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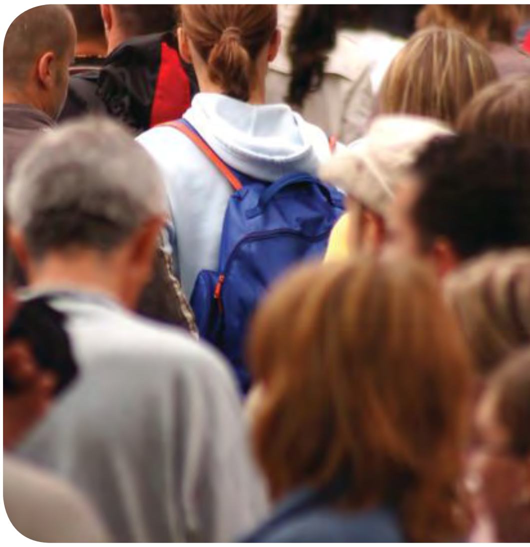

Next week I will be delivering a health insurance renewal to a client in the restaurant business. The premiums for her 21 employees are increasing by 15.5 percent, from $152,400 to $176,000.

Somewhere in the course of this discussion, I can almost guarantee I'll be asked: "Couldn't we pool together all the restaurants in Wisconsin and get better rates?" Substitute the word restaurants with plumbers or auto dealers or any other business; it's a question I've heard a thousand times!

There are two issues at play here. First, it is presumed a small business has no "buying power." Second, it is also presumed that premiums would be more stable (i.e., lower) if the risk could be spread over a greater number of lives.

Time for a reality check. Let's start with the issue of "buying power."

Most of us are aware that health insurers negotiate discounted fees for services performed by hospitals, clinics and physician groups that make up a "Preferred Provider Network." We routinely see evidence of those discounts on our EOBs (Explanation of Benefits) after a claim has been processed. There just happens to be an EOB on the corner of my desk. It is for an employee of a very small group. For a routine colonoscopy, the provider charged a total of $3,788. The insurer paid $1,657, a 46 percent discount from full "retail." So here's the lesson from that example, one that isn't generally understood. Individuals covered in an insurer's smallest two-man group receive the exact same discounts as those who work for their largest Fortune 500 account. The "buying power" of one insurer may be marginally different than another based on their market share, but their discounts are uniformly available to every one of their customers.

Now let's look briefly at spreading risk. Like my restaurateur client, about 90 percent of all Wisconsin businesses have fewer than 50 employees. (Perhaps by coincidence, Wisconsin insurance law defines "small businesses" as those having two to 50 employees.) Struggling to survive in a tough economy, $176,000 of premium is an enormous sum. Unfortunately, it is also the amount of money needed to treat just one breast cancer case. Or, an open heart surgery. So, of necessity, health insurers already pool all their "small business" clients. For competitive reasons, they are guarded about disclosing the exact size of these pools but again, depending on market share, I'd estimate they range from around 12,000 lives to well over 100,000.

Actuaries will tell you larger pools are better, but only to a point. Consider the cost of coverage for the 39,000 State of Wisconsin employees. That's certainly a large pool but their average single premium of $8112 is 68 percent higher than the cost of coverage in the private sector; for family coverage, $20,220, or 51 percent higher than the private sector.

Over my 30 years in the business, I have heard countless promises that Association Plans, Co-Ops, PEOs and now Exchanges – all new, or larger or "better" pools - will be the panacea for lowering health care costs. Is it possible that P.T. Barnum is still around selling easy fixes to a much more complex problem?

In a book entitled "The Company That Solved Health Care," John Torinus Jr., chairman of West Bend-based Serigraph Inc, describes in 210 pages a multi-year, multi-discipline approach to controlling health care costs. Real solutions take time, discipline – and a lot of effort. (Does a marathoner spend less on health care than a couch potato?)

To be perfectly blunt, easy fixes are tempting only to those "too busy" to do the heavy lifting of Serigraph.

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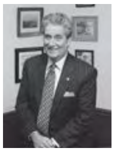

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