HOW TO REDUCE BENEFIT COSTS BY KEEPING YOUR EMPLOYEES HEALTHY

In the United States, healthcare benefits are a significant portion of most employee compensation packages. According to the Kaiser Family Foundation, 66% of people in 2014 (who are ineligible for Medicare or Medicaid) received subsidized health insurance through their employer.

In the 1980s, human resource professionals were responsible for negotiating policies and premiums with health insurers. As healthcare costs steadily rose and benefit costs became cumbersome for businesses, negotiations were elevated to the company's comptroller or financial officers. Eventually, costs became so steep that those deals were organized directly by the CEO or board of directors.

This system has existed for decades, but recently the economics have become increasingly problematic. Healthcare costs have risen at rates higher than the rate of inflation. This trend is expected to continue. The Office of Actuary at the Centers of Medicare and Medicaid Services predict that healthcare spending with grow at an average of 5.8% until 2025, which is 1.3% higher than the expected annual GPD increase.

The United States spends more on healthcare per person than any other country in the world, says the World Health Organization. Though the indirect effects of the Patient Protection and Affordable Care Act on premiums is debatable, the 2014 American Health Policy Institute Survey reports that the PPACA has caused costs to rise in several direct ways:

- Patient Centered Outcomes Research Institute fee
- Excise tax on high-cost plans
- Temporary Reinsurance Fee
- Implementation and administrative costs
- Mandate to cover adult-children up to age 26 as dependents
- Benefit mandates, including covering 100% of preventive care services

Providing health benefits to employees is an important strategy to attract and retain talent. For many jobseekers, the details of a health benefits package is more important than the salary (40% would take a pay cut for better health benefits), especially for families with multiple dependents. 96% of Millennials and 70% of Generation Z say that quality healthcare benefits are an important part of choosing a job.

The lack of a robust or efficient public option (along with the current, tenuous legislative landscape) means that as an employer, you should expect to continue to provide these benefits.

However, this places a significant burden on employers. Health benefits are the largest employee-related expense after salaries. The Society for Human Resource Management determined that employers spend an average of $8,669 per employee annually on healthcare-related expenses. According to the Bureau of Labor Statistics, private employers spent $2.59 per hour worked per employee on health benefits, which is 8% of total compensation.

HOW TO COMBAT RISING BENEFIT COSTS

There are multiple ways to combat rising medical coverage costs. Immediate savings can be achieved by offering new hires less generous medical plans or negotiating for inferior policies with the health insurance provider. In some cases, it's possible to consolidate third-party vendors or pool insurance risks to achieve bulk discounts, or to shift more of the cost of care on to the employees.

Some organizations have been forced to take the drastic step of halting medical coverage entirely (sometimes just for spouses). The savings are tremendous, but the damage to the employer/employee relationship is irreparable.

These methods, while effective at reducing costs to the employer, create long term staffing problems. Hiring managers struggle to recruit talent without competitive incentives. Employees without access to adequate medical coverage are less loyal and less productive.

There is, however, ample opportunity for employers to reduce their employees' medical spending, and thus benefit costs, by helping their employees reduce their overall healthcare needs. Nearly 70% of all healthcare spending can be attributed to lifestyle choices and personal behavior, according to the National Association of Heath Underwriters.

As you're aware, benefit costs increase when employees use their benefits. Finding ways to reduce the number of injuries, emergency room visits, and chronic conditions is key to negotiating less expensive policies with insurance providers. Health insurers offers favorable policies and premiums to companies who take a proactive role in safeguarding the health of their employees.

It's smart, therefore, to lead a consumer-based approach to health in order to reduce total care costs. This initiative is called an employee wellness program. These programs allow employers to influence the health of their staff in a positive way and reduce the costs of employee medical benefits.

In the past, wellness programs were viewed as an attractive company perk; a method of attracting and retaining the best talent. There is a strategic opportunity for organizations to lower their benefit costs by improving the general wellness of their staff. Along with state and federal tax incentives, wellness programs become financially attractive.

