BENEFITS SELLING™

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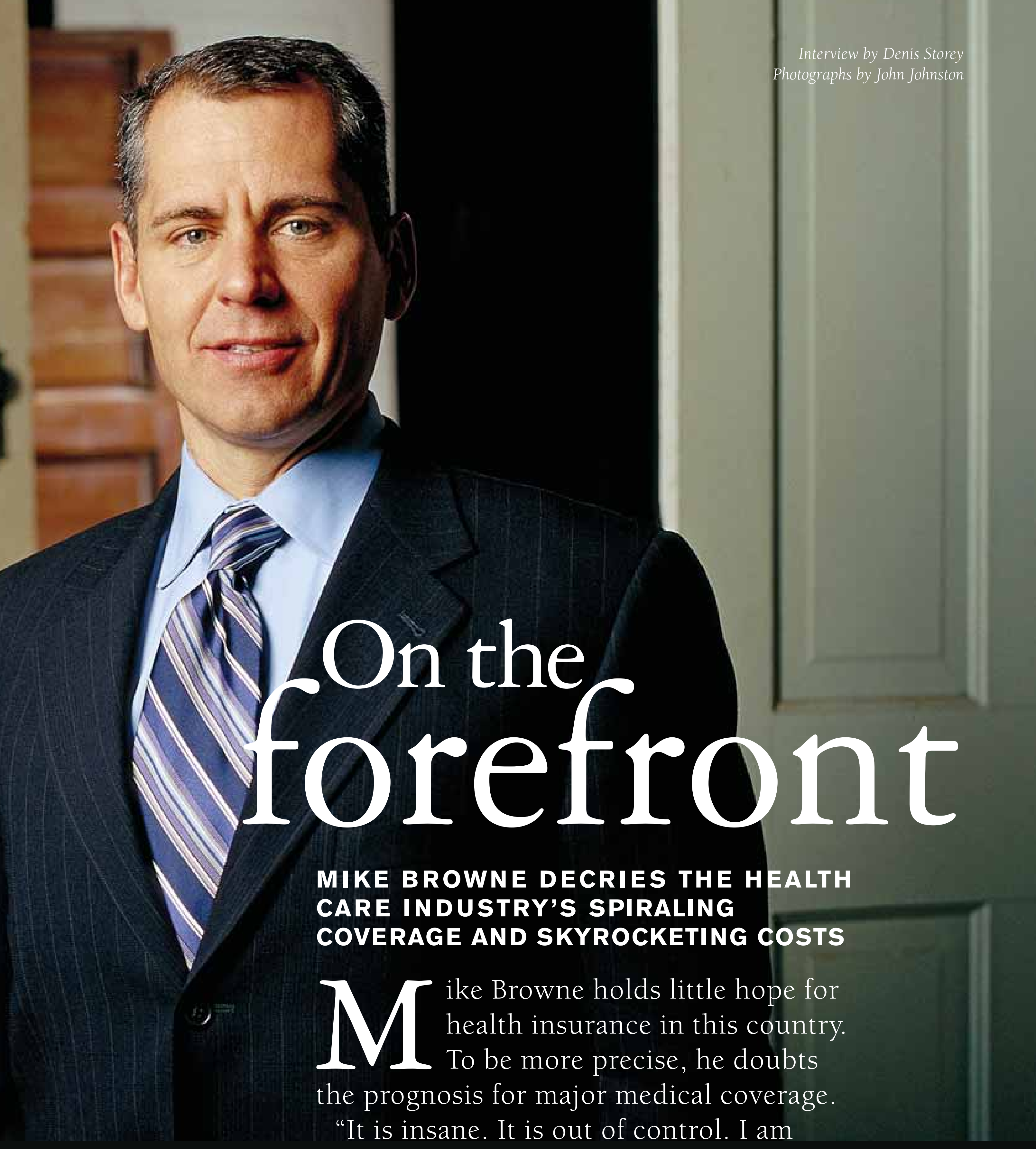
Core upgrade
Managing benefits online has never been easier, which keeps employers happy

Second opinion
Experts help make the most of employers' benefit dollars

"It's out of control"

Mike Browne offers insight into climbing health care costs – and a possible solution



Interview by Denis Storey
Photographs by John Johnston

On the forefront

MIKE BROWNE DECRIES THE HEALTH CARE INDUSTRY'S SPIRALING COVERAGE AND SKYROCKETING COSTS

Mike Browne holds little hope for health insurance in this country. To be more precise, he doubts the prognosis for major medical coverage.

