Controlling Healthcare Costs at Your Growing Business

A How-To Guide

Launchways
Power your people.

INTRODUCTION

For growing businesses, the rising cost of healthcare presents a significant challenge. Employers know that to stay competitive and hire top talent they must provide employer-sponsored healthcare plans. However, mounting healthcare costs can lead to a large impact on your bottom line.

Recent surveys show that the healthcare cost per employee paid by employers averages at $14,156 in 2018, up from $13,482 in the previous year. Of this figure, the employee's share of the cost averages at around 30%, or roughly $4,400. These numbers are on the rise, with an 8% increase in healthcare costs estimated year over year. An additional study completed by the Kaiser Family Foundation found that companies of 25 people on a traditional PPO plan paid nearly $200,000 for employee healthcare annually.

Business leaders struggle to support the costs of a healthcare plan, while also wanting to provide a robust benefits package to their employees. With healthcare costs on the rise, employers are searching for new and innovative ways to approach controlling these costs.

Many employers go-to strategy to control healthcare costs is to shift the costs onto employees through increasing deductibles, co-pays, premiums, and other out-of-pocket expenses. However, these solutions are widely unpopular with employees and are merely short-term fixes that ignore the root causes of increasing health care costs.

The actual causes of increased healthcare costs include:

- **Aging population**
- **Unhealthy lifestyles**
- **High-cost healthcare technology advancements**
- **Inefficient healthcare delivery**
- **Inflation of medical costs and prescription medication**
- **Lack of education on how to properly leverage the healthcare system**
- **Lack of empowerment to drive a consumer-focused healthcare market**

As you can see, shifting healthcare costs to employees reduces the immediate impact on your bottom line but does little to address systemic issues. In most cases, shifting costs results in reduced demand for healthcare, but no reduction in the real need for healthcare. This can lead to adverse impacts on your workforce's health and productivity.

The good news is that you have more options for controlling your company's healthcare costs than you probably realize. With the right knowledge, planning, and strategy, there are many ways you can prevent healthcare costs from impacting profits while also providing your workforce with the benefits they need.

With the right knowledge, planning, and strategy, you have more options for controlling your company's healthcare costs.

WHAT YOU WILL LEARN

In this guide, we'll explore several actionable strategies to proactively control your business's healthcare costs. You'll learn:

- **What Consumer-Driven Health Plans are**
- **Which funding strategies can reduce your healthcare expenses**
- **How to minimize risk from alternative healthcare funding through stop-loss insurance**
- **How to leverage telemedicine to empower employees and lower healthcare costs**
- **Tactics to control spend on pharmacy drugs**
- **How to shop smarter with a benefits broker**
- **How healthcare consumerism makes engaging and educating employees a top priority**
- **Why benefits brokers can help you deliver that employee education**

CONSUMER-DRIVEN HEALTH PLANS (CDHPS)

Rising healthcare costs have led to the creation and proliferation of Consumer-Driven Health Plans (CDHPs). CDHPs are specially-designed employer-sponsored healthcare plans that promote healthcare consumerism.

The ultimate aim is to get employees to become better, more cost-conscious healthcare consumers.

This does not mean getting employees to use healthcare less, but rather persuading them to make healthful choices and providing the tools they need to ensure that when they do use healthcare, they are aware of its costs and have an incentive to reduce those costs when possible.

CDHPs involve a blend of plan design, incentives, and an effective communication strategy that enable employees to engage in healthful behaviors. Studies indicate that nine in ten companies offer or plan to offer at least one CDHP this year. Many employers are turning to CDHPs as research consistently proves their ability to lower healthcare costs. Research indicates that employees enrolled in CDHPs are more likely than others to make sustainable, positive behavior changes leading to significant reductions in healthcare spending year over year.

A CDHP typically combines an HDHP (high-deductible health plan) with a tax-advantaged HSA or HRA to help enrollees pay for out-of-pocket medical expenses.

HSA

An HSA (health savings account) is a tax-exempt account set up to pay or reimburse employees for eligible out-of-pocket medical expenses. HSAs can be funded by employees, employers, or both. An HSA is owned by the employee, and unspent funds are carried over from year to year and are transferable if the employee leaves the organization. Employer contributions to HSAs are not taxable for the employee. Employees may make contributions with pretax dollars through a Section 125 salary-reduction cafeteria plan.

