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Health benefit options for small businesses explained

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Employers are racing to attract top talent, but they are also balancing the high cost of health care coverage.

What's more, ultimately employees are losing benefits and contributing more as expenses rise.

Small businesses struggle most with health care costs. Health care has been ranked as the No. 1 problem by the National Federation of Independent Business' annual survey since January 2003. The reason is clear: Small businesses, while they can't be refused coverage, often face paying a premium up to 67 percent over standard rates.

There are numerous opinions regarding the reasons for high health care costs in the United States. Some of the drivers for the high cost of health care are aging baby boomers, high levels of uninsured individuals and poor lifestyle choices.

Today, all sizes and types of organizations are saying uncle to rising costs.

Solutions, such as nationalized health care, are making headlines in this year's presidential campaign. Opponents point to Canada's health care woes as the dark side of nationalized health care: limited choices, limited legal recourse, long waiting lists and high taxes.

With no silver-bullet solution, how can small businesses decrease their health care benefit budgets while offering employees valuable coverage?

There are new solutions ranging from wellness programs to the popular consumer-driven plans.

Alternative plan designs

HDHP, HSA, and HRA are important acronyms to know if a business is trying to save on benefit costs. If a group is on a low deductible plan, it may want to explore a

High Deductible Health Plan in conjunction with a Health Reimbursement Arrangement or a Health Savings Account.

Why does this work? Many plans with low deductibles are never leveraged by employees, meaning many companies are overinsuring and overpaying benefits for employees.

Statistics show that only one out of 11 people reach a $1,000 deductible.

With a Health Reimbursement Arrangement, the employer buys a high-deductible plan at a lower cost and can reimburse the employee for a portion of the deductible.

However, moving to an HRA plan adds risk for the employer in betting that the premium savings will outweigh the deductible reimbursements.

An HSA places more risk on the insured. An HSA "compatible" high-deductible plan is put into place in conjunction with a Health Savings Account at a bank. The employer and/or the employee can contribute to the health savings account.

The health plan does not have co-pays for prescription drugs or doctor visits. All expenses go toward the high deductible. Once the deductible is met, the plan normally covers 80 to 100 percent of medical expenses. The idea is to take the premium savings and fund employees' savings accounts.

Dual or Triple Option is also a way for employers to engage employees in the buying decision. In this plan, the employer will buy a base plan and allow the employees to "buy up" to a lower-deductible, richer plan.

Wellness programs

Although it's difficult to measure immediate savings, the return on investment for corporate wellness programs can be substantial.

Employers that address the causes of high health care costs will experience greater savings and productivity. Offering weight-loss programs, supporting staff in quitting smoking and better management of chronic diseases, such as diabetes, can significantly improve an organization's health and reduce health care costs.

Plan basics

Although there is no law in Texas requiring employers to provide health insurance, many feel benefits are essential to attracting and retaining good employees. Small companies of two to 50 employees have a few issues to consider.

Texas small group reform laws have made group insurance more accessible with "guaranteed issue." Basically, a business cannot be turned down when applying for small group coverage.

However, the insurance carriers are allowed to raise rates up to 67 percent over "standard rates," based on group medical conditions.

Other factors affecting the rates include employee gender, number, age and location. The employer's contribution requirement is generally 50 percent of the employee's portion.

Some employees may opt out if they have other coverage, but paying their premium portion, through payroll deduction with pretax dollars, can result in 20 to 30 percent savings.

Traditional plans can be tailored to meet the needs of small businesses, but it requires due diligence. Employees and business owners are confounded by the array of choices and rising health insurance costs.

A thorough market analysis with a qualified agent can help reveal which carrier, plan designs and options make the most economical sense for the particular dynamics of a small business.

The costs of health care are not going away. Careful analysis is the key.

Lee Rabbitt, benefits manager of the Austin branch of Watkins Insurance Group, works with companies to simplify and individualize employee benefit plans.