

10 Ways to Decrease a Company's Employee Benefits Cost

By Thom Mangan- President, Employee Benefits Consulting Division, HUB International

Given the current state of the economy it is more important than ever for businesses to carefully evaluate their employee benefit programs to find ways to manage cost. Double digit health insurance renewal increases should not be an automatic annual ritual, as there are many options available that can save your company money without sparing the quality of healthcare offered to your employees. The following are tips on how to reduce your company's healthcare costs:

Explore the insurance marketplace for competitive proposals

- While there are only five or six major health insurance carriers in the marketplace, it is always good to get an outside professional opinion from an insurance broker or consultant. While insurance premiums provided by carriers don't vary by broker, having another advisor evaluate your plan may provide fresh ideas and deeper market knowledge.

Provide your employees with multiple health plan options at various cost levels

- Over 75% of all companies currently provide multiple health plans to their employees, which is typically done with the same carrier. This "High/Low" program is an outstanding way for an employer to both fix its cost of insurance while providing alternatives to employees.

Review alternative contribution strategies

- 401(k) plans typically have a 5-year period before an employee is fully vested so why don't employers take a similar approach with their health and other benefits. After clear advice is provided by a definitive Tax Authority, many employers have decided to provide different levels of benefits to their various classes of employees.

Extend your plan's waiting period and to bridge the gap, add a lower cost plan option (i.e., Limited Medical Plan)

- Most turnover at a company happens during an employee's first six months of employment. However, most employers provide benefits after 30 to 90 days of employment. This dichotomy creates the potential for ex-employees, who are typically in the highest risk class, to choose COBRA on a company's health insurance program. By extending the waiting period, a company can decrease this risk and lower both its premiums and administrative burden. During the waiting period, Limited Medical Plans can be used as an inexpensive way to provide basic benefits as the premiums are only 20% of those of the major medical plan.

Investigate adding a Health Reimbursement Account (HRA)

- An HRA is enabled by IRS Code Section 105, allowing an employer to fund an account that can be directed towards an employee's out of pocket costs. A cost saving strategy that greatly reduces premiums is for an employer to purchase a health plan with increased co-pays, deductibles and co-insurance. The employer can then set up a "shadow plan" for its employees by funding an HRA. The HRA provides a debit card to each person to pay for qualified medical expenses between the shadow plan and the actual insurance plan. The risk is minimal for an employer and the savings can be as great as 20%!

Consider utilizing a Professional Employer Organization or co-employment arrangement

- A Professional Employer Organization (PEO) offers many small and mid-sized employers the opportunity to offer the same types of HR, Payroll, and Health Insurance services that large corporations offer their employees. Because PEOs band thousands of employers together, they are able to achieve economies of scale that could result in cost savings for all lines, including health insurance.

Bundle multiple lines of coverage with one insurance carrier.

- Carriers offer significant discounts when a company purchases more than one line of insurance from them. By combining Dental, Life and Disability together or with Medical, companies can realize significant savings on all of their premiums.

Separate your prescription plan and investigate self-insuring through a third party vendor.

- Pharmacy is a major profit center for insurance companies. By driving employees to pick drugs in their formularies, insurers receive millions of dollars in rebates from the pharmaceutical manufacturers yet they rarely share this with the employer. Employers with as few as 100 employees can use an outside vendor for pharmacy. Outside pharmaceutical management companies will provide as much as 100% of the rebate money back to the employer that could translate into as much as 1% of a typical company's premium.

Educate your employees on becoming wise healthcare consumers and healthier people -

- Employees must take charge of their own health by making healthier decisions such as quitting smoking and losing weight. Smoking is the leading cause of preventable death in the U.S. while obesity is the second leading cause. Some interesting facts to consider are that 127 million adults in the U.S. are overweight and 60 million are obese. Obesity has a direct correlation to heart disease, stroke, high blood pressure, blindness, kidney disease, nervous system disease, pregnancy complications and diabetes. In 2007, the National Institute of Health estimated that 23.5 million Americans, or 10.7% of all people age 20 years or older, has diabetes! The overwhelming vast majority of those with diabetes have type II Adult Onset that is primarily caused by obesity and other lifestyle factors. The average diabetic has 2.3 times the medical expenditures of a healthy person annually.

Shift a portion of the plan costs to the members through benefit changes

- Redesign plans to accurately represent the expenses incurred by various medical providers. The average normal office visit to a Primary Care Physician is \$70 yet the average visit to the ER is over \$500. The Co-Pays in the plan need to reflect this cost differential so that an employee will think about the best place of treatment not only for quality but for cost.

By proactively identifying ways to reduce the overall cost of your benefits program and potentially enhancing the overages offered, both you and your employees will be rewarded. If you have any questions, contact Thom Mangan at (212) 338-2040 or Thomas.Mangan@hubinternational.com. For more information, visit www.hubinternational.com.