Debunking 10 Myths about Employee Health Plans.

How Employers Can Save Money and Be in Control

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Introduction:

Employee health insurance is a great benefit and valuable asset for attracting and retaining quality talent. At the same time, health plan costs represent the second or third highest expense item in most organizations' budgets. This is clearly an area in which employers need to seize control by approaching health plan costs with the same type of analysis and planning as other major expenditures.

However, many employers rely on outdated plans and no clear-cut strategy for their employee benefit plans. This has led to over-paying for healthcare. And, it has created the greatest of all healthcare misconceptions: that employers cannot do anything to control their health plan costs. This paper is designed to set the record straight on 10 common myths about health plan costs that are resulting in excess expenses for employers.

Myth 1:
Healthcare Reform will lower our costs.

No. The healthcare reform act passed in 2010 made a lot of changes, but lowering costs was not one of them. There is no "affordability" in the Patient Protection and Affordable Care Act.

With a new President and Congress taking office in January 2017, things may change, although it is doubtful that change will be quick to take effect. And, it may be difficult to ravel the complex system entitlements and regulations that have been established.

For now, premiums on healthcare.gov, the federal exchange, increased an average of 22 percent for 2017[1], following years of consistent increases. And the premiums are just part of the story. High deductibles and high out-of-pocket maximum amounts are shifting cost to insureds. Even many people that receive tax credits on the exchange still face these high out-of-pocket costs, unless they also qualify for additional subsidies.

2017 out-of-pocket maximums for major medical plans were set by the government at:

- $7,150 -- Individual
- $14,300 – Family

That's an increase of over 12.5 percent in just 3 years:

- $800 for Individuals
- $1,600 for Families

How has Obamacare impacted employer group health insurance?

Premiums have increased, with mandated benefits and continued increasing medical care costs.

--It was reported in December 2016 that UnitedHealthcare plans upwards of 11% rate increase for small group health coverage in Arizona.[2]

--For large groups, rate increases are averaging 8 percent [3]

Many employers also increased deductible and out-of-pocket maximum amounts on their employee health plans.

Pay or Play

Employers weighed rising health plan costs against the $2,000+ or $3,000+ per employee penalties. At first glance, the penalty may have looked like an appealing option. However, employers considered the additional costs listed below in making their decision to continue offering coverage.

> --The penalty is not tax-deductible.
>
> --With no employer-sponsored health plan, employees will pay federal and state taxes on the money they use to buy their own health insurance.
>
> --If an employer increases salaries to offset the cost of employees buying their own insurance, both the employee and employer will pay additional taxes on these amounts, too. The factors above are tantamount to the government collecting taxes on the value of health plan benefits.

The vast majority of employers have continued to offer health insurance to their employees. The smallest employers had the largest drop in coverage offered from 2004 through 2015, according to a study published in July 2016 by the Employee Benefit Research Institute. [4]

- 1,000+ employees: 99 percent offer coverage.
- 100 to 999 employees: 93-95 percent offer coverage.
- 25-99 employees: only a 10 percent drop to 73.5 percent offering coverage.
- 10-24 employees: a 26 percent drop to 48.9 percent offering coverage.
- Fewer than 10 employees: a 36 percent drop to 22.7 percent offering coverage.

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Health insurance benefits help employers attract and retain quality employees

For more than 75 percent of employees, an employer's benefits package is very important or extremely important when they make a job decision. [5]

Retaining and attracting the best talent will continue to be critical for employers. With the right strategy, a comprehensive health plan can be an investment that pays off in lower costs and increased productivity.

Myth 2:

Saving money on healthcare plans boils down to passing on more costs to employees.

Not True. Passing costs on is not saving. The only way to save on total healthcare costs is to get at the core issues that drive healthcare spending. That means establishing a strategy that will work for the employer this year and a strategy for the long term.

It means using established "best practices" that are proven to lower health plan costs, including:

- Consumer-driven health plan enrollment
- Annual biometric screenings
- Health risk assessment
- Disease management
- Healthy lifestyle programs
- Premium differential for tobacco use vs. non-tobacco
- Employer sponsored health events

According to the Centers for Disease Control and Prevention, chronic diseases (such as heart disease, cancer, stroke, diabetes, obesity and arthritis) cause 86 percent of our nation's total healthcare costs. [6]

These diseases are preventable and/or controllable with health management programs. By identifying risks that contribute to those diseases and controlling them, companies lower their costs, improve the health of their employees and increase their productivity.

