Debunking 10 Myths about Employee Health Plans  
How Employers Can Save Money and Be in Control

By Scott M. Wood  
Principal, Benefit Commerce Group  

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**Introduction:**

Employee health insurance is a great benefit and valuable asset for attracting and retaining quality talent. At the same time, healthcare costs represent the second or third highest expense item in most organizations’ budgets. This is clearly an area in which employers need to seize control by approaching healthcare costs with the same type of analysis and planning as other major expenditures.

However, many employers rely on outdated plans and no clear-cut strategy for their employee benefit plans. This has led to over-paying for healthcare. And, it has created the greatest of all healthcare misconceptions: that employers cannot do anything to control their healthcare costs. This paper is designed to set the record straight on 10 common myths about healthcare costs that are resulting in excess expenses for employers.

**Myth 1:**  
*Healthcare Reform will lower our costs.*

No. The healthcare reform act passed in 2010 will make a lot of changes, but lowering costs is not one of them. In fact, most analysts believe that the legislation actually will increase healthcare costs significantly.¹

In addition, employers that thought they would be able to “grandfather” their existing healthcare plans--and that this would save them money--may be disappointed. The Galen Institute, a non-profit public policy research organization, has pointed out that the Administration’s own estimates show that most employers will not be able to maintain current plans. Employers that make changes to their plans to better control costs will have to comply with additional regulations that will offset at least some of their gains.²
Pay or Play-
Employers will need to weigh rising healthcare costs against the $2,000 or $3,000 per employee penalty. At first glance, the penalty may look like an appealing option. However, employers need to consider the following additional costs, if they think they may want to drop their employee health plan:

--The penalty is not tax-deductible.

--With no employer-sponsored health plan, employees will pay federal and state taxes on the money they use to buy their own health insurance. Employers also will pay FICA and Medicare taxes on these wages that were previously on a pre-tax basis.

--If an employer increases salaries to offset the cost of employees buying their own insurance, both the employee and employer will pay additional taxes on these amounts, too. The factors above are tantamount to the government collecting taxes on the value of healthcare benefits.

--Over 50 percent of employees said that medical benefits are a top criteria for a job, according to a survey by the Society for Human Resource Management (SHRM). Employers who decide to drop health plans risk losing their top talent.

Retaining and attracting the best talent will continue to be critical for employers. With the right strategy, a comprehensive health plan can be an investment that pays off in lower costs and increased productivity.

One other point: There is no “affordability” in the Patient Protection and Affordable Care Act. And, don’t look to insurance companies as the culprit; their profit margins are low compared to other health related industries.

Source: Yahoo Finance, October 1, 2012

Net Profit Margins by Industry, 2012

Source: Yahoo Finance, October 1, 2012
Myth 2:

*Saving money on healthcare plans boils down to passing on more costs to employees.*

Not True. Passing costs on is not saving. The only way to save on healthcare costs is to get at the core issues that drive healthcare spending. That means establishing a strategy that will work for the employer this year and for the long term.

It means using established “best practices” that are proven to lower healthcare costs, including:

- consumer-driven health plan enrollment
- annual biometric screenings
- health risk assessment
- disease management
- healthy lifestyle programs
- premium differential for tobacco use vs. non-tobacco use
- employer sponsored health events

According to the Centers for Disease Control and Prevention, chronic diseases (heart disease, cancer, stroke, diabetes and obesity) cause 75 percent of our nation’s total healthcare costs. 5

These diseases are preventable with health management programs. By identifying risks that contribute to those diseases and controlling them, companies lower their costs, improve the health of their employees and increase their productivity.

For example, healthy lifestyle programs can have a positive impact on employees’ issues with weight. Obesity is skyrocketing, despite all the talk of wellness and prevention. In 1990, no states had over 20% obesity. Now, all states are over 20% obese and some much higher. 6

Myth 3:

*All benefits brokers are about the same.*

Unfortunately, not all benefits brokers are equal in knowledge or understanding of the current challenges. Employers need to be sure that they are not just putting a band-aid on a wound that is getting larger every year. Brokers should be bringing to employers innovative and progressive benefit and health improvement strategies, not just higher deductibles and copays and not just shopping the current plan like it is a commodity. Some brokers will focus on saving 10 percent on stop loss coverage, but stop loss insurance often only accounts for 10 to 15 percent of health plan costs (that translates to only a 1-2 percent savings on overall health plan costs); this not where the real savings lie.
Myth 4: We have a lot of other major projects on the board; we don’t have time to deal with healthcare costs, other than to ask our broker to shop for the best price.

You may be selling your company and your employees short. You have time to launch a new product or program that could yield millions of dollars in additional revenue. By implementing a long term strategy for your health benefits, you could realize bottom line savings equal to or greater than the additional revenue from that new product.

With a properly designed health plan and employees engaged in wellness programs, you can save $1,700 or more per employee in the first year. For a 300-employee company, that’s $510,000 to the bottom line. If your profit margin is 5 percent, that’s the equivalent of $10 million in additional revenue (without adding to your sales staff). Recent studies have shown that this savings can grow to nearly $10,000 per employee over a 5-year period.

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Myth 5:
*It’s too complicated; we have no way to control healthcare costs.*

Not True. Employers who think of healthcare the same as other products or services that are consumed can take control of the cost.

Why should we be more cost-conscious for our cars than for ourselves? Few of us take our cars in for maintenance or repair work without finding out the cost before the work is done. However, if your car insurance paid for charges such as oil changes, tire rotation, new transmission and radiator replacement, you might not ask or care about the costs too much . . . kind of like the way many insured consumers look at healthcare.