HRA

An HRA (health reimbursement account) is an employer-owned account funded solely by employer contributions to assist employees in paying for or reimbursing eligible out-of-pocket medical expenses. There are no government-mandated minimum deductibles or out-of-pocket maximums for plans linked to HRAs. The employer may, but is not required to, let funds accumulate from year to year. Contributions are not taxable for the employee.

Incentives

Just as employers can offer matching contributions to motivate employees to contribute to their 401(k) plans, employers are using incentives, such as contributions to an HSA or HRA, to spur greater employee engagement in their healthcare decision-making. Because employees are more involved in the cost of healthcare services with a CDHP, they are more inclined to consider the necessity of high-cost healthcare, for example, an urgent care visit versus a visit to the emergency room.

Education and Communication

It's important to note that without proper education and communication, a CDHP's high deductibles can look like cost-shifting to employees. You should proactively explain that a CDHP will help empower your team to make better healthcare decisions, benefiting themselves and the company simultaneously.

HEALTHCARE FUNDING STRATEGIES TO MINIMIZE COSTS

Plan structure is not the only step that you can take to fundamentally change the way that you manage healthcare costs.

Employers are increasingly taking direct control over their healthcare benefits and expenses by self-funding or level-funding their employee health insurance.

While these funding strategies can require more internal healthcare administration and can introduce some financial uncertainty, they often reduce healthcare costs considerably.

Self-funding

Employer takes over the role of the insurer.

Self-funding allows employers to change their expense structure by essentially taking over the role of the insurer.

Companies provide health benefits to their employees using their own funds and collect premiums and copays from their employees to help cover the costs.

This approach minimizes the role of for-profit insurance providers and eliminates a lot of administrative waste to save employers significant amounts of money. It also allows companies to have greater control over what benefits and coverage they offer, potentially creating plans that are more effectively tailored to meet employees' specific needs than standard insurance plans can be. Of course, it helps to work with a benefits broker or advisor so that you can effectively identify your employees' needs and craft a plan to meet them.

Level-funding

Employer partners with the insurance company.

Some companies opt for level-funding rather than self-funding. Level-funding is a half-step between fully insured and self-funded strategies. In this scenario companies receive a share of year-end savings if claims are lower than expected while the insurer still manages the network and administrative tasks. When engaging in level-funding employers partner with an insurance company and send the insurer regular monthly payments based on the estimated administrative and claims expenses for the year. They still manage the collection of premiums, but pass on the responsibility for handling claims to the insurer. If the total amount paid exceeds the costs incurred over the course of a given year, the insurance company refunds the employer; if the amount paid falls short of the mark, then the employer will have to make up the balance. However, the insurance provider issues monthly reports to give companies a good sense of their standing and avoid surprise refunds or overages at the end of the year.

Level-funding allows growing businesses to effectively plan their finances around regular, expected healthcare costs while retaining most of the cost-savings of self-funding.

It can be a great choice for companies in the long-term, or it can be used to safely transition into a fully self-funded model. After a few years of level-funding, employers should have a good sense of expected healthcare expenses and will be able to budget effectively under a self-funded plan. All in all, level-funding is an extremely useful tool for businesses looking to minimize their healthcare expenses, especially those without the finance and HR resources necessary to manage self-funding. However, both level-funding and self-funding require that employers take on the risk of providing healthcare in exchange for saving money upfront. Luckily, this risk can be addressed through stop-loss insurance.

Self-funding transfers the financial risk of healthcare onto the employer: a sentence that is sure to make any CFO break into a sweat. Stop-loss insurance protects employers from unexpected expenses that could otherwise wipe out the company's finances. The cost of the stop-loss insurance can be included in the monthly payments, which will still be significantly lower than standard premiums.

Stop-loss insurance functions more like standard casualty insurance than health insurance, covering unexpected expenses over a certain deductible amount in exchange for a modest premium. There are two main forms of stop-loss insurance which you should seriously consider when implementing a self-funded healthcare plan to reduce your healthcare costs.

Individual Stop-loss Insurance

The first is individual stop-loss insurance.