According to another SHRM survey, about 75% of human resource professionals reported that their company offered some type of wellness program. Two-thirds of respondents rated their programs as "somewhat effective" or "very effective" in regards to reducing the costs of health care.

Doctors Richard Milani and Carl Lavie demonstrated that healthy employees require less healthcare by studying 185 employees and their spouses. The recipients received cardiac rehabilitation and exercise training from experts. 57% of those originally classified as high-risk were reclassified as low-risk after six months. Medical costs of the group had declined by $1,421 per participant compared to a control group. Every dollar invested in wellness created $6 in healthcare savings.

The Rand Corp., a nonprofit research organization, studied data from a longstanding Fortune 100 company. They discovered that the disease management components of this particular company's wellness program was particularly effective, generating $136 in savings per member per month, and a 30% reduction in hospital admissions.

Wellness programs also have an attractive ROI in regards to increased productivity, but that's beyond the scope of this article.

CASE STUDY: JOHNSON & JOHNSON

Over the last 20 years, the number of employees who smoke at Johnson & Johnson has fallen by two thirds. In the same period, high blood pressure has declined as well, and physical activity has increased dramatically. This is due to J&J's comprehensive, long term employee wellness program.

J&J estimates that over the last two decades, their wellness program has saved them more than $250 million in health care costs. For every dollar they spent on wellness, they saved $2.71.

ENCOURAGING EMPLOYEE PARTICIPATION

Wellness programs can take many forms. Some help employees fight preventable conditions, such as obesity, high blood pressure, and elevated cholesterol. Some programs treat overall wellness by promoting physical activity and stress reduction. Other programs encourage health education through screenings, assessments, and routine visits to the doctor. The 2016 SHRM Employee Benefits Survey found that the most common wellness benefit provided by employers were resources and educational information and onsite flu vaccinations.

The most common health-related risk factor for employees is obesity. Overweight employees cost U.S. companies millions each year and file twice as many workers' compensation claims. It's no surprise that nearly all wellness programs have components that stress healthy eating and physical activity.

Furthermore, organizations need on-the-ground wellness champions to gather support for the program and enroll their peers. These evangelists should be front-line employees who recruit their colleagues without pressure.

A key part of an effective wellness program is an emphasis on promoting healthcare consumerism. Healthcare consumerism is the practice of making smart healthcare choices in regards to daily living, life choices, education, and preventative care. For instance, a wellness program might incentive employees to take online health assessments, attend a health seminar, speak with a healthy living coach, or visit with healthcare providers for regular screening.

WELLNESS PROGRAMS AND THE LAW

Under the Health Insurance Portability and Accountability Act (HIPAA), group plans may not discriminate by adjusting premiums based on health factors or by charging similar situated individuals differently. But the law does not prevent employers from incentivizing healthy lifestyles through wellness programs as long as the program doesn't reward employees based on satisfying a health standard. (For example, you can't pay someone $10 for every pound they lose, but you can reimburse them for a gym membership.)

The Patient Protection and Affordable Care Act (PPACA), however, includes wellness incentives as part of subsidized health insurance plans. These incentives target not only target participation in wellness programs, but also the attainment of specific health goals.

TAKING THE NEXT STEP

Helping your employees achieve healthier lifestyles is a long term process. For a wellness program to work, you need strong buy-in at the executive level. Do not expect to see results in a single year.

Before implementing a wellness program in your organization, it's advisable to consult with a professional wellness consultant and/or an employment rights attorney. They will help you navigate the sometimes confusing legal and political landscape of playing a role in your employee's health.

Furthermore, speak with your insurance provider (or potential provider if you are negotiating new policies). Your representative should be able to explain to you the financial impact of a wellness program. Most insurance providers are eager reduce medical costs as well and will deliver a packaged or customized wellness program for you to implement in your organization.

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