

## business & labor

### WORK FORCE MANAGEMENT

# Engineers' Rx for Taming Rising Costs: 'Consumerism' and Activism

Design firms push for cost relief in new arenas

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By Debra K. Rubin

Coping with expensive, complex health care programs is probably toughest for engineering firms, some experts say. "Design firms are filled with very analytical people who need to understand every decision," says Abe Gutfreund, senior vice president of Singer Nelson Charlmers, a Teaneck, N.J., insurance broker, whose client base is three-quarters small and medium-size engineering firms. "Health care is very frustrating for them because they can't fix it."



Recent studies reflect how the cost crisis is becoming a key boardroom issue for design firm managers. EFCG Inc., a New York City-based financial consultant to mostly engineering firms, says that 80 CFOs it surveyed last spring report the average cost of individual employee health care insurance coverage at \$4,200, up from \$3,500 in 2003. Employee family coverage now is \$10,800, up from \$9,300.



"Those are whoppingly big increases when you think that engineers' profitability is only between 7 and 10%," says firm President Paul Zofnass. "Medical costs are growing at twice the speed of revenue." Employers also did not shift more cost to employees, the survey points out.

While managed care became a trendy cost-saving approach in the 1990s, it no longer has the same cachet for today's patients, who dislike its restrictiveness. Industry firms offering health maintenance organizations as an option dropped from 45% in 2002 to 35% last year, according to a recent survey by ZweigWhite, Natick, Mass., a design firm management research firm. Employees now prefer more flexible plans, such as preferred provider organizations. But they are not cheap.



**"Only 2% of our health plan savings was realized on employees' backs."**

— Denise Howe, V.P.,  
Human Resources,  
Kleinfelder, San Diego

2004 without change, says Denise Howe, vice president of human resources management. "This became a big issue with the salary pressures we were already facing," she adds.

That trend, along with other market factors pushing up cost, has made double-digit medical cost hikes a fact of life in the design world. CH2M Hill Cos. Inc., Denver, faced 16 to 18% annual increases between 2000 and 2003, says Chairman Ralph Peterson. Kleinfelder Inc., San Diego, saw health care costs rise to \$750,000 in 2003, and projected they would top \$1.2 billion in

For many firms, the solution to cost escalation that threatened their viability has been a new approach called "consumerism," which makes it worth employees' while to share more of the cost burden. "Surveys show that employees don't always understand that high health-care costs are the employer's problem, not just the insurer," says John Fortin, national practice leader in health-care cost management for Willis Group in Atlanta. "Carriers aren't going to fix the situation. They like the status quo."

But in some firms, changes to the health-care plan is an invitation to an employee insurrection, with staffers worried that they will lose key benefits or shoulder the lion's share of costs. "When I first sent out emails with the spreadsheet of our new plan, I was bombarded in anger," says Ruth Darvie, director of human resources for Ammann & Whitney, New York City. Anticipating a 46% hike in health-care costs this year, the firm reconfigured its plan effective Sept. 1, to bring down costs without sacrificing coverage for the bulk of its 255 employees.

The new program may increase premiums for some employees but allows others to roll over unused out-of-pocket expenses into a fund. "A healthy person with minimal needs could have a \$1,500 fund accumulated in three years covering out-of-pocket costs," says Mark L. Thivierge, company CFO. With the change, A&W expects an increased cost of just 12% to the firm, he says. Employees seem enthused. "They thought it was a big risk, but when they understood it, they could see the savings," adds Darvie. About 50% of employees have signed on.

To head off its looming health-plan cost implosion in 2004, Kleinfelder studied plan use and convened a task force from all company levels "to make sure changes would be well received by employees, who were 80-85% happy with existing coverage," says Howe. The firm, with 1,700 employees, cut the number of internal plans it offered from nine to three to reduce per-claim and other administrative costs. It also modified them to lower co-pays for preventive care programs and add network dental coverage for the first time, says Howe.

Kleinfelder also "took a hard look at prescription costs," encouraging employees to rely more on mail order, says Howe. Like other designers that have grown by acquisition, Kleinfelder inherited responsibility for costly multiple health plans. Howe says it moved "from seven networks to one" at acquired firms. With the changes, the firm saved \$1.8 million and "only 2% of that was realized on the backs of employees," she says.