By giving consumers a reason to care (consumer directed plans with Health Savings Accounts or Health Reimbursement Accounts) and the information to make informed decisions (cost comparisons/estimators), we can control healthcare costs. All of these programs are available today, and the data that proves the programs work just keeps increasing.

Today, many of the top insurance companies include cost estimators on their websites. Consumers can compare costs for specific procedures from various providers. Many consumers wrongly believe that the cost is the same, as long as they stay within their designated Preferred Provider Organization (PPO). That is not true. The differences can be thousands of dollars, even within the same provider network and the same city.

*A colonoscopy at a metro Phoenix hospital can be between $9,330 and $12,003. The same procedure at an outpatient facility would be between $1,075 and $3,076.*

In addition to detailed cost information, quality of care measures for doctors and/or facilities are readily available.

Doing your homework does save money and improves quality outcomes in healthcare…just like everything else in life.

Myth 6:
*Our employees won’t be receptive to big changes in our healthcare plan.*

Not True. When employees understand that their healthcare actions can save them money and improve their benefits, most are ready to listen and act.
A recent RAND Corporation study showed that an average family’s income growth from 1999 to 2009 was largely consumed by increased healthcare costs. If healthcare costs had tracked with the Consumer Price Index, instead of escalating far higher, the average family would have had $5,400 more each year to spend.  

When you combine that with data that inflation-adjusted median household income in the U.S. declined 6.7 percent between June 2009 and June 2011, the importance of lowering healthcare costs becomes even more critical for you and your employees.

**Myth 7:**

*We’ve been able to keep costs flat the last 2-3 years (with some benefit changes).*

Benefit changes just shift employer costs to employees and their families. This is the major contributing factor to family income growth being consumed by increased healthcare costs, wiping out real income gains (RAND Corporation study).

Employees have less discretionary money to spend, so they feel they actually have received a pay cut when “benefit changes” shift the burden to them.

Even companies that have kept premiums level with these adjustments will have a tough road ahead. Average annual healthcare costs for a family of four are expected to exceed $20,700 this year, with employers paying an average of $12,144 of the cost and employees paying $8,584 through their share of health insurance and out-of-pocket costs.

In addition, it is important to remember that medical and pharmacy costs represent only 30 percent of an employer’s cost of employee poor health. This means even if health insurance premium costs are being kept level by lowering benefits, the company’s costs in lost productivity and absenteeism continue to grow, if there is no comprehensive health program in place.

**Myth 8:**

*What works for the large companies won’t work for my 300 to 500 employee company.*

Not True. Strategies for lowering healthcare costs work just as well with 300 employees as they do for companies with tens of thousands of employees.

You may see more publicity on large companies making great strides in controlling healthcare costs, but it’s happening every day in companies of all sizes across the nation.
Yes, the large companies have large numbers to report. Safeway Inc. has followed a strategy of health, wellness and fitness for the past six years, keeping the company’s and its over 30,000 non-union employees’ per capita costs flat—while healthcare costs increased nationally by 8.5 percent annually.\textsuperscript{12}

However, there are many examples of 300+ employee companies, and even smaller ones, achieving as good or better results. An industrial equipment company in Arizona with 500 covered members saved nearly $750,000 in the first year of its plan.\textsuperscript{13}

And, in terms of implementation, it is easier to roll out a new program and engage 500 employees than it is to do the same with 30,000 employees.

**KEY COST METRICS (composite monthly costs per employee)**

![Key Cost Metrics Graph]

**CLAIMS COSTS per member per month**

![Claims Costs Graph]
**Myth 9:**

*Wellness programs sound great, but they don’t really lower my company’s healthcare costs.*

Wrong. When wellness programs began many years ago, it was difficult to quantify their value. However, there are now programs that can show you, in dollars, how these efforts actually save money on health plan premiums.

By modeling the company’s implementation of long term strategies, such as consumer-directed health plans and Health Savings Accounts, along with employee participation in health assessment and biometric screening, employers can chart real savings in premiums as they move forward each year.

**Myth 10:**

*We have to wait until this plan year ends before we can make changes in our health plan.*

No. Like any other part of your business, when you find a way to make improvements, implementing those improvements as soon as possible yields the best results.

Some brokers would like you to remain on a year-by-year basis, because this makes their job easier. It's also easier for employees if their plan doesn’t change too often. However, why would you want to wait? The sooner the better, when you have the opportunity to make changes that will: 1) save your company money, 2) save your employees money, 3) make your employees healthier and 4) make your employees more productive.

**Conclusion:**

An employee benefits broker/consultant experienced in developing long term strategies, with close relationships with insurance carriers and a staff that can assist you in the transition can help you start creating a strategy for your healthcare plan immediately.

Only a comprehensive employee benefit program that controls costs, maintains or improves benefits and engages employees in the program’s goals can provide sustainable strategies to lower health care costs first-year and long-term.
Sources:

1 Buck Consultants’ Health Care Organizations Health Care Reform Readiness Survey, 2011.

2 Testimony presented by Grace-Marie Turner, President, Galen Institute, before the U.S. House of Representatives Committee on Education and the Workforce, Subcommittee on Health, Employment, Labor, and Pensions, October 13, 2011.


7 “Patients urged to ask about cost of health care,” Arizona Republic, April 7, 2012.


10 Milliman Medical Index, 2012.

11 “Synergies at Work: Realizing the Full Value of Health Investments”, study by the University of Michigan Center for Value-Based Insurance Design and the Integrated Benefits Institute, February 2011.

12 The Institute for HealthCare Consumerism, The Safeway Story, by Laree Renda, President, Safeway Health Inc.

13 Benefit Commerce Group, Case Study, Industrial Machinery Company.

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