ART COLUMN FOR DECEMBER

**Banking on employee benefits
can stabilize costs for 36 months**

Last Halloween I was shocked by the scariest apparition I've ever seen: the ghost of unexpected cost increases. This figure was a horrible, staggering zombie-like creature drenched in what I could only hope was red ink. It's a ghost we all fear in common.

Take the rental car company that receives notice that the cost of automobiles will go up 10 or 12 percent next month. Or the supermarket chain whose suppliers announce an unbudgeted increase in that range when the average store margin is less than five percent. Or the manufacturer who sees the cost of employee health care jump as much.

Of course, that last example is only too real. Employers routinely engage in the annual hassle of negotiating new premiums and other costs only to face a stiff increase that is hard to explain to the corporate budget committee. Like it's your fault that health care costs continue to go up.

I suspect the carriers don't really like the annual renewal system any more than the policyholders – and this applies equally to traditional or self-insured plans as well as captives that deal with fronting companies or reinsurers.

Who doesn't hear risk managers and CFOs wail about the agony of claims data reviews, requests for carrier proposals, review of proposals, tweaking the plan to make it work and learning to deal with new professional service providers. All that costs time and money that drags down productivity.

Wouldn't it be nice if we could count on a longer period of cost stability – say about three years? I hear that that is possible through a novel structured employee health financing system that can level out health benefits premium payments over 36 months.

As one of the heaviest-weight budget items for most organizations, the costs associated with employee benefits up to now have been the most difficult to predict, and the most volatile to control.

Some major money center banks sense an opportunity for new business that, if managed correctly, can provide you with the prized stability for your third or fourth largest expense. After all, major employers tend to be among the most credit-worthy organizations.

I was surprised to learn that while we employers find health benefits to be a crazy-quilt of variable costs, banks that can take a longer statistical view find employee healthcare to be bankable.

The link that matches up a bank's interests with those of your labor pool is actuarially sound cost projections that get the imprimatur of the major rating agencies. In recent years scores of employers in the public and private sectors have used such a process to free up significant amounts of capital.

Bruce Halvax, president of Strategic Planning Group of Dana Point, California (bruce@stratplangroup.com), says that certain banks will prefund an organization's employee healthcare liabilities with a 36-month cost containment solution based on a proven actuarial and financial model that has a 15-year track record and a group of experts who have completed over 50 of these transactions for public and private employers including cash-strapped municipal entities. As a bonus point he says this financing method works just as well for workers' compensation.

"An employer is able to pre-fund health care and workers' compensation liabilities without replacing any existing relationships with carriers, consultants or brokers," he says. "This is a kind of transparent financial umbrella that fits over any program whether self-funded or fully insured."

Halvax says that companies generally experience net annual cost savings while stabilizing premium payments evenly over three years. This structured finance arrangement does not add to an organization's debt load. This program actually offers the opportunity to "create reserves" that very few plans have – in fact most self-funded plans will draw from a company's general fund or corporate lines of credit, both of which are far more expensive than this program's cost of funds.

Why doesn't everybody do this?

"I don't know, why doesn't everybody live in Dana Point?" he asks with a rhetorical swagger. Of course, if you've been to Dana Point you know it's that irresistible combination of sea, land and sunshine that Southern California has patented.

Obviously, everybody can't live in Dana Point, but as for qualifying for this structured health financing arrangement if your company has 500 or more employees and is either self-funded or fully insured? You may have better luck.

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