This year, "we are increasing our focus on wellness," with more coverage of mental health and orthodontics and a new \$25 insurance "smoker premium," says Howe. That is dropped if employees complete a quit-smoking program for which they can be reimbursed up to \$200. "We were not going to be the smoking police," she says. "People chose to do it."

Even with the pinch of higher costs, employees realize how critical a benefit company health insurance is. "I went from \$75 a pay period to \$120," says Brandon Brockett, a Kleinfelder construction inspector with six school-age children who had been self employed. "But it's still better than being out on my own."

Other trends that may help ease health care financial strains for employees is greater use of highly-flexible "health savings accounts," which allow greater use of pre-tax dollars to pay premiums and expenses without penalty if all funds are not used. "This will be the next level of consumerism once firms understand it," says David Singer, CEO of Singer Nelson Charlmers, which functions as a health-care "advocate" for its clients, primarily in the New York area.

Internal Revenue Service rules governing HSA plans took effect in January 2004 but they have been slow to gain acceptance among insurers and users. EFCG found that among the 80 engineering firm CFOs queried earlier this year, only 14 were using them. But 33 say they are "thinking about" doing so in the future. Singer expects the trend should catch hold by January. "Insurers will be excited about this because people attracted to HSAs will be healthier," he says.

While large and mid-size engineering firms can self-insure and are more attractive insurance prospects, small firms often struggle to find affordable health-care options. Tough state regulations compound the problem. As a result, many insurers abandoned the small firm market or priced it out of reach.

One entity that offers some relief is the American Council of Engineering Cos. Life/Health Insurance Trust, which finds coverage for ACEC members. Unlike other "association health plans" that have folded under market pressure over the decades, ACEC's program has operated uninterrupted since 1967, says manager Derrell Johnson, an engineer and retired partner of design firm Kimley Horn. The trust now serves 20,000 employees in 1,550 firms, whose average staff size is 20.



**"ACEC's trust collects \$140 million in medical premiums each year."**  
— Derrell Johnson,  
president, ACEC  
Life/Health Trust

"ACEC's plan is good. We're lucky to have it," says Roger Jacobson, an association plan trustee and past president of Engineering Associates, Cody, Wyo., with 20 employees. "Otherwise we'd be out in the marketplace with everyone else and face more variability."



**"The power of bulk buying is a huge benefit to a small firm."**  
— Cathy Ritter, president,  
Constellation Design  
Group, Timonium, Md.

But not all design firms, even ACEC members, are so fortunate. Existing rules in Maryland place stiff coverage rules on insurers, including ACEC's trust. "The power of bulk buying is a huge benefit to a small firm," says Cathy Ritter, president of Constellation Design Group, Timonium, which has 28 employees and revenue of \$3 million. "We don't have the leverage on

premiums and a bigger plan."

While Ritter has alternate coverage, she has faced annual cost increases ranging from 17 to 23% in recent years and worries about the firm's continued ability to maintain a health plan that is key to attracting talent. "We hope people come to the firm because they like our work or our philosophy, but the bells and whistles keep them," says Ritter, who says the cost issue is personal in small firms because "you see the people that work for you every day." Adds Jacobson: "We've been able to control costs by just changing our policy. We talked about making employees pay more, but we never did it."

ACEC and other industry groups hope they will finally get relief when Congress convenes after Labor Day and enacts long-awaited federal legislation on small-firm insurance that will supercede state rules. The House approved its bill last month, but the "hangup has always been in the Senate," says Steve Hall, ACEC's vice president of government affairs. Opponents claim the change would undermine coverage for some groups and say association plans lack financial strength. ACEC's Johnson says the trust's plan collects \$140 million a year in medical premiums and has \$100 million in financial reserves. Industry sources say big insurers are lobbying Senators hard, fearing new competition. Democrats also have opposed AHPs.

ACEC and other industry groups are more optimistic this year, with a possible new Senate ally, Mike Enzi (R-Wyo.), chairman of the Committee on Health, Education, Labor and Pensions. Enzi is set to introduce a new bill that may be more palatable to Senate opponents. The Associated Builders and Contractors, whose own health trust dropped medical coverage in 2000 for cost reasons, will likely join the industry push.

In the meantime, design firms will stay focused on the health-care cost threat. "This is 7.5 on the company Richter scale now," says CH2M Hill's Peterson.