

Employee Benefits Report

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Health Benefits

July 2016

Volume 14 • Number 7

How Your Health Insurance Premiums are Calculated — And How To Lower Them

The more you understand what goes into setting your company's health insurance premiums, the better prepared you'll be to control insurance costs for you and your employees.

For an insurance company to be successful, it has to charge a premium that covers its expenses and losses and provides a profit. In the past, health insurance companies would determine how much to charge for health insurance by reviewing current and past health histories, age, occupation and gender. This is called underwriting. In the small group market, insurers might review the health history of every individual in the



This Just In

Using generic instead of brand-name drugs can save individuals, insurers and employers significant money. However, a new study indicates that billions more could be saved through therapeutic substitution.

Generic drugs have the same active ingredients as prescription drugs, but cost significantly less. Therapeutic substitution differs from using generics. It is the practice of using the least expensive generic drugs with a different chemical makeup for the same disease.

A study published in the May *JAMA Internal Medicine* reported on research done between 2010 and 2012. It found \$73 billion of unnecessary spending on drugs. Researchers concluded that figure could have been lower if generic

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group. In the large group market, instead of examining every individual in the group, an underwriter would look at the makeup of the group as a whole—is it predominantly older or younger, female or male? What are their occupations? And most importantly, what is the claims history of the group?

What the Affordable Care Act Allows

The Affordable Care Act (ACA) in 2014 changed the way insurance companies set premium rates for small groups. Groups with 50 or fewer employees are not required to buy insurance for their employees, but they may. Employers with 51-100 employees fall under the ACA's "pay or play" provisions and must buy coverage.

For these groups, the insurance companies can no longer underwrite the policy; they can only adjust premiums to reflect whether the:

- ✦ Plan is for employee-only coverage, employee plus spouse or family.
- ✦ Geographical area has higher medical costs than other areas.
- ✦ Insured individual is young or old, although the ACA limits insurance companies to charging an older adult no more than 3 times the rate of a younger person.
- ✦ Insured uses tobacco, although the ACA limits insurance companies to charging no more than 1.5 times the non-tobacco user's rate.
- ✦ The company chooses a Bronze, Silver, Gold, Platinum or catastrophic plan, with Bronze being the least expensive. All small

group plans, whether from the Marketplace or not, fall into one of these four categories and must cover the "minimum essential health benefits."

Remember that states are allowed to set higher, more stringent standards than the minimum set by the ACA. In addition, the ACA permits employers that have health plans to charge employees 30 percent more on their premiums if they refuse to participate in a wellness program or meet specified health goals.

Ways to Lower Costs

According to the Bureau of Labor Statistics, only 57 percent of workers at companies with 100 employees or fewer have access to employer-sponsored health insurance. A survey by the Bank of America also shows that 72 percent of small-business owners said they are concerned about health insurance costs.

Fortunately, if you want to offer coverage or your renewal is higher than you expected, you have options:

- ✦ Shop around. The Kaiser Family Foundation says that only 57 percent of small businesses get bids for other plans. Premium rates can vary dramatically from plan to plan.
- ✦ Consider the SHOP Exchange. You can still use the services of a broker and purchase coverage through the SHOP government-facilitated exchange. Employers with 25 or fewer employees may

drugs or therapeutic substitution were used.

Opponents say that although different classes of drugs often work the same, some are not as effective. Some substitutions could also have harmful interactions with other drugs.

Therapeutic substitution requires better communications between physicians and pharmacists and improvements to the medical records system. It might also require a law change. Although pharmacists can substitute generic drugs for brand-name drugs, they don't have the authority to practice therapeutic substitution without physician approval.

qualify for a credit with the potential to save up to 50 percent.

- ✦ If you have fewer than 50 employees, the ACA does not require you to provide coverage. You can discontinue group health coverage and refer employees to the Marketplace, where they might qualify for subsidies. However, consider how that might affect your ability to compete for qualified employees.
- ✦ Self-funding your own health plan can lower premiums. You pay directly for your employees' claims, using stop-loss insurance to reduce risk.
- ✦ Partner with a direct primary care provider. They charge a monthly fee for unrestricted health care. While costs are low, this type of care does not cover

catastrophic illnesses, such as cancer. This coverage can be combined with a high-deductible health insurance plan to cover serious illnesses.