For example, healthy lifestyle programs can have a positive impact on employees' issues with weight. Obesity is skyrocketing, despite all the talk of wellness and prevention. Over 36 percent of U.S. adults have obesity. In 1990, no states had over 20% obesity. Now, all states are over 20% obese and some much higher. [7]

Myth 3:
All benefits brokers and consultants are about the same.

Unfortunately, not all benefits brokers and consultants are equal in knowledge or understanding of the current challenges. Employers need to be sure that they are not just putting a band-aid on a wound that is getting larger every year. Brokers should be bringing to employers innovative and progressive benefit and health improvement strategies, not just higher deductibles and copays and not just shopping the current plan like it is a commodity. Some brokers will focus on saving 10 percent on stop loss coverage, but stop loss insurance often only accounts for 10 to 15 percent of health plan costs (that translates to only a 1-2 percent savings on overall health plan costs); this not where to find the real savings.

Myth 4:
We've been able to keep costs flat the last 2-3 years (with some benefit changes).

Benefit changes just shift employer costs to employees and their families. This is the major contributing factor to family income growth being consumed by increased healthcare costs, wiping out real income gains (RAND Corporation study). [8]

Employees have less discretionary money to spend, so they feel they actually have received a pay cut when "benefit changes" shift the burden to them.

These "minor" changes in benefits are a ticking time bomb for employees. For example, if the employer shifts 2 percent of total costs each year, the employees' total health outlay will increase from $3,100 in 2016 to $6,679 by 2021, a 115 percent increase. [9]

Even companies that have made large enough adjustments to keep premiums level will have a tough road ahead. Average annual healthcare costs for a family of four in 2016 were $25,826, with employers paying an average of $14,793 of the cost and employees paying $11,033 through their share of health insurance and out-of-pocket costs. [10]

In addition, it is important to remember that medical and pharmacy costs represent only 30 percent of an employer's cost of employee poor health.[11] This means even if health insurance premium costs are being kept level by lowering benefits, the company's costs in lost productivity and absenteeism continue to grow, if there is no comprehensive health program in place.

Myth 5:

We have a lot of other major projects on the board; we don't have time to deal with health plan costs, other than to ask our broker to shop for the best price.

You may be selling your company and your employees short. You have time to launch a new product or program that could yield millions of dollars in additional revenue that improves your bottom line profit margin. Implementing a long term strategy for your health benefits directly and positively impacts your company's profit margin similarly to the additional profits possible from a new product. The difference is health plan savings are guaranteed to hit your bottom line.

With a properly designed health plan and employees engaged in wellness programs, we regularly save clients $1,700 or more per employee in the first year. For a 300-employee company, that's $510,000 to the bottom line. If your profit margin is 5 percent, that's the equivalent of $10 million in additional revenue (without adding to your sales staff). Recent studies have shown that this savings can grow to nearly $10,000 per employee over a 5-year period.

SAVINGS VERSUS REVENUE EQUIVALENT					
	Company Profit Margin				
Estimated Annual Savings (in dollars)	2%	5%	8%	10%	15%
	Equivalent Level of Annual Revenue Needed				
25,000	1,250,000	500,000	312,500	250,000	166,667
50,000	2,500,000	1,000,000	625,000	500,000	333,333
100,000	5,000,000	2,000,000	1,250,000	1,000,000	666,667
150,000	7,500,000	3,000,000	1,875,000	1,500,000	1,000,000
200,000	10,000,000	4,000,000	2,500,000	2,000,000	1,333,333
250,000	12,500,000	5,000,000	3,125,000	2,500,000	1,666,667
500,000	25,000,000	10,000,000	6,250,000	5,000,000	3,333,333
750,000	37,500,000	15,000,000	9,375,000	7,500,000	5,000,000
1,000,000	50,000,000	20,000,000	12,500,000	10,000,000	6,666,667

Myth 6:
It's too complicated; we have no way to control health plan costs.

