

5 Ways To Manage The Rising Costs Of Benefits

*How to Get the Package You Need —
Without Breaking the Bank*

AUGUST 2009

Seventy-five percent of US workers consider a health plan to be the most important employee benefit in the workplace.

– according to a survey by the National Business Group on Health.

A robust benefits package can be the difference between a talented superstar choosing to work with you versus a larger, more established competitor. But with the cost of benefits rising each year, providing a benefits package that helps you attract, retain and motivate talented people gets harder all the time.

With knowledge and planning, you can create a win-win situation for yourself and your employees. You can use benefits to meet the needs of your workforce and successfully compete for top talent.

As a business owner, it's important to be aware of the ways you can manage costs and attract top hires, including:

- Finding a benefits package that's tailored for your specific industry
- Encouraging consumerism among your employees to help save money
- Taking advantage of technology to keep a lid on administrative costs
- Promoting health and wellness programs to help prevent heavy benefits usage
- Preparing for the coming healthcare storm

Of course, there's no requirement to provide a good benefits package, but if your company doesn't offer one, top-flight talent may head for the door. Making an effort to understand the choices and communicating them clearly to your employees is a good first step in keeping costs under control and getting a better return on the money you invest in benefits.

1. Get benefits tailored for your specific industry

Benefits packages are not one-size-fits-all. It would be a mistake to partner with a benefits provider that offers substandard benefits, or lacks the ancillary benefits that employees expect.

One important distinction between benefits providers is whether they base their rates on the group experience of other companies in your industry, or simply the demographics of your specific company. If your provider does aggregate its entire customer base together for the purposes of providing benefits, you are likely to find yourself in a position where you can save time and money. Generally speaking, small companies are rated by the individual healthcare risk of each of their employees — but aggregating your company with other companies in your industry can help your organization contain costs.

Benefits packages are not “one-size-fits-all.”

At the same time, make sure the benefits offered are appropriate for what your employees want and expect. Many companies choose a PPO because they want their employees to be able to choose their healthcare services and providers. Finding a benefits partner that offers dual PPOs creates even greater options for your employees. Ideally, there are supplemental HMO choices as well, and voluntary benefits such as pre-tax flexible spending accounts and supplemental life and disability plans.

Finally, a quality benefits partner should make available all the latest best practices available to your specific industry — such as, for example, average benefits funding amounts. This kind of “insider information” helps you be confident that you’re receiving services and information that are actionable for you, and not broad-brush guidance that won’t help you make the right benefits decisions for your business goals.

2. Control costs by encouraging consumerism

Because the cost of health care can be so significant, the shift towards consumer-driven health care has become increasingly common. What is consumer-driven health care? The National Center for Policy Analysis defines it as a health plan in which individuals have a personal health account, such as a health savings account (HSA) or a health reimbursement arrangement (HRA), from which they pay medical expenses directly.

The phrase may refer to defined contribution health plans that allow employees to choose among various plans, often with a fixed dollar contribution from an employer. Those who opt for plans with rich benefits may have to contribute a significant amount of their own money in addition to an employer’s contribution. Those with more basic coverage contribute less of their own money. Consumer-driven health plans often feature a wellness component to promote preventive care. The plans offer savings by affecting health plan utilization.

Put simply, utilization is the way people use their health benefits — and it’s one of the key drivers in the rising costs of health insurance.

There’s a tipping point with this scenario. If you go to the doctor so many times that your insurance company has to pay more to the doctor than you pay your insurance company in premiums, the insurer is going to lose money. When that happens, the insurer has to raise rates across the board to try and recoup costs.

More choice and greater control over one's health plan are characteristics of a consumer-driven health care market place.

However, people aren't as quick to run to their doctor when the cost of an office visit is increased. They may try an over-the-counter medication first or wait a day or two to see if they feel better before making an appointment. They may also utilize carrier-provided resources such as online medical information. This helps reduce utilization, which can help keep healthcare cost increases in check.

Consumer-driven health plans provide people with economic incentives to make wise decisions about their healthcare choices. The plans do not hide the true cost of the visit behind a low co-payment. A plan that covers preventive care and wellness programs without a copayment can help people learn how to avoid expensive medical procedures down the road. By taking a proactive approach to their individual health, consumers — and their employers — can save themselves money. When insurance companies aren't faced with paying more than they're taking in, everyone wins.

3. Manage benefits costs with technology

In a recent study of small businesses who are using HR technology, the Gantry Group concluded that employees and managers can see significant cost savings through the use of online tools such as payroll entry and benefits enrollment. More and more, companies are finding ways to lower their costs by increasing their use of benefits technology, automation, and employee self-service.

Remember, the cost of premiums isn't the only thing that makes benefits expensive; the cost of administering benefits has to be factored in too. Making good use of benefits management automation is a critical best practice.

