how it works

By Barbara Donohue

health care

Insuring your employees' Health

Medical insurance is expensive, confusing – and widely regarded as the most important employee benefit.

It's been said that the best advice about healthcare is "Don't get sick." Of course, we don't have a choice in the matter, so having medical insurance ready to help pay the bills is the next best thing. The problem is that, for years and years, now, insurance costs have been rising.

"Every year the question is not 'Is it going to go up?' but 'How much?'" said Bill Cox, president, Cox Manufacturing Company, San Antonio, Texas.

With the price of insurance soaring, during the last few decades, managed care offerings have largely replaced traditional health insurance plans. These managed plans and other options available to help consumers pay their health care deductibles have helped a little to alleviate the pain of spiraling medical insurance costs. Internal Revenue Service (IRS) rules, state programs and laws (which, of course, differ from state to state) also shape the kind of health coverage available..

We've all heard about the many millions of people in the U.S. who don't have medical insurance. You may be one of them. Like many owners and managers of businesses, you may want to offer medical insurance, but have found you can't attract and keep the kind of workers you want without offering it.

In addition to the major medical insurance programs covered here, you may also want to offer group plans for other health-related coverage categories such as dental, vision, hearing, long- and short-term disability, or long term care.

Common types of major medical coverage

Indemnity, also known as fee-for-service. This is the traditional type of insurance. You can go to any doctor and the insurance pays a portion of the bill, often 80 percent.

There is also the option for "managed care" plans, which put some constraints on which doctors you can see, or on how much the plan pays.

HMO (Health Maintenance Organization): You receive care from doctors and other providers within the HMO. Your primary care physician is your main contact, and he or she makes referrals to other providers within the organization, as required.

PPO (Preferred-Provider Organization): You can obtain care from the preferred providers in-network (with whom the organization has negotiated discount pricing), or other providers outside the network. If you go out of network, your share of the cost will be more.

POS (Point Of Service): This is a combination of an HMO and a PPO. You have a primary care physician who arranges care within the network, but you can also go outside, at a higher cost to you.

Consumer Driven: A recent trend, "consumer driven health care," is a move toward making individuals more financially responsible for their health care choices, with the expected result that they will be more prudent about how they incur medical expenses. Federal law, including the IRS code, has created some options to encourage this.

FSA (Flexible Spending Account): This is a "use-it or lose it" account you can offer employees into which they put aside a portion of their pre-tax pay. The funds go toward reimbursing the employee for deductibles and co-pays (but not insurance premiums), as well as other IRS-approved medical expenses, such as eyeglasses and medications. The employer can also contribute. The downside for the employee is the money in the account must be used during or soon after the year it is deposited, or it is lost. The downside for the employer is that whatever amount the employee says he or she will deduct for the year, the employer is responsible for the full amount, as of January 1, even if the employee leaves the company before paying in the full amount.

HSA (Health Savings Account): This is a pre-tax account funded by employee or employer contributions. It must be combined with a high-deductible insurance coverage, and the amount deposited cannot exceed limits that change from year to year. In 2006, the deductible had to be at least $1,050 for a single person. Some advantages of the HSA are: lower insurance premiums; the employee doesn't pay taxes on the money set aside; and you, the employer, don't pay social security tax on the amount, either. As the employee incurs medical bills he or she can use money from the HSA to pay any expenses allowed under IRS regulations. This does not include paying insurance premiums. Funds left in the account at the end of the year remain there and can be used for future medical expenses. Also, the owner of the account can take it along when he or she changes jobs.

MSA (Medical Savings Account): This is an older program similar to an HSA, created to help self-employed persons and employees of small companies afford high deductible insurance. In many cases, a HSA might be preferable. An MSA can usually be rolled over into an HSA.

HRA (Healthcare Reimbursement Arrangement): This is something relatively new, and is always funded by the employer. The employer places funds in an account from which the employee is reimbursed for qualified medical expenses. The major difference between this and other options is that HRA funds can be used to pay insurance premiums. The employee doesn't pay taxes on the funds, and the employer doesn't have to pay payroll taxes. This opens up the possibility of employees obtaining their own insurance and paying for it with HRA funds.

Other cost-saving strategies can help keep your medical insurance costs as low as possible.

Negotiation can pay off

Though Bill Cox observed that medical coverage costs go up and up, his company recently had the pleasant experience of their health insurance carrier holding the line on cost – just this once. Their existing insurance carrier came in with another increase for the next year. In response, the Cox Manufacturing director of human resources took competitive bids and informed the existing carrier that the company was willing to change its 65 employees to a different insurer. With some hard negotiating, she convinced their current insurance company not to raise premiums that year, saving the company money and saving the employees the hassle of changing doctors.

Who pays what

Some companies fully fund employee health insurance. At Wiscon Products, Inc., in Racine, Wis., the company funds 100 percent, said Rolfe Christensen, president. "For years, before it became ridiculously expensive, we offered a top-of-the-line HMO plan. As the cost escalated, the quality de-escalated," he said, adding that the benefits have deflated, while the plan cost has almost doubled.

"In our experience, the rates keep going up," said Richard Binder, president of Abbott Interfast Corp. in Wheeling, Ill. His company of about 100 employees offers a choice of programs. "It costs a lot of money, this year almost $1000 for a family. We pay the majority of it."

