

## It's Not the One Thing You Do, It's Everything You Do to Control Your Healthcare Plan Costs

Employers often ask their healthcare advisors, “What is the one thing I can do to control my healthcare plan costs?” Well, in many ways this is a trick question. There is no magic bullet. Studies from national consulting firms have indicated that employers who actively manage many aspects of their program experience lower long-term costs than employers that are passive. Some of the areas that need to be actively managed every year include:

1. **Plan Design-** Does the plan design provide benefits in a cost efficient and effective manner. Is the plan designed so that employees have a little skin in the game? You want employees to go through a decision process when they select a provider, medication or type of service. Plans that have low out of pocket expenses for employees often encourage over-utilization of services.
2. **Wellness Programs-** Simply stated, healthy plan participants have less medical claims than unhealthy plan participants. As a result, many employers are encouraging healthy behaviors. There are a wide range of activities that employers can initiate to accomplish this goal. Some of the activities can include walking contests, blood pressure screenings, health fairs, healthy foods in the company cafeteria, weight loss programs, smoking cessation programs, annual physicals, etc. The keys to successful wellness program are to phase it in gradually, make it easy to understand and incent employees to participate. The incentives can be monetarily (bonus or reduced employee contribution) or non-monetarily (extra day off).
3. **Employee Contributions-** For many years, employers simply paid 75-80% of the plan costs for employees and dependents. With the prevalence of two working spouses, employers have had to re-think this approach. The norm today is for employers to pay a lower percentage of the total cost for dependents than for employees. In addition, employers are requiring employees to provide proof that they are trying to improve their health condition through completion of a Health Risk Assessment, participation in a smoking cessation or weight loss program or any other “wellness” that doesn't run afoul of Federal Regulations. Participation in the various wellness program will lower the payroll deduction for employees to the medical plan. At the same time, improved health will lower claims which will ultimately lower the cost of the plan for employers.
4. **Financial Structure of the Plan-** Employers need to see if the plan is structured in the most appropriate way for a group with its characteristics. Often smaller groups immediately think that fully-insured programs are the way to go. However, there has been a trend for some small employers to self-insure benefits, albeit with low amounts of upside risk. Groups of a few hundred to a few thousand employees often self-insure or utilize a

hybrid type of funding arrangement (e.g., minimum premium or level funding). It is important that an employer has a similar risk philosophy/tolerance for its healthcare plan as it has for other aspects of its business.

5. Insurance Companies/Provider Networks- It is most important that the insurance company's provider network matches up well with the geographic distribution of your employees. Access to providers is critical. At the same time, network discounts and insurance company premium costs should be factored into the selection process of the insurer and their network.
6. Communication of the benefits- Employees who fully understand the operation of the plan are apt to have lower plan costs than employees who don't understand the plan. Employee engagement can result in lower plan costs as well as the most appropriate care in the correct setting. Communications can be in the form of e-mail blasts, posters, brochures, etc. However, in keeping with the way we communicate in our everyday lives, employers are increasingly establishing Employee Benefit Online Portals for their employees. These portals not only allow employees to enroll for benefits online, they give the employer a place to store plan documents, forms, notices, etc. This approach makes it easier for employees to understand their benefits but helps to reduce internal administrative costs and some of the costs of compliance.

As we can see, what started out as a simple question, turned out to have a multi-faceted answer. But at the end of the day, proactive employers may reduce their health trend rate by 2-4% every year. Looking at it another way, an employer spending a \$1 million today can save \$380,000 to \$740,000 over the next 5 years by being proactive. We're assuming a 10% annual baseline medical trend in our projection. For larger employers, the payoff is even more substantial. It is definitely a worthwhile exercise.