According to the Gantry study, which evaluated seven companies using web-based HR tools to manage their human resources, the cost savings result in a Net Present Value savings of **\$24,570** over a three-year deployment as a result of prevented data errors. This does not factor in the time savings associated with using web tools to manage traditional paper-based activities, which the study estimates can save as much as 432 hours annually.

Savings derived from technology result from the ability to:

1. Conduct faster transfers of enrollment information to benefits carriers
2. Realize significant savings in time required for data preparation and data entry
3. Improve employee satisfaction with benefits information access
4. Reduce information errors in benefits enrollments

Small businesses that deploy web-based services for benefits are often able to decrease their cost for benefits, lower overall HR administration associated with benefits, and improve their ability to attract job candidates and retain employees.

4. Encourage health and wellness programs

As you already know, benefits costs go up when employees use their benefits. Encouraging consumer-based approaches to healthcare can help minimize that, but you can also help prevent employees from utilizing their benefits by promoting health and wellness programs in the workplace.

Doing so can take several forms. You can offer discounts on gym memberships, suggest walking and fitness clubs, and distribute materials on eating healthy. In addition, carefully monitor employee workstations to ensure that they're ergonomically correct. Doing so will help reduce injuries in the workplace—ones which could put an undue burden on both your benefits programs and your workers compensation carrier.

Ensure that your organization has sufficient paid time off, leave, and holiday parties. It's good to encourage and boost employee productivity, but ensuring that employees rest and recharge their batteries will deliver ROI back in the form of sharp, refreshed, and energized workers — as well as ensuring that exhaustion and other injuries don't end up placing a heavy burden on benefits and workers compensation programs.

Finally, make sure that your benefits package has the components that you need to help your employees manage their health and wellness. For example, flexible spending accounts can give your employees tax advantages for practicing preventative healthcare measures – as well as help them with routine dependent day care costs. Supplementary life and disability packages can also give your employees crucial protections and set your organization apart from the competition.

“Our relationship with TriNet has absolutely made sense from an economic and financial standpoint. Whatever the cost of TriNet’s services, we more than make up for it in the cost of the healthcare package.”

– Scott Stanton, CFO,
International Association
of Exhibition Managers

5. Prepare for the coming healthcare storm

An important way to manage benefits is to prepare for impending changes in the healthcare landscape. This means paying attention to late-breaking federal and state regulations that, if not followed properly, could result in massive fines.

It’s not hard to see this happening in the near future. A cursory look at the headlines reveals that the American healthcare industry is in turmoil. The government is proposing a massive overhaul of the current healthcare infrastructure, and no one knows entirely what form the final system will take.

And to some extent, we’ve already seen the storm clouds roll in: unexpected regulations hit the small business community throughout 2009. The most notable example was the COBRA Act. Under this legislation, anyone who was involuntarily terminated from September 1, 2008 through December 31, 2009, had to be given the opportunity to enroll in COBRA and pay only 35% of the COBRA premium for nine months. Employers were made responsible for determining who was eligible for the study, and then performing the administration needed to communicate the new eligibility rules.

In terms of the upcoming healthcare reform, it will likely include minimum funding requirements for employers; it won’t be acceptable, for example, to only fund 50% of a company’s employee-level benefits. Perhaps more sweeping is the fact that every employer will be required to offer some form of healthcare coverage.

The best way to prepare for these changes is to find a benefits partner who will:

- Keep abreast of every piece of benefits legislation
- Actively advocate for small business in both the political arena as well as with benefits carriers
- Help protect you from unforeseen laws, rules, and fines heading into 2010 by arming your firm with information and expertise

After 2010, it’s very likely that nothing will ever be the same. It’s a good idea to find a partner who knows the healthcare industry inside and out, and particularly understands how its continual evolution affects the needs of small business owners.

A Real Life Case Study

Problem

A professional services company, the International Association of Exhibition Managers, faced spiraling healthcare costs year after year. They tried switching benefits providers, but the costs kept ratcheting up.

Symptoms

Inability to budget for benefits increases on an annual basis.

Solution

A partnership with an HR outsourcing company allowed the company to offer a 'large company' benefits package, including medical, dental, vision, disability coverage and a 401(k) plan. Benefits costs stabilized and now increases are below market range.

Business Benefit

IAEE is now able to compete with larger firms for talented employees – and budget for benefits accordingly.

Disclaimer

The contents of this white paper have been prepared for educational and information purposes only. The content does not provide legal advice or legal opinions on any specific matters. Transmission of this information is not intended to create, and receipt does not constitute, a lawyer-client relationship between TriNet, the author(s), or the publishers and you. You should not act or refrain from acting on any legal matter based on the content without seeking professional counsel.

About TriNet

TriNet helps small business entrepreneurs realize their ambitions by being their essential HR partner. As their Trusted Advisor, we help them contain HR costs, minimize employer-related risk, and relieve the administrative burden of HR, thus helping them focus on their number one priority—their business.

For more information, visit www.trinet.com.