# The Health Coverage Crunch: Are Planners Dealing with It

**by Mell McDonnell**

In Michael Mann's docudrama, *The Insider*, whistle-blower Dr. Jeffrey Wigand wonders aloud whether he can afford to spill the beans on big tobacco. His major concern is not about his reputation or status. He's not even worried about his mortgage, his income or his pension. What really has him on edge is health care insurance. Will he be able to replace coverage for his daughter? She suffers from acute asthma—a pre-existing condition.

This part of the story may be apocryphal. Moreover, now Dr. Wigand's position would presumably be protected for at least 18 months by COBRA (the Consolidated Omnibus Budget Reconciliation Act of 1985) and by "continuation of coverage" legislation. But the film does throw into high relief a major concern of millions of people across America in this millennial year.

Younger workers and those approaching middle age ask, Can I afford to leave my job—ever? Can I afford to look for something more interesting—work for a smaller company or start my own? Not with the paucity of affordable health care plans. Can we afford to have children? Probably not, if health coverage is through my wife's employment. How could we possibly afford to lose half of our income, plus pay health care coverage premiums out of pocket?

Older employees ask, How will I afford health insurance coverage after I retire and before Medicare kicks in? And even after I receive Medicare, will I be able to afford a supplemental policy that covers drugs? Drug costs alone could run hundreds, even thousands of dollars a month. What if my company drops retiree health coverage? After all, it's not a vested benefit.

And still others, both young and old, ask no questions at all. Convinced that health care coverage is too costly under any scenario, many middle-class people simply go without.

In subtle and many not-so-subtle ways, the health care situation in this country today is shaping the way people live their lives. How are financial planners approaching their clients' needs?

## Basic Review Needed

Virtually all planners interviewed for this article agreed that there is a problem, although few were willing to call it a crisis. An "upheaval" perhaps or a "crunch," but not a crisis.

But comprehensive planners we interviewed agree that health insurance coverage must be reviewed as part of the comprehensive planning process.

As Ben G. Baldwin, Jr., CLU, ChFC, CFP, author of *The Lawyer's Guide to Insurance* and *The Complete Guide to Insurance*, says, "Reviewing health care coverage is very, very basic. It's a serious area that must be dealt with first." Insurance broker Catherine Latto, CFP, of Latto & Associates in Charleston, South Carolina, gives seminars on the history of the health care situation. As she puts it, "Without adequate health care coverage, the client's financial picture could be blotted out. It's crucial to see to health insurance before anything else."

However, not all the financial planners we spoke to see medical coverage as a major issue for their clients.

Melly Metcalf, CFP, of Foothills Securities in San Francisco, California, says, "Our financial planning clients are well covered. They are business owners and professionals, mostly retirees who are extremely healthy. Some walk two miles a day. They don't think of themselves as 'old.'"

Donna M. Arnold, CFP, of Arnold Financial Services in Seattle, Washington, says, "People come in and say, ‘I have this plan, or that one, from my employer.’ Health coverage is a frustrating area for retired folks, but it doesn’t come up much in my conversations with my clients."

Still others feel that beyond the initial consultation, there is not much the planner can do for the client.

Ken Gillaspie, CFP, of Gillaspie, Wilkinson and Russell in Portland, Oregon, recognizes the problem, but says, "Not much can be done except to tighten the belt. Cost increases are inevitable, so it just has to be a budgeting consideration. We factor in the cost. However, most of my clients know there are no good deals, and they don’t even ask."

## The Effects of Higher Costs on Wealthy Clients

Do higher costs affect wealthy clients’ planning goals? In many cases, the answer is surprisingly no. Even with costs of prescription drugs and HMO coverage skyrocketing, clients with significant assets are largely unaffected. Their big plans stay in place. These clients can pay for old-fashioned individual health insurance, and some planners suggest they do so to preserve all their options.

Catherine Latto says, "High net worth consumers always have a choice. They can go anywhere they want to if they pay." And Ken Gillaspie tells his well-to-do clients, "Since you can afford great coverage, get it."

