A step-by-step guide to reducing small business health insurance costs in 2012

"The Affordable Care Act opens unprecedented opportunities for employers to save on costs, improve employee satisfaction and – perhaps for the first time ever – actually contribute to an overall improvement in employee health and welfare".

– Tony Novak, founder of Freedom Benefits

The Affordable Care Act of 2010 opened the door to a range of new savings opportunities for employer-sponsored health plans. Yet as we enter 2012 most small business owners remain unaware and unprepared to reap these benefits. Each year the number of small businesses that can afford to offer the old-style health insurance plans declines. It is possible to use some health reform tools now to achieve significant savings this year and insulate the employer from further unexpected insurance cost increases in the future.

Since health reform laws take effect gradually over a period of years, the tools available to control costs change each year. The three primary cost-saving tools for 2012 include the SIMPLE cafeteria plan, health plan navigators, insurance exchanges and the pre-existing condition insurance plans. The strategy can be summarized as: 1) redesign the health plan to contain employer costs, 2) provide health insurance and benefits education for employees to make smarter decisions, 3) gain access to a wider range of low cost health insurance options, and 4) allow employees to customize benefits to maximize value received.

Over the long term we know that sustainable health care savings will only be achieved through modification of consumer behavior. Individuals, and not their employers, will be the driving force behind cost reduction mechanisms of health reform. We will continue to see a fundamental shift in emphasis of employer health plans away from paying for employees who are sick to educating, motivating and rewarding employees to stay healthy.

For the years 2012 through 2014, short term savings are most easily achieved by switching from "defined benefit" to "defined contribution" plans and exploiting the new opportunities that come with that change. This action can be compared to the switch from traditional pension plans to the defined contribution 401(k) retirement plans that saved employer costs throughout the 1980s. By 2014 the old-style small business group health insurance plans we use now will likely be headed toward extinction.

This article includes a checklist that breaks down the health plan transformation into thirteen manageable tasks. It is not necessary to undertake these steps in the order listed but all of these steps play a role in achieving maximums savings and employee satisfaction.

 **Start with the help of a qualified adviser and navigator.** This is definitely not a do-it-yourself business project. There are practical and legal reasons to obtain qualified professional help. Accounting firms and employee benefits consultants are increasing expanding their health reform client resources to provide these services to small business clients. Qualified help may still be hard to find in some areas but the government plans to contract many more health insurance navigators within the next few years.

A plan adviser is usually a benefits accountant with experience in plan design & setup, payroll taxes and employee benefit administration. Additionally, the 2010 health reform law authorized a new type of health plan adviser called a "navigator". The distinction is that while a navigator provides advice to individual employees, the plan adviser provides advice to the employees. In small businesses the plan adviser is typically the same person as the navigator. Unfortunately there are no uniform standards for navigators at this time. A Chartered Health Consultant (ChHC) would be ideally equipped to provide advice about health reform but many other professionals provide comparable service. A navigator should have adequate experience as well as the products available through public health plans and the health insurance exchanges. Keep in mind that the navigator should not be an employee or a person otherwise affiliated with the employer.

Once you find the right professional, the remaining steps become easy.

 **Be clear about the impact of your management decision to cut costs.** Cutting health insurance costs may be a necessary measure to ensure survival of the employee benefit plan. But cutting health insurance costs also means cutting employee health benefits. Likewise, replacing defined benefit plans with defined contribution plans saves money for employers at the expense of employees. Compare this strategy to the mass transition from pension plans to 401(k) plans in the 1980s that ultimately meant a reduction in the average employee's retirement income. We may not logically accept a lower premium health insurance can provide the same benefits as more expensive health insurance. Yet cutbacks in employee benefit costs are necessary in this difficult economy in many small companies. Cutting employee health insurance costs will be as popular as cutting employee salaries. For this reason, we suggest putting a cap on health plan costs at current levels rather than making sharp cutbacks. In either case, there should be no avoidance or sugar-coating of communications on this issue.

 **Set specific goals**. Consider the "what, who, and when" of the strategy.

"What" is the specific financial objective. Are you trying to simply keep costs from rising sharply in the future or does your firm really need to cut back on health expenses. If so, by how much? Define this in dollar terms or a percentage of payrolls.

"Who" refers to classifications of employees for benefit purposes. Do you treat all full time employees the same under the health plan or are health benefits tiered in the same manner as salaries?

"When" refers to the date of change. For best results, we suggest allowing 60 to 90 days for changing a group health plan to ensure that employees have time to become comfortable with the change.