- ★ Health care-sharing ministries are exempt from ACA penalties. Members of these plans share the same type of religious beliefs and agree to share medical expenses among themselves.

If you stay with a plan or have a plan you think will work, there are things you can do within the plan:

- ★ While large companies have significant power to negotiate, companies employing 50 to 99 employees have more negotiating power than they think. A good broker can shop around for you and also audit your group and plan for changes that could affect your rates positively, such as pointing out when a smoker has left the company.
- ★ A good plan should be designed to guide employees to the lowest-cost options first, such as choosing a general practitioner instead of a more expensive specialist.
- ★ With a high-deductible plan, the monthly premium is lower, but employees have to pay more costs out of pocket before the insurance company starts to pay its share.
- ★ A good wellness program can reduce rates and can involve incentives, such as lower premiums for healthier habits such as quitting smoking.
- ★ A health savings account allows employees to save money pre-tax, grow it tax free and spend it on qualified medical expenses. Employees who use their own money for health care often are more careful about their health care choices.
- ★ Implement a rule that states that spousal coverage will only be given to employees whose spouses do not qualify for coverage through their own employer.

One or more of these tactics could go a long way to lowering costs. Please contact us for more information. ■

Pros and Cons of Outsourcing Benefits Administration

Affordable Care Act regulations and other government rules have many employers wondering whether it would be more cost effective and prudent to outsource employee benefits administration.



More than half of mid-sized and large companies believe health care reform will increase the complexity of employee benefits administration, according to a survey by the ADP Research Institute. Companies responding to the survey said they are most likely to outsource complex compliance

tasks for COBRA, flexible spending accounts and 401(k) administration.

What to Consider

When a company is experiencing growth, employee resources can get stretched. Outsourcing benefits administration can help a company focus its energies on its core business.

In addition, make a mistake, and

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it can cost you. If your HR department is unsure what it needs to do to stay in compliance, then outsourcing certain tasks to experts can help you avoid lawsuits, fines and penalties. If a mistake is made, then some of the liability falls on your third-party vendor. Also, a firm with expertise in health benefits can research and advise you on methods to reduce insurance premiums.

Outsourcing also helps reduce workforce needs and saves salary and benefit costs. It will help you save time and money if the talents of your human resources staff can be better used for other tasks.

Reasons to Keep Benefits Administration In-House

According to ADP, many mid-sized companies choose to keep employee benefits administration in-house because it increases interactions with employees. It also makes it quicker to make changes to benefits or to fix errors, rather than waiting for a contractor to do it.

Keeping all operations in-house also has the benefit of your company keeping control. Employers may have concerns that something will be missed or they won't understand what's being done if they don't oversee the process. There's also the possibility that important confidential data will be shared by an unscrupulous vendor.

Using an outside vendor also means not having control of delivery times or quality and possibly not being their first priority.

What to Look for When Outsourcing

To find the best vendor for your project, consider these points:

- ✦ What are the most important services you want covered?
- ✦ Do your research. Get recommendations on experienced vendors who specialize in handling your company's particular needs. Look for a firm with a good reputation for reliable service to all of its clients — not just the larger, more profitable ones. It's also helpful to find a vendor that provides a range of services in case you need additional benefits work.
- ✦ Prepare a request for a proposal and carefully describe what you want accomplished. The RFP should have an introduction, summary of the requirements and a brief background of your business. When you receive a proposal, look closely at the vendor's specifications, terms and conditions and references. Make sure you are getting real value for the money you're spending.
- ✦ Make sure the contract lists priorities and costs. You may want to have your attorney review any contracts to protect your firm from any unwanted liability.

For more information on compliance and benefit administration, please contact us. ■

The Dental Benefits Payoff

If you offer a medical benefit package to your employees, you might be wondering whether it's worth the expense to add dental coverage. The evidence says yes!

Dental coverage is a popular benefit. In a study conducted by Delta Dental, 70 percent of employees surveyed said that dental benefits were somewhat or very important. Other non-medical insurance benefits, including vision, disability and life insurance, ranked lower.

Most important, employees who have dental benefits can be healthier. According to WebMD, good dental health may lower your employees' risk of heart disease, because gum disease has been linked to cardiovascular problems. Poor oral health also can lead to the development of infection in joints, and gingivitis has been linked to memory problems.

