Epidemic Involving Widespread Closures of Industries and How to Control Major Factors in Company Closings

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Abstract

One major reason for companies closing is poorly coordinated health care that results in increased costs for the company with devastating financial results. In 2008, total national health expenditures were expected to rise 6.9% - two times the rate of inflation. Total spending was $2.4 trillion in 2007, or $7900 per person. We can reduce costs to our health care system and improve our nation's health through pre-placement examinations, reporting problems, coordination with emergency room contacts, specialists (referrals and consultations), physical therapy, sickness and accident, FMLA (Family Medical Leave Act), EAP (Employee Assessment Programs), and TRUST. A good place to start would be incentives, disincentives, memberships, free screenings, support groups, fitness centers, and home education. One thing is certain - health and productivity costs from absenteeism and presenteeism are costs the employer cannot ignore and cannot afford.

Closings

Five major companies have had recent closings in the United States: Circuit City, General Motors (14 companies and 3 warehouses), Home Depot (closing 15 stores), Sprint/Nextel (closing 33 stores), and Starbucks (closing 600 stores). Three major companies that are currently in trouble include major newspaper companies, including the San Francisco Chronicle; Faribault Mills, a 143-year-old blanket-making company in Minnesota; and Springfield's Shriners Hospital. Some of the 150,000 companies that closed in 2008 include: Bombay Co., Lehman Brothers, Bear Stearns, Aloha Airlines, Champion Airlines, ATA Airlines, Skybus, Linen 'N Things, Steve & Barry, Sharper Image Corp., KB Toys, and Mervyns. Finally, 15 companies that might not survive 2009 according to the US News and World Report: Rite Aid (100,000 employees), Claire's Stores (18,000 Employees), Chrysler (55,000 employees), Dollar Thrifty Automotive Group (7,000 employees), Realogy Corp. (13,000 employees), Station Casinos (14,000 employees), Loehmann's Capital Corp. (1,500 employees), Sbarro (5,500 employees), Six Flags (30,000 employees), Blockbuster (60,000 employees), Krispy Kreme (4,000 employees), Landry's Restaurants (17,000 employees), Sirius Satellite Radio (1,000 employees), Trump Entertainment Resorts Holdings (9,500 employees), and BearingPoint (16,000 employees).

Poorly Coordinated Care

One major reason for companies closing is poorly coordinated health care that results in increased costs for the company with devastating financial results. Four out of ten physicians report patient problems with coordination. Sixty percent of doctors report that patients experience long wait times for diagnostic tests, and 20% of doctors convey that tests are not reported because of an inability to find results.

Health Care Spending

Is health care spending a problem? Spending is rising very rapidly. The creation of new medical technology advances, as well as malpractice, has generally raised costs.

US Health Care System

The US health care system is extremely inefficient. As costs increase, so does the cost of waste. Twenty percent of the US population accounts for 80% of the costs, 50% of the population accounts for no expense, and 1% accounts for 22% of the cost.

Medicare and Medicaid

In 2004, both Medicare and Medicaid covered the same number of people for about $38,000,000 each. Medicaid is growing due to bad economic conditions. Medicare will grow because of the aging baby boomer population. In fact, Medicare is scheduled to run out of funds by 2017.

National Academy of Science Institute of Medicine (IOM) Study on Health Care

Recent studies indicate that health care should be universal, continuous, affordable, affordable and sustainable for society, and effective, efficient, safe, timely, patient-centered, and equitable. But healthcare costs are expected to rise 5.7% in 2009. How high will it go?

National Health Care Expenditures

In 2007, $2.3 trillion was spent on health care in the US, or $7600 per person. This is equal to 16% of our Gross Domestic Product (GDP). In 2011 that amount is expected to increase to $3 trillion, and by 2016 $4.2 trillion is expected to be spent, equaling 20% of our GDP. At this rate, we would be spending 30% of our GDP on healthcare by the year 2030, 4.3 times what we spend on the National Defense.

