Five Ways Employers Can Reduce Health Plan Costs

GRAVIE *Guide*

As health insurance costs rise and traditional health plan options become less attractive, employers look for ways to reduce costs. Beyond dropping their plans (and possibly facing penalties) or passing along costs to employees directly, there are options. We've outlined some of the most common ways employers can reduce health insurance costs below, along with the pros and cons of each.

1. Modify Your Plan – Raise Deductibles or Lower Your Contribution

You could choose to change your plan's design in favor of a plan with a lower monthly cost to you and your employees, but higher out of pocket costs for employees. This plan could come with higher deductibles or coinsurance. Or you could simply reduce the amount you contribute to the plan, requiring employees to pay more per month for the plan.

While employees may be getting used to increasing the amount they pay for health insurance, either through higher deductibles or a greater percentage of the premium, they undoubtedly wouldn't be happy with another increase in either.

2. Self-Fund Your Plan

With a traditional health insurance plan, employers pay premiums to an insurer that are based on the company's projected claims and transfer the risk to the insurer. In a self-funded plan, employers create their own plans based on their specific needs. This allows employers to choose the coverage they and their employees want and need (and not pay for features they don't).

When a claim is filed, employers with a self-funded plan pay claims with plan assets. To limit their risk and protect themselves from above-average claims, companies can buy stop-loss coverage that reimburses claims beyond a predetermined limit.

The risk of a self-funded plan is that claims could be higher than expected. In this case the stop-loss coverage will pay those excess claims, and the cost of coverage will likely then increase. Another disadvantage of a self-funded plan is the administrative time and effort required to manage it.

3. Implement a Spousal Carve-Out or Surcharge

A spousal carve-out makes spouses of employees ineligible for your group health plan if they're eligible for coverage through their own employer. A carve-out doesn't have to be black-and-white. In some cases you are able to set a threshold of what you consider "affordable" coverage and make him or her ineligible only when a spouse's group plan falls below that cost (allowing only those with more expensive coverage to be on your plan). Some state laws don't allow employers who offer spousal coverage to restrict spouses' access to your plan in any way, so check your state's laws before pursuing this option.

A spousal surcharge, on the other hand, allows you to impose a fee on employees whose spouses choose to join your plan if those spouses are eligible for a group plan from their own employer. This approach is intended to give spouses an incentive to stay with their employers' coverage rather than yours, yet maintain the ability for the employee to choose it if they're willing to pay the additional amount.

While the spousal carve-out and surcharge approaches can help with cost reduction, they are limiting and more complicated for employees and their families. If an employer truly wants to provide benefits that are valuable, an approach that intentionally excludes significant others doesn't make much sense.

4. Negotiate Your Premiums

Just because your broker presents a particular premium cost at renewal time doesn't necessarily mean that's what you have to pay. Depending on the size of your business, you and your broker may have some leverage with the insurance company.

Larger companies (those with more than 50 employees, generally speaking) might experience factors that could translate to a lower annual increase. Factors may include having an employee with a history of large claims leave the company, or the overall health of the employee pool improving. This is information your broker can take to the insurance company to try to negotiate a better price. Don't expect miracles, but if the change is significant enough, there might be opportunity for a reduction in the cost.

Besides having to put your trust in your broker (and the potential conflict of interest of their smaller commission check), small businesses have much less bargaining power and are less likely to have success in negotiation.

5. Shift to Defined Contribution and the Individual Market

To set their own benefits budget, employers can move to a “defined contribution” approach. This means employers give additional compensation to employees who can use that money to buy individual health insurance. Because the money is given as additional compensation, employers get to determine how much to give each employee based on their budget. Defined contribution is not a group insurance plan, so employers can choose to avoid minimum contribution or participation requirements. *[To learn more about defined contributions options, read the Gravie Guide: Defined Contribution for Employee Health Benefits]*

With this approach, employees typically have access to far more plan options than they have with traditional benefits. Empowering employees to make their own decisions means they shop based on their specific needs, provider/clinic preferences and their risk tolerance.

With this empowered employee choice approach, it is important to have the right support in place to help in their decision-making process. Benefits can be complicated, so rather than leaving employees totally to their own devices, having tools and expert licensed help is critical to success.

How Gravie Helps Manage Costs With Defined Contribution

When employers partner with Gravie to provide benefits, they get support determining which approach to take and help developing a benefits strategy that works within their budget. Gravie also relieves employers of many of the administrative and compliance hassles often faced when providing traditional group health benefits.

When employees shop for benefits through Gravie, they get access to our intuitive, web-based marketplace and our expert, licensed advisors. The help and support employees get from the advisors is what we call Gravie Care. Whether your employees need help choosing the plan that’s best for them, or they need help using their benefits throughout the year, Gravie covers it all.

Gravie provides a smart tech, human touch approach to benefits that employers and employees love.

To learn more about whether a defined contribution approach to benefits is right for your business, contact Gravie today.