

Keeping those insurance costs at a bearable level

It's the time of year when many companies are about to find out what their employee health-insurance plan will cost starting Jan. 1.

Although there are some indications that the rate of increase is slowing, it's likely to still be in double digits. The PricewaterhouseCoopers accounting firm recently projected an average 11 percent hike in employee health costs for 2006.

And the burden may fall more heavily on smaller companies. A 2005 survey of Puget Sound employers indicated that those with 50 to 199 employees saw the greatest increase in health-insurance costs. (To some extent, this is because larger employers can exert more leverage when negotiating with

HEALTH INSURANCE



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their carriers to keep premiums down.)
The health insurance spiral is taking its toll on companies' financial health — cutting into profits, holding back wage growth, and slowing the addition of new positions. Some employers respond by passing along the increases to employees, either by having employees paying a share of the premium or by increasing copayments and deductibles in order to moderate the rate hike.

The downside is that this approach imposes its own costs in the form of a negative impact on employee morale and loyalty. When employees feel their compensation or benefits are threatened, those items quickly become more significant elements of job satisfaction (or lack thereof) than job security or having a good relationship with a supervisor.

Instead of simply shifting the financial impact from employer to employee, companies can look for more creative, win-win solutions. One way is to move away from one-size-fits-all benefit packages. With flexible spending accounts or "cafeteria plans," employers allocate a fixed amount per employee per month, and allow employees to choose exactly the benefits that are most valuable to them.

Some employers believe they have to offer a "Cadillac" health plan in order to be competitive, and this often translates to low or no deductibles. Like fancy cars, though, these plans come with hefty price tags. Although this may seem counterintuitive, it may actually be more cost-effective to choose a higher-deductible plan and reimburse employees for the difference in their out-of-pocket costs. There is no net impact on employees (as long as they keep appropriate records and submit the right forms), but the employer's net savings can be substantial.

A high-deductible plan can also be combined with a consumer-directed option such as a health savings account (HSA) or health reimbursement arrangement (HRA). Both of these accounts provide a pool of pretax dollars (funded all or in part by the employer) that employees can use to pay the deductible and other qualifying medical expenses. Unused funds can be carried over into the next calendar year, so that employees can build up a reserve against future health expenditures.

One of the biggest risks small employers confront with respect to health insurance is that a single catastrophic event (a premature birth, a long-term medical condition or debilitating accident) can cause premiums to soar. Changing carriers isn't a solution, because the employer will have to disclose any history of major medical claims. Joining forces with other employers is the best way for a company to protect itself from such a circumstance.

There are numerous associations that provide benefit plans for their members, giving companies access to a range of benefits they might not otherwise be able to provide on their own. In addition to health insurance, these might include a 401(k) plan, life insurance, or an employee assistance program.

Another alternative is to work with a professional employer organization (PEO), which not only groups many smaller employers together for benefits purposes, but also delivers a full range of human resources administration and support — usually more cost-effectively than a small company can do in-house.

Unlike association plans, PEOs do more than negotiate benefit costs. They can assist employers with all the ancillary tasks involved with benefits administration — from managing the open enrollment process, to preparing materials informing employees of any benefit changes and meeting with them to explain those changes, to reviewing insurance invoices monthly and updating them to reflect any new hires or terminations during the previous month. In addition, PEOs deliver a full range of human resources services, including payroll processing, employee handbooks, safety programs, regulatory compliance and management training.

Not all of these approaches will work for every employer — and there is no magic bullet that will bring health-insurance premiums down to the level of 10 or 15 years ago.

But employers who put the effort into being informed consumers, and who are willing to think outside the box, can succeed in holding increases to a reasonable level. More importantly, by keeping in mind the kinds of health-care services their employees actually use, employers will get greater value for their health-care dollar.

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