Percent of GDP Spent on Health Care

Compared to other countries, the USA spends 16% of its GDP on healthcare; Switzerland 10%; Germany 10.7%; Canada 9.7%; and France 9.5%. Other countries keep costs down by government regulation and defensive medicine. These lower costs have little to do with patient care or cost of insurance to companies.

Health System Basics

Our current health system extracts money from households or individuals to pay for health care, maintains the production of goods and services and stewardship of the health system, and utilizes health insurance risk pools (special programs created by state legislatures to provide a safety net for the "medically uninsurable" population, people who have been denied health insurance coverage because of a pre-existing health condition, or who can only access private coverage that is restricted or has extremely high rates). Having health insurance is associated significantly with a smaller number of missed workdays.

Employer Health Insurance Premiums

Premiums increased 6.1% in 2007, which is two times the rate of inflation. An average family premium cost $12,100, a single premium cost $4,400. Tragically, 47 million Americans remain uninsured. Since 2000, there has been a 100% increase in employment-based health care. Cumulative inflation has risen 24%, wage growth has risen 21%. This means that health insurance is the fastest growing cost for employers. Average employee contribution is up 143% since 2000. Out-of-pocket expenses are up 115% since 2000. People remain uninsured due to these costs – increased costs correlate with a decrease in coverage.

US Health Care Costs

In the US costs are high, employers and the government pay most of the cost, and millions are left with no coverage. Other problems include retiring elderly couples who may need up to $300,000 to pay for most basic medical coverage. The US spends six times more per capita on the administration of its health care system than Western European nations. In 2004, 36% of US health care system funding came from private insurance, 15% was private out of pocket, 34% from the Federal government, 11% from local governments, and 4% from private funds. In 1960 $1 out of $20 was spent on health care; in 2008 that rose to $1 out of $8. By 2025 the amount spent is expected to increase to $1 out of $4.

Workers Compensation Expenditures

In 2008, total national health expenditures were expected to rise 6.9% - two times the rate of inflation. Total spending was $2.4 trillion in 2007, or $7900 per person. With current assets of $22.1 billion, the Ohio Bureau of Workers Compensation paid out more than $1.9 billion in benefits in 2007.

High Risk Behaviors

The following high risk behaviors result in increased costs to our healthcare system: poor exercise habits, heavy drinking, poor eating habits, tobacco, high stress, depression, a BMI that is out of range (20% below or 30% above the midpoint), elevated cholesterol levels, high blood pressure, and high glucose levels.

Our Nation's Health Must Improve

We can reduce costs to our health care system and improve our nation's health through pre-placement examinations, reporting problems, coordination with emergency room contacts, specialists (referrals and consultations), physical therapy, sickness and accident, FMLA (Family Medical Leave Act), EAP (Employee Assessment Programs), and finally through TRUST.

Pre-Placement Examination

Hiring should be contingent upon pre-placement exam results. Job specification is obtained to determine whether or not the individual is able to perform specified job duties. Job simulation is also done; the individual would be required to perform tasks that represent the potential job's duties. The examination would entail a physical examination, complete medical history, employment history, a list of work-related injuries that resulted in the individual being put on workman's compensation or receiving a settlement, depression scale examination (it is very important to obtain patient's rating on the Depression Scale by completing a short form), and a Psycho Social Scale (a short

form the individual must complete that provides information on his/her personality traits and trends).

Absenteeism

Productivity loss due to absenteeism is a serious and growing challenge. In the United States, the annual cost to employers for time lost due to accidents is almost $100 billion, and other unscheduled worker absences costs even more. Absenteeism can be due to general disease (three times higher than incidents and 80% of total absenteeism costs) or lost time accidents. The total cost of medical absence in the US is $1.265 trillion.

Kinds of Absenteeism Tracked

Lost time, disability, maternity, general disease, vacations, paternity, professional disease, personal reason with permission, and personal reason without permission.