More and more companies are requiring employees to take on a significant share of the cost.

At Bilvern Products, Inc. in Mason, OH, office manager Deanna Panetta said the company pays 30 percent toward insurance for most of the 23 employees, and those employees pay 70 percent. People who opt for dental insurance pay the whole amount, she said. "We are going to look at another plan that is a little less expensive," she said, "and give employees the option of keeping the same plan," or going with the new one. The company would pay according to a percentage of the lower-cost plan. The premiums for the current coverage went up almost 19 percent from 2006 to 2007.

The self-insurance option

Some businesses find that, instead of buying health coverage from an insurance company, they come out ahead by paying the employees' medical bills themselves. To the employees, the coverage looks the same – a HMO or PPO structure, for example; but the company pays the medical bills as they occur, and, as backup, also purchases an insurance policy to cover extraordinary expenses due to severe illness or injury.

It's fairly common for very large companies to self-insure, but in some cases, much smaller businesses can make self-insurance work. MKM Machine Tool Company, based in Jeffersonville, Ind., has 190 employees there, and about 30 more in the company's Sarasota, Fla., plant, according to director of human resources Marketta Elliott.

MKM carried conventional insurance, until the year when the rates almost doubled and company management investigated their options and decided to go with self-insurance. "We have been self-insured since 1994," said Elliott. "We're self-insured because we feel we can more closely control costs." As it turns out, this way the company has a better health insurance plan for less money than it would pay for conventional coverage through an insurance company.

MKM designed its own plan, which is arranged through a national preferred-provider network. This allows the company to take advantage of the provider discounts negotiated by the network. Also, since the network is national, an employee who is ill or injured while on vacation in another state will likely be able to find a healthcare provider nearby.

A third-party administrator manages the plan, billing MKM periodically for the medical expenses incurred by employees and their families.

The premiums the employees pay are "based on your experience rate," the actual amount paid out the previous year, said Elliot. "Your premiums can go down. There are years when they go up and years they go down." The employees pay between 15 and 40 percent of the cost, depending upon whether they're single, have another person on the insurance, or have family coverage.

"Of course, we have a reinsurance carrier, so you don't break the bank if you have a catastrophic illness or injury. If you have catastrophic claims, that [reinsurance] rate goes up the next year."

When the company began to be self-insured, "people were very worried about it because at the time we had a very rich plan. We wanted our benefits comparable [to the existing plan], so we modeled the [new] plan after it," Elliott said, adding that employees have been very happy with the coverage.

"The health insurance is part of the union contract," said Elliott, and "is always a concern in negotiations. But they go with it on every contract. We try ... to get pricing from fully funded plans [for comparison]. They [often] won't quote a plan as good as we have." Elliot said the last time MKM tried to get quotes from major insurance companies for the same coverage, two companies refused to quote and the third one gave a cost close to twice as much as MKM paid for self-insurance.

In addition to medical benefits, MKM offers an employee assistance program, fitness club reimbursement, and a service that includes weight loss, disease management and other support.

Taking care of your employees and your profits

When looking for a group health insurance program for your workers, look at your employee population and what they might need. Ask them which features are important to them. Then, shop around. A broker will be able to show you many options. Your professional association, chamber of commerce or regional business association may also have attractive options.

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Before you sign, be sure you understand what is and what is not covered by the insurance, the out-of-pocket maximums, lifetime limits (experts say that a $1 million cap may not be enough these days), and other factors. Pre-existing conditions can introduce snafus into your program – in some states under certain conditions, if you change insurance companies, the new one won't necessarily cover existing problems until the person has been on the new insurance for a period of time, perhaps as long as a year.

The federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) is perhaps best known for those privacy forms everyone has to sign at the doctor's office. However, it also includes important features relating to pre-existing conditions and other important aspects of your health insurance.

In addition to providing insurance, consider doing a few things to make it as easy as possible for your employees to take good care of themselves. Smoking cessation classes, employee sports teams, lunchtime yoga, access to a 24/7 call-a-nurse service, and many other simple programs can help keep your staff healthier.

The expense and complexity of providing medical coverage to your employees, is made more complicated by IRS rules, tax implications, the HIPAA, and state laws. Company executives, your human resources manager, your accountant and maybe your lawyer should work together to come up with the right choices.

Resources:

The New Health Insurance Solution: How to Get Cheaper, Better Coverage Without a Traditional Employer Plan, *by Paul Zane Pilzer*

Health Care on Less Than You Think, The New York Times Guide to Getting Affordable Coverage, *by Fred Brock.*

Georgetown University Health Policy Institute consumer guides for getting and keeping health insurance for each state and the District of Columbia: *www.healthinsuranceinfo.net*

National Association of Insurance Commissioners, general information: *http://www.naic.org/consumer_health_faq.htm; www.naic.org/consumer_health_types.htm*

Agency for Healthcare Research and Quality (Checkup on Health Insurance Choices): *www.ahcpr.gov/consumer/quick.htm*

IRS information about HSA, MSA, FSA and HRA: *http://www.irs.gov/publications/p969/index.html*

Agency for Healthcare Research and Quality consumer information: *www.ahrq.gov/consumer/hlthpln1.htm; www.ahrqgov/ consumer/insuranc.htm*