Prepare a cost/benefit estimate. While it is tempting to skip this step to avoid the expense of preparing this report to save time and money, the costs are often recouped within the first month of plan conversion. The cost/benefit report will likely make some assumptions on the best service providers available in your area as the basis of a cost estimate. As a rough estimate of plan administrations costs, consider $1000 start-up expense and $150 per employee per year as the ongoing service cost. The savings estimates must include an assumption of average employee participation and an average wage tax rate.

Commit to an employer funding formula. This simply means taking the goals derived from the step above and translating it into a format that will be included in the new health plan. Employers may initially struggle with this issue because in the past they have been told cost of insurance. Now the tables are turned. The new health plan asks "How much does the employer wish to provide for each employee's health benefits?" or "What formula will be used to determine the employee's benefits?" You may choose to provide a standard percentage of pay for each employee. For example a contribution of 2% of salary for each long-term worker is the minimum funding that allows an employer plan to meet the new SIMPLE cafeteria plan requirements. Alternately, you may choose a more creative approach based on the employee's family status or opt to match the employee's own elections. Employers are increasingly likely to choose to mimic popular 401(k) plan funding formulas like matching 200% of employee contributions up to 6% of salary.

Translate monthly amounts into pay period amounts. In the past your employee health insurance was typically considered as a monthly cost. In your health new plan it makes more sense to talk in term of a dollar amount per pay period. This means simply making the arithmetic calculation to translate the employer's funding into a weekly, bi-weekly or other payroll accounting basis.

Consider the impact on group insurance. If you are changing from an old-style group health insurance plan to new individual portable insurance policies under health reform, consider how the employees on the group plan will be impacted by the change. Effects vary sharply depending on state law and other factors in 2012 and 2013. A few states even have laws restricting advisors from using the new reform plans within firms that already have an old-style health insurance in place. By 2014 these conversion issues are expected to disappear. A detailed discussion is beyond the scope of this article but make sure to discuss this issue with the plan adviser.

Ensure adequate health plan choices. Before launching your new health plan, confirm that employees will have access to all available types of health plans in your area through the insurance exchange. Since health insurance exchanges are still under construction in some areas, the choices will likely change over time. The important point is that there must be at least one health insurance choice in each of these major categories: 1) major medical insurance, 2) guaranteed issue plan that covers pre-existing conditions, 3) limited benefit insurance and a 4) non-insurance plan like a Health Savings Account or PPO discount plan.

Execute the new plan documents. IRS and Department of Labor require that your health plan be in writing. These documents are not filed with the government but some of the documents called "Summary Plan Descriptions" are used to notify employees of the change and new benefits available.

Allow the plan adviser/navigator to **notify employees and begin enrollment dialogue**. The adviser will need a **census** of employees that includes an email and telephone number for each eligible employee.

Allow employees to enroll in the health plan of their choice. Depending on your location there may be only a few or dozens of choices on the insurance exchange. In most cases employees will obtain best result by using a combination of two or more benefits paid by a combination of the employer's contribution and their own voluntary contribution.

Authorize the plan adviser to communicate with your payroll service provider to ensure a smooth health plan launch. Since a substantial part of the net savings may come from reduced payroll taxes, it is critical to ensure that flexible benefits receive tax-free treatment.

Obtain a claims report from the plan adviser and authorize your payroll service to process the deductions for each pay period. Since the businesses expenditures are limited to the amounts specified in the design, savings are virtually guaranteed.

Follow-through with the plan's built-in feedback mechanisms. In addition to informal feedback that is the normal mode of communication in small businesses, the new health plan is designed to provide the business manager with feedback from two sources: the employees and the plan navigator. These should confirm that the plan is working as expected. If not, don't wait to consider what adjustments can be made.

The net results will vary widely for small employers. Some firms have been able to reduce health costs significantly without any noticeable impact on employee satisfaction. Others will not achieve impressive results and may eventually decide to cancel their employer-sponsored health benefits altogether in 2016 in favor of subsidizing health costs for employees using the insurance exchange.

In a sense, health reform is nothing other than a national experiment. Employers who commit to fundamental cost-saving strategies based on improving employee health education and boosting overall employee health in the long run stand the best chance of achieving favorable results. Over the next four years - 2012 through 2016 - we expect most small employers that offer health benefits will test the waters of health reform in some manner of their choice. Benefit plan advisers should focus on limiting exposure of the employer and the employee in the event of unforeseen developments during the transition.

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About the author: Tony Novak is a compensation planner and health care reform advocate based in the Philadelphia area. His firm Freedom Benefits has provided advice on health benefits to small businesses in every state over more than 25 years in practice. He can be reached through his Web site www.tonynovak.com.