Lost Days by Cause

In 2004, 22,000 lost days were caused by general disease and 3,300 by accident. In 2006, 26,000 lost days were caused by general disease and 2,900 by accidents, and in 2008, 28,000 lost days were caused by general disease and 1,000 were caused by accident. As you can see, incidence of general disease is rising, while the number of accidents is decreasing.

Why Benchmark Absenteeism by General Disease?

Benchmarking absenteeism by general disease is a corporate health indicator. It tracks the average number of days absent, brings to light the most common causes for absenteeism, brings about a reduction in absenteeism and lost days, and, finally, reducing absenteeism creates an ROI (Return Of Investment) of $2 – 5 for every $1 invested. According to Highmark, health promotions bring about a lower rate of health care cost increases, and produce a positive ROI of $1.19 – $2.52 for every $1 invested.

Presenteeism

In presenteeism, the individual is present, but not fully productive. This is a MAJOR PROBLEM. Presenteeism, a relatively unknown concept, is the complement of absenteeism. It is defined as the measure of lost productivity cost due to employees actually showing up for work, but not being fully engaged and productive, mainly because of personal health and life issue distractions. Currently, presenteeism is estimated to be up to 7½ times more costly to employers than absenteeism. According to the article, "Health and Productivity as a Business Strategy" in the *Journal of Occupational and Environmental Medicine*, April 2009, health and productivity costs are significantly greater than medical and pharmacy (2.3 – 1) and executive/managers suffer as much depression and back pain as laborers. Eighty percent of medical spending goes toward chronic conditions. Fifty percent of Americans have one or more chronic conditions.

Top 10 Health Conditions by Total Cost

Depression, obesity (extremely or moderately obese workers are significantly less productive than mildly obese workers), arthritis, back or neck pain, anxiety, GERD, allergy, other cancer, other chronic pain, and hypertension. Absenteeism is also strongly predictive among obese workers with diabetes. For every dollar of medical plus pharmacy costs, there are $2.30 of health-related productivity costs in absenteeism and presenteeism.

How To Control Costs

What can be done to help the present system? A good place to start would be incentives, disincentives, memberships, free screenings, support groups, fitness centers, and home education. Controlling health care costs with a wellness program might appear slow at first, and cost/benefit analysis can be difficult, but it can bring about current and long-term benefits after initial and continuing investment. The patient must be sure they understand, writing down any questions, and asking the physician to explain it again if they do not understand something.

Health Promotions

As mentioned above, according to Highmark, health promotions bring about a lower rate of health care cost increases and produces a positive ROI of $1.19 – $2.52 for every $1 invested. Health promotions can include diabetes control, screenings for lipids, high blood pressure, etc., and cigarette cessation programs.

