Employee Health Care

by Ron Lent

Offering health coverage to employees can be expensive and complicated, but the payoff can be significant enough that it's worth looking into.

It differentiates your company from competitors that don't offer health benefits — and allows you to compete with those that do; consequently, it may help you recruit and retain the best talent, says James Gelfand, senior manager of health policy at the U.S. Chamber of Commerce. He notes that 75 percent of employees rated health care as their most important benefit in the National Business Group on Health's 2007 worker survey.

Having healthy staff is another reason to make this investment. Gelfand says, "It's in the employer's best interest to have healthy employees. Sick employees miss work, and if they do come to work they don't work to their maximum potential. Healthy employees are more productive, and offering a sound health-benefits package helps to ensure that employees have access to the care that they need."

> "A single catastrophic injury or illness — if uninsured — can ruin a family financially."
>
> — Michael E. Diegel,
> National Federation of Independent Business

Still, despite all the arguments in favor of providing health insurance, cost is a big obstacle for small businesses to overcome. Giovanni Coratolo, director of small business policy at the U.S. Chamber of Commerce, points out, "Health care rates from year to year rise faster than inflation."

In addition, finding the best health care coverage for your company "can be downright intimidating, if not overwhelming," says Michael E. Diegel, national media director for the National Federation of Independent Business. It involves sorting through lists of insurance companies and plans; checking and rechecking the totals for deductibles and co-pays; making sense of limitations and exclusions — all of which requires deciphering a mouthful of insurance lingo.

Maybe you think you don't have sufficient time to do all the necessary research and number-crunching. "But do you think you can afford to procrastinate on such an important issue?" asks Diegel. "A single catastrophic injury or illness — if uninsured — can ruin a family financially."

Rely on a Broker

Karen Richer, controller at R/A Performance Group, an event-management company in San Francisco with 19 employees, recently went

Sift through the options to find the coverage you need at a price you can afford

through the process of selecting an employee health plan. "It's difficult to find affordable health insurance," Richer says. "There are mountains of paperwork, so it helps to have a knowledgeable broker who can help a small employer get through the research process.

"We found only a few insurance companies willing to insure a small business like us. In California, there are Kaiser Permanente, Blue Cross and CaliforniaChoice. We went with both Kaiser and Blue Cross, although Blue Cross costs us a lot more than Kaiser does. We could have saved on our overall health-plan costs simply by going with Kaiser, but we felt that if we want to keep talented and quality people, it would behoove us to offer them choice in health care coverage."

Richer's company relied on a broker to do the research, identify appropriate health plans, start the application paperwork, develop the contracts, present the plans to company employees during open enrollment, and assist employees in selecting suitable coverage. "It would have been even more time consuming without the broker," she says, "and maybe impossible for us to deliver such health care choices to our employees."

Fee-for-Service vs. Managed Care

Fee-for-service and managed care are the two basic types of health insurance in the U.S., says

Selecting a Plan

Employee health plans vary widely in cost and in coverage. Michael E. Diegel of the National Federation of Independent Business offers a few tips for getting the most for your money.

Buy only the benefits your employees need. "Learn about your employees' health care needs before you sign a contract with a health care insurance company," says Diegel. "Find out whether your employees need frequent medical care, or do they only occasionally see a physician? Are your employees more concerned about preventive physical exams or coverage in case of emergency? Are prescription, dental, eye care, and maternity benefits important to them? Don't pay for extras that your employees won't utilize."

Get proposals from several insurers. "It pays to do comparison-shopping for health care coverage," says Diegel. "Don't limit yourself to the options available through a single insurance company." If you don't have the time or inclination to track down several health care coverage bids, seek help from a licensed independent insurance broker, Diegel suggests.

Take advantage of tax benefits. Employers derive various tax benefits for offering group health insurance to their employees. Diegel says, "Businesses can usually deduct all of the premiums they pay on qualifying group health plans. You'll also want to look into setting up Health Savings Accounts (HSAs)."

Loretta Worters, vice president of communications for the Insurance Information Institute in New York. With fee-for-service, doctors get paid for each service rendered to the patient. Patients select a doctor with no restrictions and either the patient or the medical provider files the claim. Premiums for these plans tend to be higher than for managed care plans, but employees may have more medical providers to choose from.

More than half of all Americans have some form of managed care, according to the Insurance Information Institute. The two most common are health maintenance organizations (HMOs) and preferred provider organizations (PPOs).

> **"We felt that if we want to keep talented and quality people, it would behoove us to offer them choice in health care coverage."**
>
> — Karen Richer, R/A Performance Group

Gelfand describes an HMO as "basically a prepaid health care arrangement that requires employees to use physicians employed by or under contract to the HMO and hospitals approved by the HMO." As long as the employee stays within the network, costs beyond stated deductibles are covered. Exceptions to allow for out-of-network coverage generally include only emergency care and a very few specialists.

