group profile - your demographic group.

According to Moore, consumers should consider these factors:

- Individual plans - they can be cheaper or offer more coverage because the costs of group plans are often hidden by employer contributions.
 - Higher deductible plans - an option for people who prefer a lower premium. They can set aside their own funds, tax free, to pay for those deductibles, and roll them forward.
 - Higher co-pay plans - the patient is charged, for example, \$30 instead of \$10 for a visit.
 - Higher drug deductibles. OCM
-