This insurance protects employers from excessive healthcare expenses from individual employees within a given year.

The threshold per employee depends on the number of employees covered by the policy, with more employees generally requiring a higher threshold or deductible.

Example:

Company A

with 25 employees might qualify for a $25,000 cutoff

Company B

with 100 employees would get a cutoff of $50,000

Aggregate Stop-loss Insurance

Individual stop-loss insurance protects companies from excessive claims by individuals, but it does not shelter employees from high claims overall. That's where aggregate stop-loss insurance comes into play.

This insurance applies to the total claims from the group rather than from each individual and is structured in terms of percentages of expected claims.

When used in conjunction with specific stop-loss, aggregate stop-loss insurance can mitigate the risks of self funding for employers while allowing them to retain most of the savings from abandoning standard insurance.

TELEMEDICINE, TELEHEALTH, AND HEALTH TECHNOLOGY

Telemedicine is an emerging trend employers are leveraging to lower healthcare costs and empower employees to proactively manage their healthcare.

Telemedicine allows individuals to access accredited doctors via video conferencing or phone to obtain diagnosis and treatment.

In 2016, nearly 25% of employers offered some form of telemedicine. And recent research by the National Business Group on Health indicates that 96% of employers plan on offering some telehealth services in coming years.

With telemedicine, your employees can speak with a medical professional on-demand via computer, phone, or a digital app. These virtual doctor visits are significantly less expensive than seeing a doctor through a traditional office visit. Not to mention, it affords several other benefits.

Employees can receive healthcare in real-time, versus waiting for an appointment, diagnosis, and recommended course of treatment. This means they can become well again sooner. Telemedicine can also help in situations when after-hours care is required, or when employees cannot easily access a doctor. A trip to a 24-hour urgent care center can be avoided with a simple phone call. Also, telemedicine prevents employees from missing work for a doctor's appointment. This means less absenteeism and a more productive workforce.

As with other programs, employee communication is key. You should aim to educate employees about their access to telehealth.

96%

of employers plan on offering some telehealth services

HOW TO SHOP SMARTER FOR HEALTHCARE

All healthcare benefits brokers are not created equal. With the extensive, fast-paced changes the healthcare industry has faced in recent years it's critical to work with a broker who takes an innovative approach to building your healthcare plan.

A good broker will do much more for your company than present a renewal PowerPoint 30-days prior to your plan end. A good broker will be your strategic partner, actively seeking ways to support your efforts to provide better benefits at a lower cost to your business. A good broker will present innovative ideas and ways to better leverage technology that will improve your employee's benefits experience and lower your healthcare costs.

We recommend thinking about your current broker and evaluating the real value they provide your organization.

Are you with your current broker because of personal connections, or because they proactively deliver innovative cost-containment ideas?

Research by the Kaiser Family Foundation found that only 57% of growing businesses shop their health insurance every year. This means a significant portion of businesses are leaving potential cost-savings on the table. You should work with a broker who helps you shop smarter for benefits and aims to discover potential cost-savings wherever possible.

Many employers, especially growing businesses, could benefit from being more aggressive in their contract negotiations with health insurance providers. While many business leaders have the misconception they're at the mercy of providers, with the right broker by your side you can proactively negotiate better rates. A good broker will leverage a strong network to advocate on your behalf for the best rates.

57%

of growing businesses shop their health insurance every year

CONTROLLING PRESCRIPTION DRUG COSTS

The costs associated with employer healthcare spend on drugs has increased 10% over the past years, totally nearly 30% of total healthcare costs paid. Implementing strategic tactics to better manage drug costs can help employers lower this amount. And one of the most effective cost-control methods is to implement alternative Rx programs that provide more affordable prices than traditional copays.

Pharmacy Savings Cards

Specifically, pharmacy savings cards such as CleverRX work in conjunction with any insurance plans to reduce the costs of prescription drugs.

> The card providers negotiate special rates that save patients up to 80% on many drugs and almost three-quarters of Americans could save money by using pharmacy savings cards in addition to their insurance.

And when employees use these cards instead of their insurance to cover prescriptions, employers can save significant amounts of money and negotiate better rates with insurers. Best of all, the card providers are compensated by the pharmacies, so it is free for companies to offer them to their employees.