A PPO network operates differently from an HMO. "With a PPO, the health care insurance company negotiates discounts with doctors and hospitals," says Gelfand. "Employees select a physician from an approved list, and they typically pay a set amount per office visit, perhaps $10 to $25, with the carrier covering the balance." Patients are usually required to apply for pre-certification prior to non-emergency surgeries or other procedures, giving the insurance company some say in determining the appropriateness of the treatment. Employees with PPOs may go outside of the network, but their out-of-pocket costs will likely increase.

Point-of-service (POS) plans are another option. Sort of a hybrid of HMOs and PPOs, the employee chooses a primary-care physician from within the network. That doctor is the employee's primary point of service, and may refer the employee to other in-network care providers. The employee may also choose out-of-network care, at the penalty of paying a larger share from his own pocket.

Health Savings Accounts

One final option is a health savings account. An HSA isn't an insurance policy itself, but is packaged with a high-deductible policy. Says Gelfand, "The accounts are arranged with a bank or other financial institution, and they allow you to set aside money strictly for medical expenses.

"When used in conjunction with a high-deductible health insurance policy, accounts are funded with an employee's pretax dollars. Disbursements are tax-free if applied to approved medical expenses. Unused funds can accumulate indefinitely and earn tax-free interest."

In essence, HSAs call for employees to use their own money — or money set aside by an employer for the employee's use — to pay for medical expenses up to a substantial deductible. At that point, traditional health insurance kicks in, says Gelfand.

If the employee doesn't spend the amount he puts into the account that year, it accumulates to be used in other years, or perhaps in retirement. An HSA can allow healthy employees to put away substantial amounts of money tax-deferred, sort of like an IRA or 401K for medical purposes. Typically, the higher the deductible, the lower the premium, and the more that can be contributed to the HSA.

Their higher deductibles generally make HSA policies less expensive than traditional health insurance policies. "For 2006," says Gelfand, "the minimum deductible for self-only coverage was $1,050, and $2,100 for family protection, and those numbers were higher than they were for most health insurance. That meant that health care insurers weren't obligated to cover claims below those amounts. And one would assume that employees using their own money on health care will be more conscious of prices and will be more likely to shop around for care, and that would save money for both themselves and their employers."

Dennis Cote, a producer for an independent insurance agency, RLM Insurance Services of Oakland, Calif., points to the premium savings enjoyed by one of his clients, a Berkeley, Calif.–based manufacturer and installer of windows. The window company had been providing an HMO plan for its four employees through Kaiser Permanente for 10 years before Cote moved his client's coverage to the HMO's newly created HSA. For the HMO, the contractor had been paying some $2,000 a month, but with the HSA the contractor's monthly premium has been cut in half to $1,000, says Cote.

COBRA

The Consolidated Omnibus Budget Reconciliation Act, or COBRA, is a federal statute that applies to all companies with more than 20 employees. Though your company may have fewer employees and so be exempt from federal insurance laws, bear in mind that many states have laws similar to COBRA that affect smaller companies. Thus, your company might still have to offer such benefits under certain circumstances.

Under COBRA, a former employee and his dependents have the right to continued coverage under your company's group health plan for as long as 18 months. Former employees are eligible for COBRA whether they quit or get fired (except for reasons of gross misconduct). Employee spouses can have COBRA protection for as long as 36 months after the employee's death or divorce.

Fortunately for you, COBRA benefits don't come out of company coffers. Employers can charge COBRA recipients 102 percent of the cost of extending health coverage to a former employee. The extra two percent is to cover administrative costs.

Ron Lent is a writer in San Rafael, Calif., who specializes in insurance matters.

Don't Get Ripped Off

Scam artists wreak havoc in every type of business, and health care is no exception. Shady operators have ripped off any number of honest businesses by pushing group health insurance plans whose coverage is far inferior to what they lead customers to believe.

Compare prices. If you think that a price sounds too good to be true, follow your gut instinct, advises Dennis Cote, of RLM Insurance Services. "If a health plan representative tries to tell you that his or her plan's premiums will run 50 percent less than what you know the going rate to be, you had better put your hand on your wallet to make sure it's still there, and if so, walk away because that sales pitch sounds bogus to me," says Cote.

Think before you sign a contract. Ask questions that will flush out meaningful information on the plan and the insurer. Ask for references from other employers that have purchased coverage. Find out how fast the insurer pays claims. Ask how long the sales representative has been working with the insurer; it could be a red flag if it's been for only a few months.

Who's behind the insurer? Find out the name of the actual insurance company underwriting the policy and how financially strong it is. Call the insurer's corporate headquarters to make sure the person you're dealing with is a bona fide representative of the carrier he claims to represent. Check with the state insurance department to find out the carrier's A.M. Best rating. (A.M. Best is a widely-recognized insurer rating service.) Best grades companies according to their ability to pay claims. Best ratings also reflect an insurer's overall financial strength. Finally, check whether the carrier is in good standing with the insurance department in your home state.