

To Control Premium Costs, Use Health Insurance Plan Provisions

By Jim Edholm

In the matter of controlling what you pay for your company health insurance, you probably have more flexibility than you may think. Most carriers have a wide range of plan options to choose from, and used creatively, they'll help dramatically lower your cost.

You have the option to adjust for three major components of health insurance cost: what you reimburse for A) a doctor visit, B) a prescription, and C) a hospital or surgical visit. Like any insurance policy, if you place more of the payment burden on the carrier and less on yourself, the carrier will charge you more. But if you pick up some of the risk, the price drops.

As a model for this discussion, I'm using the relative prices for smaller groups in the State of Massachusetts. Other states have different plan designs, different levels of cost, and different competitive dynamics. And larger employers' rates depend more on the actual claims experience of their group. However, the relative cost changes will illustrate the general principles.

In Massachusetts, copayment plans are more common than deductible plans, even for hospitalization and surgery. In a

copayment plan, the required copayment is applied to each visit to the hospital or to each surgery, irrespective of the total dollars the patient has spent. Under deductible plans, the employee's liability stops at a predetermined amount of health claim dollars.

In choosing a health plan design to reduce premium costs, there are two questions to answer. First, how much will you save with a given plan design? And second, how will you share it with your employees?

For example, the most common, industry-standard plan offered to employees in Massachusetts is one in which a doctor copay is \$15 per visit, drug copayments are \$10/\$25/\$45 (generic/formulary/non-formulary prescriptions), and hospitalization and/or surgery copayment is \$250 per admission. By increasing the doctor copay to \$25, prescriptions to \$15/\$30/\$50, and imposing a \$1,500 single/\$3,000 family deductible for hospital/surgical admissions, you can reduce your cost by almost 31 percent.

For the average insurance cost of about \$8,000 per employee per year, that means an annual premium reduction of \$124,000 for a 50-employee company.



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Other plans offer even more dramatic cuts in coverage in return for even more dramatic savings, or you can select other options with less dramatic results. The cost impact ranges from 5 percent to about 45 percent.

If you select a dramatic reduction in coverage to save a large fraction of the premium costs, the question becomes how that kind of change will affect your employees. It certainly won't be popular, so you have to ask yourself how much you *care* about the effect on employees. If you're in an industry where turnover is to be avoided at all costs, you'll want to mitigate the impact to the

employees. However, in some industries turnover is a fact of life, employees are pretty much “plug and play,” and the impact can be ignored.

In the example above, the \$10 increase in doctor visits and \$5 in prescriptions, while not pleasing the employees, will probably be preferable to an increase in their share of the premium, especially if you “sell” it to them correctly. However, employees facing hospitalization, surgery, or significant diagnostic lab and x-ray charges will now incur much more significant costs. In the plan described, someone entering the hospital will see her cost jump from \$250 to \$1,500, a six-fold increase.

So how do you handle it, and how do you evaluate alternatives?

You could opt for lesser plan changes with less dramatic savings. That’s the easiest way to adjust. There’s no requirement for any additional effort on your part, but the savings will be smaller.

If you decide to make the major change to get the major cost reductions, the most common way to deal with those changes’ outsized employee impact is to have the company absorb part of the cost for those who incur significant costs. In the example above, you could reimburse all deductible costs in excess of \$500 via the establishment of a Health Reimbursement Arrangement (HRA). The reimbursements are deductible to the company and non-taxable to the employee.

That would reduce the net savings to the company, but since only one in six Americans is hospitalized or has surgery annually, only a small fraction of your employees will get reimbursements. You get the full benefit of the reduction in cash flow until claims are incurred.

HIPAA requirements forbid you from officially knowing anything about your employees’ health conditions, so you’ll probably select a Third Party Administrator (TPA) to whom the employees would submit their claims. At about \$5.00 per employee per month, that TPA would administer the program, or often the health carrier can provide the HRA reimbursements.

How do you evaluate the options and predict how they’ll work for you? Your broker should evaluate your group’s health profile, show you health plan options, suggest structuring an HRA plan, and guide you to a competent TPA (or even provide the service himself for smaller employers).