Keeping Workers Compensation Costs Down

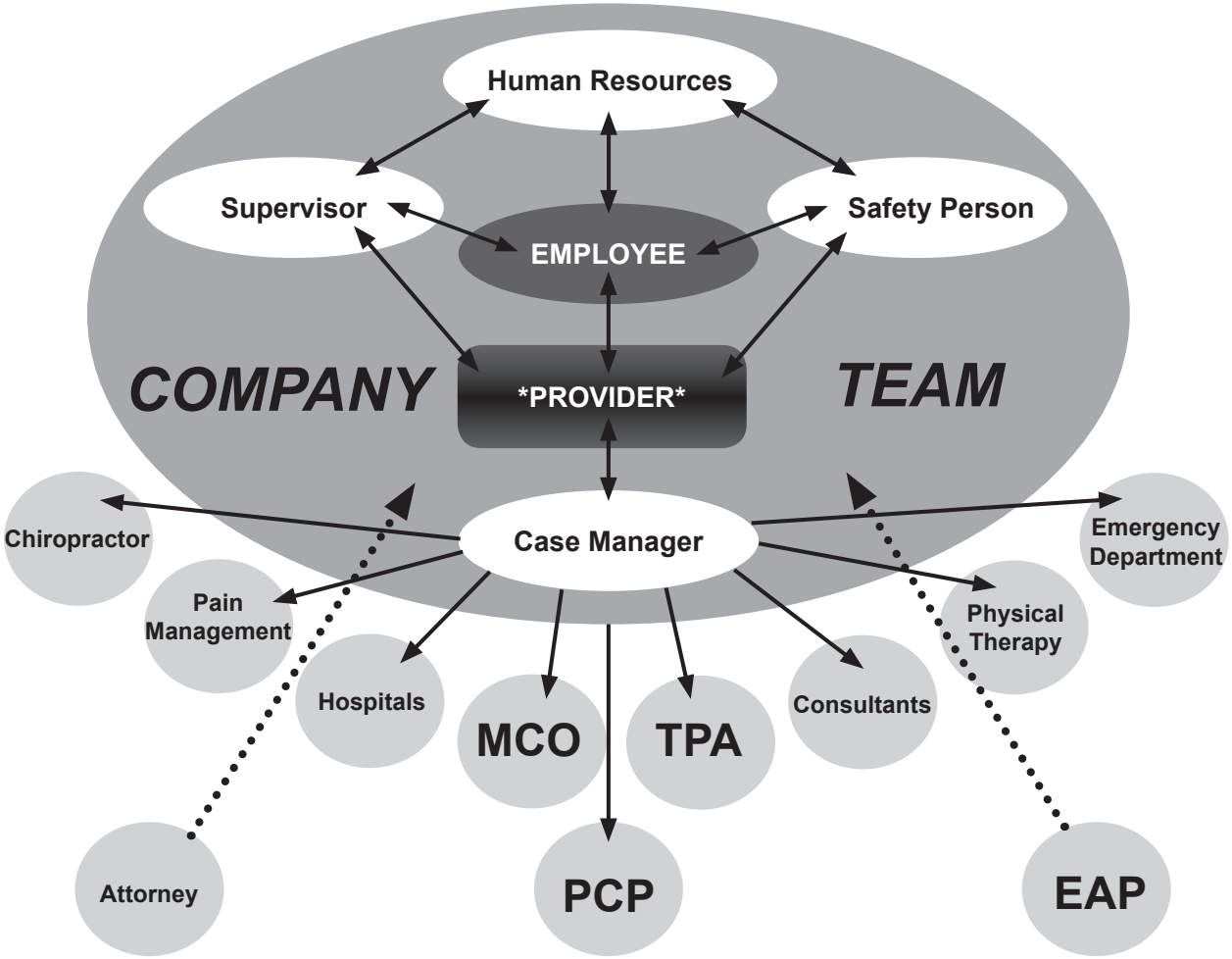
Some ways to keep workers compensation costs down are to use correct classification, get out of the risk pool, conduct payroll audits, use a deductible, be sure your experience rating is correct, reduce medical costs, institute a return to work program and safety programs. Ergonomic issues must also be addressed and corrected.

Older Workers and Workers Compensation

The fact is that older workers have fewer claims; older workers indemnity claims less; however, they have more lost work days than expected and a higher cost per claim.

Analysis in Small Business

In order to decrease costs within a company, small businesses must determine the focus of and institute a wellness program for their workers and select a compatible program. They must perform cost-benefit analysis, program effective analysis, and post an audit. When companies take charge in this manner, they will have better control of their health care costs, have healthier and more productive employees, and have a better chance of having a healthy and profitable company.



Pharmacy Benefit Managers

Pharmacy benefit managers (PBMs) are the largely unregulated drug middlemen that administer the prescription drug benefit portion of health insurance plans for private companies, unions, and governments. PBMs provide a very valuable service and deserve a reasonable return. But a key issue is that hidden cash flows are paid to the PBM to make up for artificially low (10 – 50 cents per RX) in PBM administration fees. Purchasers generally do not know the actual price of their PBM service as PMB cash flows go "under the radar" of purchasers, while the PBM industry claims transparency.