When you approach controlling drug costs, it's important to remember that preventive medications are much more cost-effective than untreated long-term conditions. You should aim to not discourage employees from leveraging pharmacy drugs. Instead, you should aim to help them make smarter, more cost-effective decisions about the drugs they take. And providing them with more options for how to save money on prescription drugs, such as savings cards, can effectively minimize your expenses while increasing employee health.

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Insurance providers and employers alike are reacting to increasing healthcare expenses by shifting responsibility for managing those costs onto employees. In so doing, they are transforming employees into healthcare consumers. The high-deductible health plans we outlined earlier in this eBook are one of the major contributing factors behind the shift to healthcare consumerism, as is the ACA marketplace. Higher out of pocket costs mean that patients have to be more intentional in their healthcare costs, and insurers are struggling to compete to meet their demands. In fact, around two-thirds of healthcare CFOs see engaging consumers as the biggest challenge facing their businesses.

So what does this mean for you as an employer? Engaging employees to encourage proactive, strategic healthcare consumerism should be as much of a priority for you as it is for the healthcare companies. As the responsibility for managing healthcare shifts towards employees, the power to control healthcare costs for both patients and employers does as well.

> The best thing that you can do to manage your costs is to encourage employees to become educated and engaged healthcare consumers.

Only then can they become the best possible stewards not only of their finances and those of the company but also of their own health, which keeps them productive members of your team.

The first step in the journey towards intelligent consumerism is the acknowledgment that employees are, in fact, healthcare consumers. Then you can shift the focus on how they can best fill that role. CFOs interested in cutting healthcare costs should provide trainings and educational materials that help employees understand their position in the healthcare marketplace as well as their healthcare options and best practices that they should follow. This can include guidelines about how to choose cost-effective healthcare providers, pharmacies, and insurance plans. It can also be worthwhile to invest in healthcare management tools, like the HealthiestYou app, which make it easy for employees to find the insurance plans, doctors, medications, and pharmacies that work best for their health and their wallet. These same apps can even connect employees directly to telehealth consultations, giving them access to immediate and affordable healthcare advice.

EMPLOYEE EDUCATION

Given the fact that employees now have so much power over healthcare costs for not only themselves but for you as an employer, providing them with comprehensive healthcare education should be a top priority for CFOs and business leaders. But this can be easier said than done. Most CFOs, while adept at managing their company's finances, are not healthcare experts. Nor do most growing businesses have many internal healthcare resources. Which is where your benefits broker comes in.

Your job is to provide your business with a solid financial basis upon which it can grow and succeed.

The job of a benefits broker is to be an expert on the healthcare industry, healthcare cost reduction strategies, and healthcare consumerism.

That makes them the ideal partner when it comes to empowering your employees to become educated consumers who maximize their health while minimizing the costs that they incur.

Your benefits broker should not only work with you to not only develop an employee engagement and education strategy, but they should also be working directly with your employees as well. Brokers can provide educational resources and materials that proactively answer employee questions regarding their healthcare options and guide them towards best practices. They should also hold in-person training sessions for employees and HR staff, Q&As, and engagement events to get employees involved in their healthcare decisions. And they can often recommend trusted healthcare management platforms, telehealth providers, and other partners to help your employees become the best healthcare consumers possible. If this doesn't sound like your benefits broker, finding a broker who can provide these services can significantly reduce your healthcare expenses.

KEY TAKEAWAYS

As an employer, it's important to provide healthcare but it's also important to control your business's costs. In this guide, we covered several strategies you can use to lower healthcare costs at your business without shifting these costs onto your employees. Some of the key takeaways from this guide include:

Consumer-driven healthcare plans (CDHPs) are an extremely effective method to lower your business's healthcare costs

Providing your workforce with access to telehealth services can help control healthcare costs and reduce workforce interruption

Implementing pharmacy savings cards can help decrease spend on drugs

Partnering with the right broker can help you leverage innovative tactics to control your benefits costs over time

Guiding your employees towards becoming educated healthcare consumers is one of the most effective steps you can take to minimize healthcare costs, and your benefits broker should be a full partner in any engagement and education initiatives