But even wealthy clients have some concerns about costs. Cynthia L. Conger, CPA, CFP, of The Arkansas Financial Group of Little Rock, Arkansas, has a client base that is 80 percent high net worth professionals, with a majority of these being doctors. Says Conger: "My clients dislike paying as much as $1,000 a month for an indemnity plan, so I often suggest they take a high deductible to bring premium costs down to as low as $500 a month." And the doctors, mostly cardiologists and oncologists, often take an AMA-sponsored excess major medical plan. This umbrella policy, which is reasonably priced, covers costs over the usual maximum of $1 million. As Conger says, "They know about medical costs, and being thoroughly covered gives them peace of mind."

Asked whether any of these clients self-insure, planners answered with an emphatic "no!" Strong advice across the board is that a single serious illness could cut the bottom out of even the deepest pockets and bring financial ruin. At the very least, it could severely compromise the client’s plans for their heirs or for philanthropy. As Conger says, "Such an arrangement would be a bargain with the devil."

## Is Anything Being Done for Everyone Else?

Currently, a large number of clients seem to be covered by their employers’ health policy, and many aren’t worried—yet. However, there are distinct populations for whom, as Catherine Latto puts it, even now the health care coverage situation is "a mess, a sad mess."

These include retirees whose employer coverage may be threatened or non-existent, divorced women, sole proprietors, small-business owners, people not currently in the work force and those changing jobs. What are financial planning professionals doing for those left out in the cold?

High on everyone’s list of those who need special assistance are retirees, those under and over 65. Companies are under no legal obligation to continue their health coverage. In fact, as a cost-cutting measure, some companies are beginning to drop retiree health insurance altogether, and these same companies are not offering it to new hires. "This creates real uncertainty when trying to plan a cash flow budget; we constantly have to help our clients figure this in as a monthly expense," says Cheryl Sparks, CFP, of Sparks Financial Services in Lynnwood, Washington.

Planners find they can help retirees by educating them to the realities of health care costs. Stephanie Tower Keating, CFP, of Financial Education Resources in Providence, Rhode Island, is a benefits training consultant for large companies and organizations. She is aware that many employees of companies need more information. She says, "Pre-retirees are often naive about Medicare and what it does and does not cover. They think it covers all their needs, including prescription drugs, eyeglasses, first day in the hospital.... They think it's an answer to all their problems. Many do not even know that they need a supplemental policy."

And high cost is not the only problem that faces retirees. Deborah Johnson, CFP, of Financial Advisors/KMS Financial Services in Vancouver, Washington, says, "Staying with one's doctor is increasingly difficult. Much insurance coverage is limited to services in a specific geographic area. This is really difficult for many who want to spend a few months a year in other parts of the country. They then feel they may need to have double coverage in another area, which adds to costs and complexity again." With expertise in the field, Ben Baldwin researches physicians' groups in the state to which the client is moving and provides advice about the best PPO (Preferred Provider Organization).

## Other Vulnerable Groups

Divorced women not in the workforce are another vulnerable group. John Brown, CFP, of Brown Financial Advisory in Fairhope, Alabama, says, "At first there's so much to deal with around a divorce that a person doesn't think about losing insurance; then, after about a year, reality strikes, and they come in. I do my best to help find a good group they can join to get a policy—but it's difficult."

Many people between jobs are protected by COBRA for 18 months—but, of course, they have to pay the premiums out of pocket. "You can talk until you're blue in the face," says Cheryl Sparks, "but if it's a question of putting bread on the table or paying health insurance premiums, guess which comes first? What happens after COBRA? Short-term health care policies that cover major medical can be a godsend—again, if the client can afford one."

Adds Catherine Latto, "I advise people in good health not to wait until COBRA runs out to look for new coverage. It's too risky."

Sole proprietors are scrambling to find adequate coverage. Asked whether there are any good options for the self-employed, planners answered, "Not a lot of good ones," and "You have to be inventive to find any coverage at all." Sole proprietors married to a spouse who works for a large employer are fortunate. For others, planners must review Schedule Cs to determine if sole proprietors can fit under an HMO group plan. (For these plans, even if the sole proprietor qualifies, age banding for a group of one can cause premium costs to head for the stratosphere.) John Brown recommends joining the Chamber of Commerce to fit under the Chamber's group plan. Stephanie Tower Keating adds hobby groups and the Good Neighbor Alliance as possible sources for group policies.

