

What small employers can do in the face of health insurance turmoil

By Deborah Bezona

North Bay small businesses are faced with complex, expensive and difficult choices in evaluating health insurance options. Small employers are greatly affected by the current turmoil - not only because insurance premiums are a large budget item, but also because most small businesses do not have the time or personnel to devote to managing employee benefits.

Understanding the rights and obligations of a small employer is helpful in making informed health insurance decisions.

Assembly Bill 1672, passed in 1993, requires health insurance carriers in California to provide coverage to small groups (2 to 50 employees, partners or proprietors) on a guaranteed issue basis. Passage of AB-1672 protected health insurance from becoming prohibitively expensive or unavailable to many small groups. Prior to its passage, insurance carriers were allowed to reject or increase rates to employers based on medical underwriting.

Insurance carriers and Health Maintenance Organizations favored AB-1672 with some parameters. Employers are required to pay at least 50% of the premium cost for each employee (though not for dependents), and must deduct the employees' portion of premiums from their paychecks. Coverage must be offered to all eligible employees and dependents. At enrollment, and annually thereafter, the small group must be able to prove they are a legal business entity with eligible employees.

Tens of thousands of small employers participate in what is essentially a legislatively mandated, state-wide buying pool. Therefore, rate changes from year to year will primarily depend on the utilization

trends of thousands of similar groups covered by a given carrier.

Steps to cut insurance costs

Following are seven steps a small business owner can take to cut insurance coverage costs:

- *Clarify priorities* - Give thought to what is important regarding group health insurance. Why are you offering insurance? Perhaps because it's the responsible thing to do as a member of the business community. Perhaps benefits are important to attract and retain good employees.
- *Shift costs* - The most direct way to keep an employer's health insurance costs in check is to increase the cost paid by the employee. This can be accomplished by requiring employees to pay a larger percentage of their monthly premiums, or by selecting a plan with lesser benefits. Increasing office visit co-payments and/or raising the deductible will lower premiums, and may not increase costs to all employees.

Another way to shift costs and keep premiums lower is to increase your prescription co-payments. Prescription drugs are a big expense for carriers, representing close to 17% of every health care dollar spent. While carriers have always encouraged use of generic drugs, the incentives have been getting stronger in recent years.

- *Implement a cafeteria plan* - Also known as a Flexible Spending Account, these plans allow employees to pay their portion of premiums, medical expenses not covered by insurance, and dependent daycare expenses with pre-tax dollars. The tax savings to employee and employer alike are significant, and should easily outweigh any set-up and administrative costs.

In lieu of a cafeteria plan, some employers are evaluating Medical Savings Accounts and Health Reimbursement Accounts. An MSA shifts risk and responsibility to the employee by pairing a

high-deductible insurance plan with the employee's own special account to pay for non-covered medical costs. The Health Reimbursement Accounts have similar objectives. Each of these options should be carefully evaluated with your benefits broker and tax advisor.

- *Use the Healthy Families program* - If neither you nor your employee can afford to pay for dependent coverage under the group plan, look into the State of California Healthy Families program, which is available for dependents of moderate- to low-income families. Premiums are extremely affordable for this subsidized insurance program, and coverage is offered through the largest carriers in the state, including Blue Shield, Blue Cross, Health Net, and Kaiser Permanente.

- *Educate your employees* - Help employees become better health care consumers by educating them about their coverage and options. When employees understand their coverage, they make better health care buying decisions. Before there is an emergency situation, it is a good idea for an employee to understand how the insurance coverage will pay for a doctor's visit or trip to the hospital. Teach employees to utilize the nurse's advice lines offered through most insurance carriers. Have them obtain needed pre-authorizations when required to ensure their coverage is valid. Use preferred providers whenever possible with PPO coverage, and follow protocol for referrals as needed in an HMO. Cost reduction methods typically available to large groups, such as wellness programs that improve a group's health and reduce claims, are also becoming available to small groups through most insurance carriers.

- *Double-check bills* - Recommend that employees review any Explanation of Benefits they receive to confirm that procedures have been billed correctly and to check for errors. Billing clerks and claims

processors are human, and sometimes make mistakes.

- *Call an experienced broker* - The North Bay is fortunate to have many knowledgeable and experienced brokers. Enlist an employee benefits specialist to help with this process. In addition to providing quotes and enrollment materials, your benefits broker should be willing and able to assist you and your employees with health care choices, education, and the ongoing administration of your plans.

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