

Healthcare Plan Options: Strategies for Massachusetts Law Firms

By Jim Edholm

Let's face it: health insurance is the 800-pound gorilla of employee benefits, costing more than your 401k, your occupancy costs, and the rest of all your other employee benefits put together. In fact, healthcare costs more for most practices than anything else with the exception of salaries.

On the other hand, your health plan will also play a huge part in attracting and retaining the best possible people. So let's examine a law firm's options for plan coverage and carrier choice for its employees. The best way to do this is to begin up high at 10,000 feet and then move in closer.

We're lucky in Massachusetts because of our stock of universally excellent carriers from which to choose. Each year US News and World Report focuses on the National Committee for Quality Assurance (NCQA) ratings of the largest health insurance carriers in the country. This rating is based on HEDIS (Healthcare Effectiveness Data and Information Set) measurements of the quality of healthcare that members receive under various plans. For example, the percentage of women who get age-appropriate mammograms is one measure of quality, while other items examine diabetes screening, heart/stroke screening and back pain treatment.

All such measurements clumped together create one final rank for

each carrier. Within that national ranking system (2007), here's how our Massachusetts/New England plans do:

Harvard Pilgrim – #1
(third year in a row)

Tufts Health Plan – #2

Harvard Pilgrim of New England – #3

Blue Cross Blue Shield of Mass – #4

Fallon Community Health Plan – #12

With only five to six percent of the US population, we end up with five plans in the top 12 in the entire country. That's a pretty good result, I'd say.

What's more, particularly in the eastern part of the state, the networks for the carriers are virtually identical. Harvard Pilgrim and Blue Cross for example share a 98.7 percent overlap, translating into a less than 2 percent chance that you'll have to change doctors if you change plans. That's great because most employees hate to change.

This is important to your cost management strategy because in any given year carriers are going through different phases of the underwriting cycle. Basically, this means that in a particular year a carrier may be aggressive for any of a variety of reasons. That is, they've done what they can to make bad cases leave the picture by pricing their product so that the "clinkers" will drop off their rolls.



Jim Edholm is President of Business Benefits Insurance (BBI), an employee benefits planning firm in Andover, MA. He has worked with employers for more than 25 years and can be contacted at (978) 474-4730, via his website www.Group-Insurance-Guide.com, or via e-mail at jedholm@bbibenefits.com

So as a carrier gets rid of cases with bad claims experience while retaining those with good claims experience, they then start to get "aggressive." They'll offer better prices for their plans than their competitors' similar plans, which in turn means they'll pick up lots of new business.

Over the next two to five years, however, many of those cases that looked so attractive when the carrier was in the aggressive phase begin to turn sour. Employees get ill, they develop conditions, they get hurt etc. At that point, a carrier's claims experience begins to erode.

So now the carrier adjusts its premiums to reflect its new, higher-than-expected claims rate, reducing them from aggressive to only mildly

competitive. Good groups find they can leave the carrier for greener pastures, and they do. The carrier's loss ratio declines even further, as does the carrier's competitiveness.

Eventually, the carrier has raised its prices enough to once again drive away the latest bad cases, which puts the carrier back at the beginning of the underwriting phase again, where their aggressive phase can begin anew. I've seen this cycle with every carrier in our Boston-area market several times in the past two decades that I've been working here. It never goes away.

Some carriers manage the cycle better than others. A decade or more ago, Blue Cross did a terrible job of managing its underwriting cycle, stumbling back and forth from very competitive to very uncompetitive. Today, they're doing the best job of controlling that cycle and so have remained competitive for most of the last five to seven years.

Currently, Tufts is getting more competitive relative to the recent past, and Harvard Pilgrim — who terrorized the competition just a couple of years ago — seems to be picking its battles now, no longer as fear-inspiring as in the past.

As an employer, consider yourself lucky to be able to offer such quality choices. But the facts of life recounted here should also offer you something else to consider: a potential strategy.

Does your firm contain fewer than 50 employees? Most do, which puts you in control over your pricing destiny in Massachusetts. There are three reasons for this: 1) carriers have no pricing options — your rate is your rate, so your rate must be held for the coming 12 months... it can't be raised. 2) no penalty is imposed for moving from Carrier A to Carrier B. 3) the "Big 3" tend never to be in synch on their underwriting cycles. One is always

getting stronger while the other two may be weakening.

So your strategy is simple in the extreme — assuming cost control is your goal, shop your group case every year or two. You have nothing to lose... neither in quality nor in coverage nor in convenience. And you therefore often have a significant opportunity to reduce overhead costs.

In my next column, I'll discuss the types of plan options these carriers actually offer. We'll also begin to develop a design strategy to match your particular plan.