"It is insane. It is out of control. I am a little frightened," Browne admits.

But Browne insists there are options out there, for both brokers and employers. »

Browne jumped into the insurance business 22 years ago, right out of college, signing with Union Mutual — now Unum — as a company sales rep.

Eight years ago, he helped start AlterNet Benefits, a managing general agent for reimbursement products, specializing in gap and mini-med products.

"We offer voluntary benefits as well," Browne says, "but our specialty is cutting-edge solutions for brokers and general agents across the country."

BENEFITS SELLING: What is your take on the market right now?
MIKE BROWNE: Health insurance is in a death spiral right now. The prices are inflating too fast for the consumer to pick up so I think drastic change is needed, but there are so few solutions that it's really difficult and there is no iron-clad solution.

BS: What do you find frustrating?
MB: I think the biggest frustration is the prices. I am talking about health insurance. Right now the health insurance market is spiraling out of control because of inflation. Health care inflation is outpacing every other type of inflation. It is putting affordable coverage out of reach for the day-to-day employee. Major medical is becoming unaffordable. I think we finally have reached that place with major medical where the contribution the company has to come up with is no longer affordable to the hourly employee. It is out of control.

BS: Why is it that the medical industry seems to buck the capitalist model with regard to competition and pricing? It seems like no matter how much competition you have it doesn't do anything for prices when it comes to health care.
MB: We had a pretty drastic shakeup here in Colorado just a couple of years ago. We used to have 25 major medical carriers that played in the small group market. Now we are down to five small group carriers. So, why are they bucking the trend? I think it is a difficult business to make money in, and I think the carriers weren't making money a couple years ago. Now they are back making money again so it is a unbelievable system that needs some sort of solution.

BS: What sort of solution do you see?
MB: Participation on the group health plan is becoming a breeding ground for the sick employee. Sick people need the group health plan because they can't get coverage as an individual. So I look at that and I look at the limited benefits or mini-med market as we see it today. We cover doctor's visits, give discounts on drugs and have a small emergency room benefit. I think that system — which is what they use in China right now because they cannot afford major medical — is a Band-Aid-type solution where an employee may be able to go out and get individual coverage if he is insurable on his own. But I think a lot of the small businesses are going to have to stop offering major medical and go to some sort of limited plan if they want to continue offering benefits. Obviously, we're talking about national health care. I don't know how you would implement that but maybe you could implement national health care on a catastrophic basis, which is kind of out there already because hospitals do not turn people away when they have a specific catastrophic event happen. I have had a lot of people refer to it as Jesus Christ Mutual: "I am going to go uninsurable because if I have something major happen to me I am going to go to the hospital. [And] they are going to treat me. I am going to have to file bankruptcy but I cannot afford the major medical premiums anyway."

Benefits basics

A gap plan allows an employer to move to a less expensive high deductible/high out-of-pocket plan ($1,500 deductible plus/$4,000 plus out of pocket) and receive first dollar coverage. Employees love it since the deductible and coinsurance can be eliminated depending on the gap benefit selected.

BS: At least you will be alive at the end of the day.
MB: Exactly. They will be alive, and they will file bankruptcy but they have to put food on the able. No one is going to be able to afford health care. The way of the group plan is history. I work on a nationwide basis with the largest general agency in America and I see the rates getting to the point where no one is going to be able to afford their share of the employee contribution.

BS: How do you feel about the consumer-driven plans, such as health savings accounts and flexible spending accounts? Do they really address the longer-term problems?
MB: I think we were spoiled in the 1990s with HMOs, low out-of-pockets and low co-pays. The HSA is a solution for the healthy and the wealthy or the people who can afford to fund the HSA and get coverage. It is a great individual product but on the group side it is like jumping off a cliff, because you lose your office visits, co-pays and your [prescription drug] card. What I had found out is that 93 percent of all claims activity is directly related to the office visit co-pay and the drug card. When you look at that and say 93 percent of claims are related to that, so why don't we go to a limited benefits situation? Because that is the pot that addresses [prescription

drug] and co-pay situations. But you lose the catastrophic element and that is what will crush you. I think the consumer-driven [approach] is a concept insurance agencies embrace, but I can tell you first-hand employees do not like consumer-driven health care.