What Dental Benefits Cover

One of the first choices you'll need to make is whether your plan will be with a preferred provider organization (PPO) or a health management organization (HMO). Both offer members discounts, but PPOs are more popular with dentists because they are reimbursed at a higher rate. Plan members who go outside the PPO network, though,

may have to pay up to 100 percent more for services.

According to an article published in *Angie's List*, a standard employer-provided PPO usually covers between 80-90 percent of the cost of checkups, cleanings and other preventive treatments. More involved treatments, such as root canals or fillings, are covered at 70 to 80 percent. Major dental work, like crowns or dentures, are usually covered at 50 percent.

Why Dental Care is Affordable

The use of fluoride sealants and other preventive dental care by the dental profession has led to improved oral health in the United States. Data gathered by the Bureau of Labor Statistics show that dental costs have risen less than medical costs in the past few decades. This is because many medical treatments are for unpredictable or catastrophic conditions, while dental care costs often are predictable and not serious. The more employees use their dental coverage for preventive measures, the more they save down the road by avoiding costly treatments — which keeps rates stable.

For instance, dentists can check for oral cancers and other health issues during a preventive checkup. WebMD reports that an estimated 75 percent of oral cancers usually are detected during a comprehensive oral exam.

Making Dental Plans Even More Affordable

If you currently offer dental coverage to your employees and want to reduce costs, reevaluate your plan design. Comparing your current offering with other plans can ensure you have the most cost-effective plan. To prevent major dental problems for your employees, consider covering 100 percent of preventive care with no deductible. This will encourage employees to get regular dental checkups and take care of issues before they become problems.

by giving them a wide choice of dentists. Choosing to have work done by an in-network dentist can save employees up to 30 percent, according to Delta Dental.

Employers also can save by requiring employees to share in the cost of the dental plan. You can do this by having employees pay a portion of the premium. Most plans also have participants share in costs at time of service by having copayments. In a typical plan, the employee will pay 20 percent of covered preventive care costs and the plan 80 percent, after deductibles are satisfied.

Some plans pay a lower percent of costs, such as 50 percent, for restorative procedures, such as fillings, crowns and bridges. It's important to choose a good employee cost-share ratio so employees aren't deterred from seeking care because of high out-of-pocket costs.

Employers that are unable to contribute to a dental plan can make the dental plan voluntary. Voluntary plans cost employers nothing. Although employees pay for premiums themselves, they still receive valuable benefits for less than what they could purchase on their own.



A plan that offers a large provider network also can help keep costs down for employees

For more information on dental benefits, please contact us. ■

The Growing Trend of Nonretirement

If you have employees who are nearing retirement age, don't be surprised if they indicate an interest in working several more years. New studies and surveys are showing that the American dream of retirement is being delayed:

- * According to Gallup's 2016 Economy and Personal Finance Poll, workers in 1995 expected to retire at age 60. Two decades later, the expected retirement date is 67.
- * Some workers have given up on the idea of retirement. A 2015 Federal Reserve study found that 27 percent of Americans said they will keep working as long as possible, and 12 percent don't plan to retire at all.

Reasons for the Delay

There is no one reason why workers delay retirement, but most experts agree that the biggest reason is retirees haven't saved enough money.

In the past, companies offered pensions, which were a major income source for many retirees. When the trend shifted to 401(k) plans, many Americans failed to contribute enough.

According to TransAmerica, most Americans save about \$63,000 for retirement, even though they think they'll need \$1 million to live comfortably. Another problem is that many retirees are not sure how to handle their 401(k) assets and are uncomfortable with the ups and downs of the market.

Those who did save diligently may have lost their savings during the recent financial downturn or the tech bust that preceded it. Some baby boomers are hoping to make up the shortfall by relying heavily on Social Security. However, Social Security is only meant to replace about 40% of the average person's pre-retirement income. Currently, the average Social Security check is only a little more than \$16,000 per year, an amount that's difficult for most people to survive on.

While many seniors plan to work past the typical retirement age, some may face work cultures that are not "aging friendly." Other seniors may find that they lose their desire to work or are not healthy enough to continue as long as they hoped.

The good news for employers is that they have a skilled workforce. ■

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