ART COLUMN FOR AUGUST

Novel approach to benefits captives:
stopping some costs before they start

By Dick Goff

Employer-sponsored self-insured health benefit plans are a major component of ART – actually one of the first broad applications of alternative risk transfer as such plans have flourished under ERISA for the last 35 years or so and now serve a majority of U.S. employees and dependents who are covered by employer plans.

More recently ART has increased its participation in employee health benefit programs as captive insurance companies have gained ground in covering excess losses – think stop-loss insurance – or even to provide first dollar coverage by plans that gain Department of Labor exemptions.

In my view ART will increase its share of the employee benefits business if one major challenge can be solved – the matter of uncontrolled constant cost increases. Federal health reform has muddled the coverage side of health care and hasn't contributed a nickel's worth of value to cost control.

One approach to controlling costs is found in the current prevalence of wellness programs. The principle is that by helping people to stay well they will need less and less costly medical care in the future. That's a nice idea but in reality wellness programs are mainly broad educational campaigns and don't provide any hard-edged control of costs or predictability of future costs.

Switch over for a moment to the P&C side of the industry and you'll see what I'm talking about. In covering workers' compensation – really just another form of health care – the P&C companies have developed terrific safety programs that can provide steady, predictable cost control in any industry. By keeping workers from having accidents, everybody benefits and costs remain under control.

A California company offers a method to provide this kind of cost control to group healthcare programs. It takes the well-known concept of disease management to another level. Of course, traditional disease management programs help optimize treatment and patient counseling to reduce the severity and costs of diseases such as hypertension, diabetes and many others.

But imagine for a moment that a program could identify the risk of disease *before symptoms are presented*. Its developer identifies the process as Pre-Disease Management, a concept that's currently being recognized by our industry.

"The key is being able to predict who will become ill from what expensive disease," says Bruce Halvax of Strategic Planning Group in Dana Point, California. His company applies a technology-based method comprised of millions of data points to the job of predicting which individuals among a group are likely to get sick in the next 12 to 24 months, and then provides a system to "preempt the healthcare cost curve," according to Halvax.

The company uses a model based on CPT and ICDS codes along with a group's lab tests and physician diagnoses. Halvax says the objective is "to accurately predict who is likely to suffer from debilitating and expensive diseases and to provide counsel and choices that will allow employees to become 'health-smart' and get involved in their own health choices. Specific structured incentives motivate employees to become better healthcare consumers. This logical solution to the current healthcare dilemma measures the effectiveness of both the covered employees as well as the providers' ability to prevent or reduce the effects of disease."

All of a sudden, you have shifted from a theoretical educational approach that badgers group members with appeals to live healthier lifestyles to specific guidance: "Mr. Smith, you are in danger of contracting (fill in the blank). Here's what we can do about it, and here are your additional incentives to follow this care plan."

Consumer research indicates this approach is more appealing than setting up the normal "take-away" meetings with negative penalties for unhealthy behaviors. This kind of program provides powerful incentives to members to improve their lifestyles and behaviors while also measuring their results. The frightening statistic I've seen is that as much as 80 per cent of all medical treatment costs can be traced to factors of obesity, smoking and physical inactivity. By just beginning to get associated diseases under control, savings will begin to chew into that $2 trillion annual and rising U.S. healthcare expense.

Health benefits captive managers who shop for these kinds of services can usually find providers who will put their own money on the line and base their fees on a percentage of program savings.

By getting a jump on potential diseases among a given employee population, you can remove most of the uncertainty from setting up a captive to finance health benefit programs.

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