Cash Flows in the PBM Industry

Some PBMs charge a realistic and fair administration fee for their service – no other cash flows – and are generally a good value. Other PBMs charge a very low administration fee and then augment that low fee with "markups" on individual prescriptions. These are hidden cash flows that spread pricing and PBM-owned mail order pharmacies, which have excessive markups. Plan sponsors (over 90% of them) are generally unaware of these hidden cash flows.

True or False? Mail Order Saves Employers Money

Research by Creighton University in June 2005 of nearly 10,000 pairs of PBM-mail and community retail prescriptions for exact drugs and dates of service of five employer groups (plan sponsors) concluded that when the member co-payment is lowered to encourage members to go with mail order service, *the mail order option costs the sponsor more than the retail pharmacy*. PBMs have a financial incentive to push patients to mail order. PBMs make an average $3.50 for every mail order prescription they fill compared to $1.40 for a prescription filled at their community pharmacy network. PBMs usually prevent patients from receiving more than a 30-day supply at the pharmacy, while incentivizing 90-day supplies by their own wholly-owned mail order firm. Community pharmacies are forced into take-it-or-leave-it contracts with the PBMs, because they are not legally able to negotiate contracts as a group with PBMs.

Questions Company Benefits Managers Must Ask Their PBM

Do you use the same average wholesale price (AWP) in calculating price to clients and payments to pharmacies?

Differential Pricing

Here's an example of differential pricing in action: Your employee or group member pays AWP minus 15%. PBM pays pharmacy AWP minus 18%. PBM pockets the 3% differential.

Ask to see your PBM's contract with network pharmacies and compare it with the PBM's contract with your organization. The reimbursement rates should be the same on both contracts. Ask if your PBM participates in rebates from drug manufacturers? Rebates can range from 50 cents to $1.25 per claim. Some employers allow PBMs to keep 100% of rebates in exchange for lower administrative fees. Whether you share rebates or exchange rebate dollars for lower administrative fees, ask your PBM to disclose the total amount of rebate dollars collected as a result of the business you represent to the PBM – and ask for supporting documentation that explains how rebate revenue is calculated. Ask what other payments your PBM gets from drug manufacturers besides rebates. Some PBMs reclassify rebates using categories such as education grants, research, advertising, promotion, access fees, formulary management fees, and data collection fees. Also ask your PBM to report the "per member per month" (PMPM) cost. This figure is calculated by dividing the total amount of drug cost spent in a month by the number of members enrolled in the program. The PMPM cannot be manipulated and is a true reflection of whether the plan's costs have increased or decreased. Does your formulary limit drugs that will be covered by a formulary list of preferred drugs or pre-approval/prior authorization? How often is the formulary changed? Check with your PBM for policies related to formulary changes. Will you receive notice of formulary changes in writing? If not, ask for notification. Is your PBM currently the subject of any lawsuits or investigations relating to their business practices? Some large employers and health plans are hiring outside auditors to review PBM transactions. Research lawsuits or government investigations against PBMs that are public knowledge. Ask about PBM practices for reporting fraud and abuse and to review external audits.

Coordination and Interventions

One might ask if the current health system, as it stands, is able to change or improve. Or do we need a different way of providing health care? Is quality and access to care an issue? Is timely access to health care a problem? Are employers ready to pay all or part of the cost? Is government willing and/or able to cover all or part of the cost? Will national health insurance improve the health status of the nation? Is something else needed? And if so, what is it?

One thing is certain, health and productivity costs from absenteeism and presenteeism are costs the employer cannot ignore and cannot afford.

Ata Ulhaq, MD, FACEP, MPH, practices emergency medicine at Case University Hospital in Cleveland, where he also serves on the faculty as a clinical instructor/assistant professor. An issue about which he is greatly concerned is the reduction of total health care costs and workers compensation utilization.

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