

# Benefit Trends

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## Defined Benefit Vs. Defined Contribution *Find the Best Way to Save on Your Health-Care Plan*

Typically two to three months prior to your group health-care renewal date, the company CEO/president/director of Human Resources/director of Finance/CFO/insurance broker, all of the above, or some of the above, get together to try to figure out what health-care plan to offer their employees and the amount they want their employees to contribute toward the cost of the plan. This practice has been common in the employee benefit arena for quite some time. Maybe it is time for a change.

Due to the double-digit rate increases for health-care plans in the past several years, employers are struggling with the reality of having their employees share in a greater portion of the cost of the plan by continuing to increase the employees payroll contributions. Many times these increases have wiped out the cost of living wage adjustments that some employers provide.

### **Deductibles & Higher Co-Pays**

One way to reduce the cost of a health-care plan is to change the plan design through deductibles or higher co-pays. This practice keeps the payroll contribution by the employee lower by shifting the cost to those employees who use the plan more than others. (Because of the deductible feature.)

In plans that are experience rated, having a deductible feature in the plan design also will help control utilization, as the plan participant will pay the deductible before services are covered at a higher level. This typically results in lower costs since the participant will often think twice before using their health-care plan for unnecessary health-care services.

### **Multiple Plan Offerings**

Even further broadening the scope of this concept, the type of plan design and multiple plan offerings can further enhance this position.

Many employees have different interests towards their health-care coverage. Some want a high-level plan; others are willing to take some of the risk by way of cost shifting deductibles and other plan features.

This selection process has shifted some employers toward providing employees with a contribution amount and allowing the employee to choose their level of participation by either lowering their required contribution from their paycheck in exchange for deductibles, co-pays and co-insurance within the plan.

Some companies have offered as many as 10 plans as a menu of selection. This approach provides an advantage in that the employer is not burdened in selecting a plan for their employees that the employees would not choose on their own. It also allows employees to participate in selecting the health-care plan that best suits their needs.

### **Other advantages include:**

- The amount contributed by the employer can be adjusted each year by either medical inflation or some pre-determined formula.
- The benefit plans can be selected each year by the employee counter balancing the rate increase or decrease with either higher payroll contributions or plan benefit changes.
- One of the plan choices can be the new qualified health savings account (HSA) or health reimbursement arrangement (HRA) plans that allow for savings accounts to cover any deductibles chosen.

These types of plans are typically arranged with employer groups of more than 50 participants. Some insurance companies limit the choices to two or three plans; others have up to 20 plans available.

A word of caution about this approach: Underwriters typically increase the overall rate for all plans that offer dual plus choices by 1 percent to 2 percent to offset adverse selection.

Over the past several years, some employers in our region have adopted this approach in providing health-care benefit plans. The result has been that the employees have appreciated the effort of their employers allowing them to have a say so in controlling their own payroll contributions and plan design selection.

This approach is also a way of reviewing your health-plan options. It is not the only solution but a possible one. As we roll through the era of double-digit medical inflation, more employers may adopt this concept in providing health-care coverage to their employees. ★

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