Not True. Employers who think of health plans the same as other products or services that are consumed can take control of the cost.

Why should we be more cost-conscious for our cars than for ourselves? Few of us take our cars in for maintenance or repair work without finding out the cost before the work is done. However, if your car insurance paid for charges such as oil changes, tire rotation, new transmission and radiator replacement, you might not ask or care about the costs too much . . . kind of like the way many insured consumers look at healthcare.

By giving consumers a reason to care (consumer directed plans with Health Savings Accounts or Health Reimbursement Accounts) and the information to make informed decisions (cost comparisons and estimators), we can control health plan costs. All of these programs are available today, and the data that proves the programs work just keeps increasing.

Today, many of the top insurance companies include cost estimators on their websites. Consumers can compare costs for specific procedures from various providers. Many consumers wrongly believe that the cost is the same, as long as they stay within their designated Preferred Provider Organization (PPO). That is not true. The differences can be thousands of dollars, even within the same provider network and the same city.

A colonoscopy in Arizona has an average cost at an outpatient hospital of $2,821, about 2.5X the $1,100 cost at a free standing surgery facility.[12]

In addition to detailed cost information, quality of care measures for doctors and/or facilities are readily available.

Doing your homework does save money and improves quality outcomes in healthcare…just like everything else in life.

Myth 7:
Our employees won't be receptive to big changes in our health plan.

Not True. When employees understand that their healthcare actions can save them money and improve their benefits, most are ready to listen and act.

A recent RAND Corporation study showed that an average family's income growth from 1999 to 2009 was largely consumed by increased healthcare costs. If healthcare costs had tracked with the Consumer Price Index, instead of escalating far higher, the average family would have had $5,400 more each year to spend. [8]

From 2010 through 2014, family healthcare costs continued to outpace any increases in personal income growth. [13]

Myth 8:
What works for the large companies won't work for my 300 to 500 employee company.

Not True. Strategies for lowering health plan costs work just as well with 300 employees as they do for companies with tens of thousands of employees.

You may see more publicity on large companies making great strides in controlling health plan costs, but it's happening every day in companies of all sizes across the nation.

Yes, the large companies have large numbers to report.

However, in a study of 33 of its employer clients, Benefit Commerce Group identified savings that averaged over $2,000 per employee per year for organizations ranging from 35 employees to over 500 employees. The 5-year savings averaged over $10,000 per employee. [14]

And, in terms of implementation, it is easier to roll out a new program and engage 500 employees than it is to do the same with 30,000 employees.

Myth 9:

Wellness programs sound great, but they don't really lower my company's health plan costs.

Wrong. When wellness programs were initiated many years ago, it was difficult to quantify their value. However, there are now programs that can show you, in dollars, how these efforts actually save money on health plan premiums.

By modeling the company's implementation of long term strategies, such as consumer-directed health plans and Health Savings Accounts, along with employee participation in health assessment and biometric screening, employers can chart real savings in premiums as they move forward each year.

Benefit Commerce Group has developed an exclusive program that guarantees savings on medical trend increases, based on employee engagement in a number of specific best practices.

Myth 10:

We have to wait until this plan year ends before we can make changes in our health plan.

No. Like any other part of your business, when you find a way to make improvements, implementing those improvements as soon as possible yields the best results.

Some brokers would like you to remain on a year-by-year basis, because this makes their job easier. It's also easier for employees if their plan doesn't change too often. However, why would you want to wait? The sooner the better, when you have the opportunity to make changes that will: 1) save your company money, 2) save your employees money, 3) make your employees healthier and 4) make your employees more productive.

Conclusion:

An employee benefits broker/consultant experienced in developing long term strategies -- with close relationships with insurance carriers and a staff that can assist you in the transition -- can help you start creating a strategy for your health plan immediately.

Only a comprehensive employee benefit program that controls costs, maintains or improves benefits and engages employees in the program's goals can provide sustainable strategies to lower health care costs first-year and long-term.

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Benefit Commerce Group is changing the healthcare cost paradigm with sustainable strategies to lower health plan costs first-year and long-term. The firm has assisted its clients in receiving over 100 recognition awards in the past 3 years for their benefit and wellness programs. Contact Scott M. Wood at scott@benefitcommerce.com.

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