BS: Why is that?
MB: They don't like to negotiate with their doctors. They don't know the pricing. Pricing is extremely hard to obtain from hospitals or providers. So that model is very difficult. And how can you negotiate pricing when you are in an emergency room situation? So I think there are some inherent flaws on the consumer-driven side. We'd like to think it is going to work but, as I mentioned before, we are moving to a catastrophic-only group major medical plan, and I think the HSA is a step in that direction. The underlying coverage is going to be gone, the co-pays and the [prescription drug] card. And that is what our generation of employees thinks of insurance: office visit co-pays and a prescription drug card rather than catastrophic coverage.

BS: What role do you see brokers playing in the evolution of the market?
MB: I think brokers are going to have to embrace the change. Obviously brokers don't want a national health care system due to the fact that it would take away their livelihood. I think the distribution model brokers claim right now really impacts the broker's ability to really help their clients on claims situations. What role does the broker play today? He beams out the census to five different carriers, gets a quote and puts it in a spreadsheet. I think the creative broker has to be innovative and look at concepts such as the gap product, for example, or the health reimbursement account. They have to be willing to embrace change in an industry that doesn't embrace change. It changes rapidly but the broker has to educate his clients that they need to move to higher-deductible plans with a reimbursement vehicle. They can't afford to pay the premiums associated with low out-of-pocket plans, low-deductible plans, because you are paying for coverage you probably won't use. I've always been of the opinion [that consumers should] buy the highest deductible plan to save on premium. And if you have a situation you deal with it when it pops up, and if you have a reimbursement arrangement, then obviously that is going to help soften the blow. Roughly 50 percent of all bankruptcies are medically related, and several of those bankruptcies are people who have major medical insurance.

BS: What role do you see gap plans playing?
MB: I think gap plans [will work in places like Colorado] due to the fact that Colorado and Texas are two of the highest-deductible, out-of-pocket states due to the underwriting rules they have. There have been some changes. I think the perfect storm for a gap plan is moving to anywhere from a $1,500 to a $5,000 deductible. You have to take a giant step as an employer to receive the benefit of a gap plan, so I think their future is extremely bright due to the fact that the average employee can't absorb a $5,000 or $10,000 out-of-pocket hit and a gap plan can reinsure the out-of-pocket for pennies on the dollar and it makes it more affordable. Gap plans get the employee back to very low out-of-pockets. That is what the health insurance industry wants. We want the employee to take more responsibility in negotiating claims to get their out-of-pockets. Gap plans have been around for 15 to 20 years, but there just hasn't been a gigantic need because the out-of-pockets have been low. But now that the out-of-pocket amount has climbed so drastically, the gap plan provides first-off reimbursement for inpatient and out-patient hospitalization, surgeries and a huge benefit on gap plans is that they cover MRIs and CAT scans. Those are prescribed almost like candy these days. So, I look at gap and reimbursement plans as the way of the future if you want to maintain a relatively healthy major medical plan. If not, you are either going to move to the HSA model and you lose your co-pay and your [prescription coverage] and employees hate those if there is no funding from the employer.

BS: On the voluntary side of things, where are you seeing the most growth?
MB: On the voluntary side, I would say mini-med plans are really starting to grow big-time due to the fact that the major medical rate increases are impacting the ability to really let employees spend money freely. I think critical illness is potentially a big area of growth. Disability is a very undersold product line, as well, so I think there is growth potential there. Long term care is certainly undersold but that is a very expensive product. So I would say I think the gap product is a product that really hasn't been totally embraced by the voluntary professional yet and I think there is going to be tremendous growth as the larger companies start increasing out-of-pockets because most large companies are in an extremely competitive environment where they try to offer a lower deductible out-of-pocket plan but as they start to crack, we are going to see a huge market for voluntary gap plans.

BS: Do you see yourself more as a sales person or more as an advisor?
MB: I see myself as more of a consultant, an advisor, absolutely. I think [what we offer] is kind of a solution — consultant-type sales. So I'd say I am more of a consultant, but I love the sale. I really do. I like being out in the field and seeing customers and brokers.