Small-business owners are hit with a double whammy. They must find insurance for themselves and for their employees. The problem is, affordable group coverage may be compromised if even a single employee falls ill or has a baby. Sparks experienced this situation up close. She is covered under her husband's employer's plan. The senior partner in the firm is 65 and qualifies for Medicare. So the group plan they chose was actually to get reasonable rates to cover their office manager/assistant, who did indeed have a baby. Once the claim was made, the insurer canceled the policy, leaving their employee without health insurance.

One way around this dilemma is to simply provide individual coverage for each member of a small firm, a solution sometimes recommended by Ben Baldwin and also by Cynthia Conger. The advantage is that a single claim cannot jeopardize the coverage of other people in the company, and the coverage is portable. The Catch-22, of course, is that premiums are very, very high.

Are medical savings accounts (MSAs) a good option for the small-business owner? According to at least three of the planners queried, MSAs are not popular because they tie up money that could be working harder elsewhere. The tax savings just aren't adequate to offset the loss of return on assets.

## No Warm, Fuzzy Answers

In short, even wealthier clients have concerns about the high cost of health insurance. And the less affluent not covered by employer insurance are truly vulnerable. For these clients, choosing high deductibles and squeezing into group plans—the most frequently mentioned remedies—are, at best, stopgap measures. And the future does not look particularly rosy. Consider these facts:

- Since 1998, health care costs have once again begun to climb at double the rate of inflation.
- Medicare and Medicaid are picking up less of the tab with health care providers and organizations, and consumers are being asked to pay more of the costs in the form of higher premiums and higher co-pays.[1]
- Since 1997, drug prices have continued to rise at the rate of 15 to 20 percent a year, with no letup expected in the year 2000.[2]
- Hospital mergers and insurance company mergers continue unabated, resulting in less competition and higher premiums for employers and individual consumers.[3]
- Another potential source of upward rate pressure includes the U.S. House version of a managed care bill, which, if passed, would give patients the right to sue their health maintenance organization.[4]
- In January of 2000, rates charged by HMOs went up between 8 and 12 percent.

Today, employer coverage is still the source of health insurance for many financial planning clients. Currently, with unemployment at a 30-year low, businesses are willing to absorb higher premiums for workers in order to keep their employees happy.[5]

Yet even now, there are cracks in the system. Although the "offer" rate of businesses providing health insurance remains steady, fewer employees qualify for employer-sponsored plans. This is due to the growing use of part-time workers, temporary workers and independent contractors.[6]

For retirees, as many planners are painfully aware, the future is even less bright. According to Tricia Newman, director of the Medicare Policy Project of the Kaiser Family Foundation, "Smaller and mid-sized companies have cut back on their retiree health obligations to the extent that they have been legally able to do so."[7]

Large employers' coverage of retiree health insurance also is declining. It went down 13 percent between 1991 and 1998, according to a report by the Kaiser Family Foundation released October 25, 1999; the report also showed a 12 percent decrease in coverage for pre-65 retirees over the same time period. In addition, the report showed that firms requiring pre-65 retirees to contribute out-of-pocket to cover the costs of insurance had risen from 85 percent of employers in 1991 to 96 percent in 1998. And during this same period, 41 percent of large employers placed a dollar cap for those under the age of 65, and 40 percent put a cap on those age 65 and over.[8]

## Referrals May Be the Best Answer

At one time, it would have been enough for the comprehensive financial planner to review insurance coverage—and then make recommendations. Now, however, evaluating health coverage options is very complex. As Baldwin explains, "Insurance legislation in every state is different. And the coverage available is in a constant state of change. So understanding the health insurance market, legislation and options available to clients is something of a moving target." Baldwin says that state governments provide reams of information for those who are interested, and Stephanie Tower Keating agrees that the information is "there if you want to find it." But Catherine Latto doubts if the interest is there, "unless the planner wants to become an insurance specialist."

