Season 3 | Episode 101

How These 5 Tips Can Help You Manage Cost Increases for Employee Health Plans

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Gene Marks:
Hey, everybody. Welcome to this week's episode of "On the Mark". Let's talk about health insurance, shall we?

Just recently, Willis Towers Watson, a big HR firm, conducted a survey and noted that U.S. employers are expecting their health plan costs to increase about 6 percent this year. Seventy (70) percent of their respondents anticipate moderate to significant increases over the next three years, though only 36% of them are making cost-cutting changes, which is actually down from 40% in 2022 and 47% in 2021.

It's like, health benefits are not on the chopping block, not like maybe some other benefits that are out there. According to Willis Towers Watson, they said that 88% of employers say that health related benefits are very, very important. So, when you list out all the different benefits that are available for your employees, health care is definitely the number one thing.

So, let me give you some thoughts on health care and health insurance that might help you control your health costs this year, particularly if you're a small business, because if they're going up 6% or even more this year, that is just going to add to your overhead, you know, and your overhead and your other costs that you're trying to keep under control.

It's a big issue and you want to retain employees and be competitive to attract new employees, as well. So, what do you do? I've got five ideas for you. Okay.

Number one is to make sure you're offering a health savings account. A health savings account is like a 401(k) for your health care. Offering it for your employees gives them the ability to put money away pretax and then they can take that money out to pay for unreimbursed medical expenses from like acupuncture or counseling sessions or certain types of pharmaceuticals. It's like a 401(k) for their health care.

Employees love it, and it not only saves them money on their health care expenses but, also, if they do leave your company, the HSA can go with them, as well. So, they don't lose it, and if they don't use whatever they put away during the year, they don't lose it at the end of the year either.

It's a very popular thing to set up – health savings accounts. Seriously consider it for your company. It's got to be paired with a high-deductible health plan. That's number one.

Number two, consider health reimbursement accounts (HRAs). HRAs have been very popular among the smallest of businesses because you can take what you were paying for, you know, health care premiums and instead put it pretax into an HRA. Your employee doesn't get taxed on it. You get the deduction, and then your employee can take that amount and buy their health care wherever they want. They can go to the health care exchanges. They can go to maybe a list of brokers that you provide.

HRAs give you flexibility. They take away your need to have an actual group insurance plan: It can be there in addition to a group insurance plan, as well, but it gives you some answer, some way to provide health insurance and a much easier way to control your costs at a pretax level. So, HSAs and HRAs are two things you want to consider doing.

Number three, level-funded plans. A level-funded plan is a form of self-insurance and has become much, much more popular among particularly small employers over the past couple of years.

It works like this. You tell your employees, listen, for the first, I don't know, $500 or $1,000 worth of your medical expenses you have, bring them to you and you will reimburse them for that. In other words, you're self-insuring at the lowest, lowest level and then a group insurance plan kicks in after that.

So, you can have an HRA, sorry, a level-funded plan. You can provide the sort of self-insurance, you know, benefits, but then you cut down on what your group insurance rates are because it doesn't kick in until a higher level.

Also, if you have a younger demographic or you know, or employees themselves that have a good health history, you're going to save money. So, if you're just paying just straight out for group insurance for all your employees, you're probably paying too much because you're paying for health insurance that people aren't using. With a level-funded plan, you're only paying for the people that are using it at the lowest level and then you are protecting yourself against any catastrophic liability by having a group insurance plan kick in after that.

So, I want you to talk to your benefits administrator and get a level-funded plan. Ask them about level-funded plans. They have become very, very popular, particularly among small and midsize employers.

The fourth way to reduce your rates, obviously, is you can shop around and also increase the types of benefits and deductibles that your plan has. So, that's something that you can consider doing if you want to offer, you know, more pared down health plan or at least a plan with higher deductibles that can save you money, as well. Just be careful, because if you start cutting back on health benefits for your employees, you know, that might be something that they might not like and it might be difficult retaining those employees. But it's an option.

So HRAs, HSAs, level-funded plans, higher deductible plans or plans with different types of benefits that might save you money, those year four choices.

I've got one more and it's a little tip for you. And it's this. I know that you're probably considering giving increases in pay to your employees this year. Most of my clients are. Makes sense because we're in an inflationary period and, in fact, a lot of people are bumping pays anywhere from 6 to 9% this year. But here's a little tip for you to help you: Instead of giving an increase in compensation, pay more for your employees' health insurance.

Why? Because if you just increase their compensation, they're going to get taxed on that and you're going to have to pay employer taxes on that. Right? However, if instead you pay more for their health insurance, they don't get taxed on that. You still get a deduction and you're not paying any employer taxes either.

So, instead of giving just an increase in compensation, consider doing a little bit of a flip and putting more to your employees' health insurance. Their net paychecks are going to be higher, so they're going to be happy with that and they're going to be happy that you're covering more of their health insurance, as well.

Hey, hope this information helps. The news this week is health insurance premiums going up. I think I've given you some ideas to control those health premium costs, and I hope that they do make a difference for you going forward.

You've been listening to "On the Mark", a Paychex Thrive podcast. My name is Gene Marks. If you've got any ideas, suggestions, or guests that you'd like to see on our Thrive podcast, please visit us at payx.me/thrivetopics. That's P-A-Y-X dot M-E/thrivetopics.

Hope you found this information helpful. I will see you again next week with some more news that impacts your business and my thoughts and advice on how you can deal with that news. We'll see you in a week. Take care.