Building to Ubiquity

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What Companies Should Be Doing Now to Position Employee Benefits for the Next Generation

There are three things that employers, faced with the:

1. Increasing and unpredictable cost of health insurance
2. Lack of employee understanding and appreciation
3. Projected impact of the Affordable Care Act

Must recognize and prioritize at the executive level- health insurance has become a strategic question.

Status Quo

There are long term legacies in the world of "fringe benefits", but as the global economy moves quickly, letting inertia rule could be very costly. And unfortunately it is true that even if you can identify the issues that are driving your costs, impacting them may be very difficult. Regardless, this is not a valid reason for neglecting the uncomfortable task.

Increasing Cost

It's a fairly simple equation, claims are driving cost. Underwriters will take a close look at the claims incurred over a period of time, compare it to the premium paid, make some adjustments based on expected future claims, changes in demographics, and company size, and come up with a projected cost for the coming plan year. So in the absence of another carrier that looks at their company's workforce differently, employers are held financially liable for the health of their employees.

Layered on top of this is a report from the Center for Disease Control, delineating that 75% of total health care spend, roughly $1.6T annually, is a result of lifestyle. Between tobacco use, alcohol consumption, lack of physical activity, and poor diet, the American workforce needs help in avoiding future chronic disease. Connecting the dots, a large stressor on the employer based health insurance system is preventable.

Action Item: Introduce the concept of health, and the employer's role, to the employees. Set the groundwork now for an open and candid conversation about the connection between health decisions now and their long term effects.

A three year plan might start with a detailed employee survey, coupled with an educational series about health issues that are pertinent to the workforce, coupled with an evaluation of what people eat at work, how active or sedentary they are at work, and what their goals are. This will create the basis by which the executive team forms a plan.

Year two would be a continuance of year one, with the addition of a voluntary biometrics program to teach employees their key health indicators, with the added benefit that it would create a baseline for the company, critical for cost benefit analysis.

Year three would continue year two but with the conversion from a voluntary biometrics program to a program where the cost of health care was dependent upon participation.

Years four and beyond would determine the cost of health insurance based on meeting baseline health criteria or participation in an approved program.

While this may seem overwhelming, intrusive, unrealistic, or other, as long as employers are financially liable for the health of their employees, they can and must address the key driver of cost- total plan utilization.

Employee Appreciation

Study after study has shown that employees have very little understanding of the true cost of their health care plan. This needs to change for at least two obvious reasons, the first being that as a benefit, it is meant to motivate employees, and second being that as their cost share increases, they need to understand why. In the early 1980's, IRC Section 125 or cafeteria plans, created a format for employees to pay their portion of insurance on a pre-tax basis through a payroll deduction. The term "cafeteria plan" seemed to indicate a format where employees could pick and choose benefits as they wished. The concept worked well for paying the premiums, but failed to gain traction when it came to offering several choices.

Now, as technology has been integrated with online enrollment and back end connectivity with the health plan administrators, an old concept has new legs. Private exchanges are springing up across the country with the intent of giving employees decision making authority, transparency, educational information, and actual control over the spending of their health care premium. Generally using a defined contribution approach (much like the transition from defined benefit pension plans to defined contribution 401(k) plans), the employee is given an allotment at open enrollment, and via a web portal they spend their allotment on the plans and products of their choosing. Instead of managing the gathering of the paperwork, Human Resources merely runs a report and electronically submits the decisions to the administrators. Likewise, new hires go through a tutorial as opposed to a packet of paper. And as employees start spending their allotment, a trend emerges- three quarters of employees buy a less expensive plan than the one they had previously and instead spend their allotment on additional products like life insurance or put the money into a tax favored account.

Action Item: Look at the current benefits spend and determine the budget for the next three years. Start a benefits literacy campaign and begin communicating that, soon, the employees will be choosing their own health plan. Additionally, interview vendors who provide the back end software for the private exchanges and ask key questions such as:

> What carriers are connected? What is the cost? Are there any hidden costs? How much flexibility is there in look, feel, and custom content? How does the product integrate with other internal systems such as payroll, accounting, etc?

Giving employees the freedom to choose their coverage, and giving them the responsibility to make the decisions that are best for their families, will create a new understanding and appreciation of the benefits package being offered them. An added bonus: It will also create a new generation of insurance savvy consumers who will put first party pressure on the health care system to be more responsive to the impact of inflation.

The Affordable Care Act

The ACA is going to require all employers to do a couple of things well. Since the law was signed in 2010, little about the intent of the law has changed. We know employers are going to have to offer affordable coverage to their full time employees at some point in the future, we know employers are going to have to report a significant amount of information about their employee's hours, wages, benefits, and enrollment level, and we know the DOL and IRS are going to be auditing health plans to ensure compliance. So first and foremost, employers are going to have to determine if continuing to offer health insurance makes sense. In some cases, paying a fine may make more sense than offering benefits; in the event that is not the case though, employers are going to have to confirm their people and their systems are capable of handling the new law and meeting the reporting requirements.

Action Item: Determine the fines for not providing health insurance and compare them to the next three years of cost projections of providing health insurance. Determine how Human Resources is gathering, tracking, and reporting plan specific data. Incorporate this data into the two previous action items.

Conclusion

As companies look to grow, new sales, more profitable contracts, more product diversity, tighter production costs, and new markets all are the items finance, operations, and outside consultants will pore over to find greater efficiency and opportunity. Add health insurance to the list. Make sure cost predictability, employee responsibility, and the implication of government mandates are all understood and mapped out well into the future. The next generation of employee benefits is being built now; the impact on your organization will be felt for many years to come.

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