When it comes to making actual recommendations, most planners interviewed agreed that a referral to a reputable and experienced agent or brokerage firm is the best service they can render. In fact, these planners think of the referral as the most prudent measure they can take to protect their clients.

John Brown offers to sit in on the initial conference between client and agent and is available for any conference on health insurance matters thereafter. He says, "I talk to my clients about all kinds of things involving health insurance, including how their parents are covered, and I try to help them understand the basics. When it comes to recommending a particular policy or evaluating new coverage from an employer, I send them to an expert, and I offer to remain involved."

Cheryl Sparks considers the referral to be essential—not as an income generator (the paperwork costs more than the fee recovered), but as a relationship builder. She says, "Many of my clients, especially the less affluent ones, are extremely concerned about health coverage. I’ve developed a working arrangement with a brokerage group in Seattle to provide the help they need. I know the group to be true experts in the field. They can give the best answers. By referring my clients, I build up a relationship of trust. The time I spend with them is better used. Everyone is better served."

Catherine Latto emphasizes the need to look at the agent’s qualifications. She says, "Health agents may find themselves in the role of advocate for their clients if health insurance providers pull back on their obligations. You want to be sure you have an agent with plenty of savvy and plenty of experience."

For many planners who belong to larger firms, the referral is within the company.

Says Roxanne Michaelson, CFP, of CMG Consulting in San Jose, California: "You can’t be an expert on everything. However, our firm of more than 60 has a medical group. As employee benefits consultants, we use their expertise to help put the benefits package, including health care coverage, together. Health insurance does not come up very much with individuals because our clients are mostly corporations or middle-market companies. Occasionally, our medical group works to find good coverage for entrepreneurs."

Gary Filak, CFP, of the Philips Financial Group in Burlington, Vermont, says that health coverage is not his area of expertise. He calls upon John Bourland, CLU, managing associate in the group. Bourland takes the planning approach to health care insurance, specializing in tailoring coverage to meet the needs of small-business clients and their employees.

## What Should We Conclude?

Clearly, many financial planning clients are already affected by the health care crunch. For others, multiple upward pressures on health premiums may make retirement less attainable and early retirement out of the question. Other life decisions, such as changing jobs, having children or getting a divorce are sure to affect coverage. And if there is a downturn in the economy resulting in rising unemployment, even more financial planning clients could be affected by the crunch.

The health care situation in this country (some say there are as many as 45 million uninsured) will continue to put pressure on policymakers for better answers. One sees that every day as presidential hopefuls, spurred by the voters, continue to battle over the question. However, there’s no certainty that an answer will be found by the next administration. And even if legislation changes the playing field, the answers may not be adequate or appropriate for the entire range of financial planning clients.

Perhaps the best course for the financial planning profession is to do what it does best—plan. The consensus of comprehensive planners interviewed for this article? We can educate our clients, at least in the basics. And we can school their expectations about health care coverage, help factor in the cost of health care to their cash flow budgets and, as is often necessary, direct them to the experts for help on getting the best health care coverage possible for their available dollars.

## Endnotes

1. Catherine Latto, CFP, Latto & Associates, Charleston, South Carolina.
2. A William M. Mercer study quoted in National Underwriter, "No Letup In Prescription Drug Cost Rises Seen," November 29, 1999, p. 4.
3. *The Wall Street Journal*, "Your Health Insurance for 2000: The Squeeze Is On," October 27, 1999.
4. National Underwriter, "Health Agents See Grave Dangers in HMO Reform Bill," November 29, 1999, p. 9.
5. AP Wire Service, *The Mobile Press Register*, "Many Employers Bearing Brunt of Health Costs," Dec. 14, 1999, p. 7.
6. Employee Benefit Research Institute Web site: www.ebri.org, "EBRI Analysis: Fewer Workers Have Health Insurance on the Job EBRI Finds," Sept. 10, 1999.
7. Reuters, "Coverage of Retiree Health Benefits on the Decline," Oct. 27, 1999.
8. Ibid.

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