

Putting the Heat on Health Insurers

More companies trying to save by switching to one insurer

Ben Baia is looking forward to seeing some real competition.

As vice president of human resources at Niagara Falls Memorial Medical Center, part of Baia's job is to find ways to lower the hospital's employee costs, including for health insurance.

Like many large employers in Western New York, the independent hospital is considering going to a single insurer for its 1,000 workers, instead of offering employees coverage with any of the three of the region's dominant companies.

While he hopes that move, together with changing the way the hospital's health insurance risks are calculated, would save money, he's also expecting the major insurers to slash prices in a bid to capture the contract.

"No one is going to want to lose a \$3 million account," Baia said. "It's their option now if they want to come to the table with us. I'm not sure they're looking forward to this."

Health insurers locally are competing aggressively for the

business of large employers, like Niagara Falls Memorial, that are following a national trend toward switching to a

single provider of all health insurance plans. With health insurance costs continuing to rise by more than 10 percent every year, employers like the hospital and the city of Buffalo, want to cut expenses where they can.

By going with one insurer, "you reduce the administrative costs across your population because you have only one health plan to deal with," said Alphonso O'Neil-White, interim president and chief executive officer of HealthNow New York, the Buffalo-based parent of Blue Cross Blue Shield of Western New York.

At the same time, many employers are changing how their insurance risks are calculated, going to an



Ben Baia, vice president of human resources at Niagara Falls Memorial Medical Center, hopes to save the hospital money by switching to a single health insurance provider.

"experience-rated" system rather than "community-rated."

That just means their risks, and their premiums, are calculated using the actual health experience or costs of their employees, rather than the average experience of the community at large. Such a move is beneficial to employers whose work force is healthier than the overall local population.

The pressure is on But the trend is putting enormous pressure on insurers, especially in a market like Buffalo, where the three major insurance companies have virtually identical provider lists. Employees would likely be able to go to the same doctor whether they're with Blue Cross

Blue Shield of Western New York, Independent Health, or Univera Healthcare.

That means the insurers have to rely more on the flexibility of their products, the service they provide, and the access they offer, including outside of Western New York. They're introducing new products and services, and fine-tuning their pitches as they to outdo their rivals.

They're also competing on price, eager to get thousands of employees and millions of dollars in premiums all for themselves.

Last year, for example, a big drop in operating expenses at Univera - because of its merger with Lifetime Healthcare Companies of Rochester - allowed the insurer to keep its premium increase at just 6 percent to 8 percent. That's nearly half the national average and far less than its local rivals.

"The pricing is more aggressive than Western New York in general has seen," said Kevin B. Gannon, senior client executive at Niagara Insurance Group, a Williamsville-based employee benefits firm and a subsidiary of Brown & Brown, the nation's 6th-largest insurance brokerage. He cited Univera in particular, because it has the most to gain in market share.

"The carriers are picking up the phone and calling the groups. And in return the employers are getting a lot more for their premium dollar," Gannon said.

Focusing on features

Executives at the three insurance carriers say they

have so far been able to win contracts mostly by touting their other features rather than slashing prices too much. But observers say competition already is much tighter than in the past. That eventually could lead to bidding wars, especially for the largest employers.

A contract with about 1,000 employees, with an average premium of \$350 a month, yields \$4 million a year in revenues for an insurer.

Still, the insurers say they won't rashly engage in a chase to the bottom that could put their stability at risk or raise costs for others.

"We recognize that we have to have a good price out there," said William L. McHugh, executive vice president at Independent Health. "But we're not going to have a price that would cause us to lose money."



CHARLES LEWIS/Buffalo News
Nurse Lenore McDonald, left, and Dr. Susan Graham talk with patient Blanche Diffine of Niagara Falls in the hallway of Niagara Falls Memorial Medical Center.

Slow to take hold

Western New York companies have been slower than other parts of the country in the push toward using one insurer and experience-rating, but the process has been gathering speed as health insurance costs continue to spiral.

Already, large local employers such as Moog, Praxair, Mark IV Industries, Ford Motor Co., American Axle & Manufacturing Holdings, and Jamestown's WCA Hospital have selected single carriers for their thousands of local employees.

Public sector plums

And it's not just the private sector. Erie County last year brought its 8,500 employees exclusively to Blue Cross Blue Shield of Western New York, marking a major coup for the insurer and a blow to its two local rivals.



Now the city of Buffalo and the Buffalo schools are each considering moving to a single carrier, with projections of \$7 million to \$11 million in savings just for the city. With more than 5,000 employees and retirees that would be covered under the city's plan and 7,000 under the schools, insurers are going to extra lengths.

When Opportunities Unlimited of Niagara sought to go to a single carrier starting this year, the human services agency solicited bids from all three local insurers. The insurers were told to make their best offer, and they quickly updated their bids whenever there was a change in plans. One even withdrew an initial proposal before coming back with a new one.

In the end, the agency, which helps 1,200 developmentally disabled individuals in Niagara County, went with Independent Health for its 400 eligible employees.

"They wanted your business, absolutely. They knew we were serious," said Dorothy Murphy, vice president of human resources. "They were there at every move to follow up immediately with changes and rates. The turnaround time was amazing."

Risks of a price war
Cutting prices is an obvious way to win, but it's also risky.

Who's gone with whom

Which insurers Western New York employers have chosen as their only health provider and how local insurers did in 2003:

	HealthNow (Blue Cross Blue Shield)	Independent Health	Lifetime Healthcare Cos. (Univera Healthcare)
Profits:	\$93.1 million	\$19 million	\$161 million
Revenues:	\$1.78 billion	\$312.75 million	\$3.8 billion
Membership:	563,733	NA	165,000(Univera only)
Administration costs:	11.2 cents of every premium dollar	NA	.4 cents of every premium dollar
Reserves:	\$222 million (12.5 percent of premiums)	\$120 million (14.8 percent of premiums)	\$629 million
Single-provider contracts:	Erie County, Moog, Praxair, Mark IV Industries	M&T Bank Corp., Rich Products, Fisher-Price, General Mills, Noco	Ford Motor Co., Benderson Development, American Axle & Manufacturing, WCA Hospital, PepsiCola Bottling

SOURCES: Insurers

Insurers are regulated by the state and they are still required to maintain a certain level of reserves, or they may be subject to state supervision and other actions. The industry is already operating on narrow margins because of the high cost of medical treatment and the low premiums that are charged in the Buffalo market.

"What we do is make sure that we're charging appropriate margins," McHugh said. "We're a not-for-profit. We don't have to satisfy stockholders, but we have to run a responsible business and remain financially viable."

Using price is also not always the most effective method. It may work in the short-term if an insurer is eager to grow, but if the price is set too low to account for the actual risks, the insurer will either eventually lose money or it will have to sharply raise the price later.

In for the long term
And that's the kind of shock that

could send the employer scurrying to a competitor.

"If you lowball it the first year, eventually it's going to catch up to the employer group and they're going to see a 20 percent, 30 percent or 40 percent rate increase because you underpriced it the first year," said Ann Pentkowski, vice president of actuarial services for Independent.

In fact, insurers said they'd rather give up a contract than undercut themselves too much. "We tend to be pretty fiscally conservative," said Pamela Pawenski, regional vice president of sales at Univera. "We do often make decisions to not allow big employers to push us into a corner. Not only do your finances catch up with you, but your regulators catch up with you, and then you've got a story to tell."

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