

Maximizing the Return on Health Benefits

By

Cheri Gillfillan
President
One Source Advisors, Inc.

The challenge of managing health care benefits and vendors has never been more difficult. As we all know, annual cost increases have returned to double-digit levels in the last few years. This has come at a time after many years of modest increases experienced through the mid-1990's. Further, these double-digit increases, while declining, show no sign of abating.

Employer's are looking for answers to help balance benefit levels and employee costs with overall budget constraints in this difficult economic environment. Employees have been very vocal in their dissatisfaction with managed care restrictions. In addition, tightly managed care programs no longer offer the cost controls they once did. Further, patients' rights advocates have been promoting legislation that will expand access to care and enable employees to sue plans when care is denied.

In this challenging environment, health care benefit managers are considering a variety of strategies to achieve the key objectives of cost management and improved employee satisfaction. A recent research report from Watson-Wyatt (one of the largest, world-wide healthcare consulting firms) provides a number of strategies for achieving these objectives.

- Improving **communications** to change employee perceptions and enhance the perceived value of the benefits offered. Education is the key approach to improving the employee's knowledge of how much accessing the health care system costs – from a simple office visit to a more complicated in-patient procedure.

An appreciation of the value of the health benefit plan is more clear when it is understood that a \$20 office visit co-pay many times only covers 1/5 or 1/6 of the total cost of that visit. While the insurance company typically pays that balance, the final payor is the employer through increased premium levels.

- Offering more **choice** to improve employee satisfaction. Many carriers are now offering dual options, some to companies with as little as two employees. This means that employers may now offer two different benefit plans so that employees may choose the benefit level and cost that best fits their families' needs and budgets. In the past dual options have been reserved for only the largest employers due to the theory that it was more expensive to maintain more than one benefit option. However, carriers have advanced their technology and rating mechanisms to the point that adjudication, maintenance and pricing of multiple options even in a small employer is manageable without an adverse impact on the overall pricing to the employer.

Many consider the dual option a win-win for both the employee and the employer. It provides more choice to the employee than they have ever before experienced and provides additional cost savings to the employer via contributions based upon the lowest cost option.

- Giving employees greater responsibility for health care decisions through **defined contribution** approaches. Defined Contribution can mean many different things. It seems to mean something different to every person in the health care arena. The basic premise of defined contribution is that a plan is designed to involve the employee more in the health care decision-making process.

The most simplistic defined contribution program could be higher out of pockets passed along to employees. This could be in the form of higher deductibles or higher co-pays for services such as office visits, emergency room visits and/or prescription drugs. This would meet the basic criteria that employees are taking greater responsibility for health care decisions because their own money is spent for the service. When the consumer is spending their own money, they typically are more careful where the money is spent, whether it needs to be spent and how to obtain the largest value for their dollar.

Defined contribution can also mean an employer can establish a plan with a very high deductible - \$2000 or \$3000 – and establish an account for each employee to help offset the cost of the initial deductible. In this manner the employer pays premium for a very high deductible thereby lowering their overall costs while the employee receives dollars to help offset such a deductible. Since not everyone insured under the group plan receives services that will come close to or max out the deductible, the employer saves over fixed premium costs for lower deductible plans even after additional funds are supplied via the employee accounts.

Defined contribution plans as described in the previous paragraph are certainly not for everyone. The employer's benefit goals, budget goals and what they are comfortable with administering all have to be assessed to determine whether some form of defined contribution approach would work. This assessment is critical as every employer is at a different point on the continuum of employee benefit funding.

There are many acronyms associated with defined contribution. Each one means a different thing. Each one has its own rules and regulations. Each one will offer different features and benefits to the employer. A brief list is supplied here.

- **HSA** – *Health Savings Account*. Available to individuals and any size group. Individuals, employers and/or employees may deposit funds. Contributions are tax deductible for the individual, employer or employee. The employee owns the account. Funds may be rolled over to the next year. Funds will grow tax-free and can be disbursed tax-free as long as for qualified medical expenses.
- **HRA** – *Health Reimbursement Arrangement*. Available to groups of any size. Employers are the only entity that may deposit funds.

Reimbursements from the accounts are tax deductible for the employer and may not be added to employee income. The employer owns the account. The employer determines whether funds can be rolled over and what caps may be placed. Funds may be kept in general account of employer and are tax deductible when reimbursed. The employer determines what qualified expenses may be reimbursed.

As exhibited, defined contribution can mean different things to different people and can take on many different forms. Research and guidance is necessary at the employer level to determine what, if any, form is appropriate for their employee population.

- Focusing ***internal resources*** on functions most critical to cost and satisfaction, while considering outsourcing to augment internal staff in all areas of vendor management. Utilizing outside resources for vendor management activities offers the potential for employers to focus their internal resources in areas where they will have the greatest impact. Leveraging outside resources for the activities that might be performed more effectively by others allows the employer to quickly exploit new technologies and can provide access to technical expertise and data that are otherwise difficult to obtain.

According to a Watson-Wyatt research report issued in the fall of 2001, many employers report that outside expertise often plays a valuable role in strategic activities. Activities described in the report were low risk – high payoff such as renewal negotiation, performance monitoring and communication materials. The type and level of outsourced involvement is an individual employer decision.

The most common form of outsourcing for employee benefits is the health care consultant, agent or broker. The Watson-Wyatt report further advises employers to outsource a consultant, agent or broker that has expertise in the healthcare arena. Those that provide the most value are those that have devoted their careers to the negotiation and management of employee health insurance benefit programs.

The ideas presented in this article have hopefully provided areas and activities that can help drive your employee health insurance benefit program to greater efficiency, cost effectiveness and acceptance by your employee population. Health care costs in every business have become such a large budget item that the program needs a management eye on it year around. That management eye can be internal via a staff member or outsourced via a healthcare consultant, agent or broker, or, some combination of both.

Cheri Gillfillan is a health insurance expert with more than 20 years in the field in various capacities. Cheri and the rest of the staff at One Source Advisors, Inc. are available to discuss strategies, ideas and new approaches to health care. Please give One Source a call prior to your next renewal to see if their approaches to healthcare solutions are able to help. The One Source Advisors, Inc. staff is available toll-free at 866-270-2441.