Pay, play or play differently?

Four strategies for employers to provide employee benefits options without out-of-control costs

There’s plenty of talk surrounding health care reform and whether employers should “pay or play.” The phrase refers to a business’ choice to either offer health care benefits that meet the law’s standards or yield to fines for dropping coverage. Though savvy employers know their benefits package can help boost workplace retention, satisfaction and productivity, many are faced with a difficult decision as health care costs continue to rise. What if there was a way for employers to “play differently”? By understanding rising costs, employers can take advantage of key solutions and take control of their employee benefits options.

**Progress with health care reform**

Before diving into the complex issue of rising health care costs, it’s important to note that health care reform has succeeded in reducing the number of uninsured individuals and has helped provide consumer protection regulations for the health insurance industry (see side bar).

**The next challenge is addressing rising health care costs**

Still, reform hasn’t fully addressed many health care challenges facing businesses and their employees - most notably, rising costs. Health care costs continue to rise in the workplace. Since the law’s enactment in 2010, the average individual premium has increased by $1,202, or 27.4 percent, and the average family premium has increased by $3,775, or 23.8 percent. In many cases, this is higher than inflation and average raises.

Rising costs have led to many cost-shifting strategies for businesses, which include employees paying for their copayments, premiums and other out-of-pocket costs. For instance, nearly 3 in 10 employers increased their employees’ share of premiums in 2014, and a similar percentage plan to do so in 2015 (see chart).

**Key accomplishments of health care reform:**

- **No more lifetime limits.** Insurers can no longer put a lifetime cap on benefits and can’t cancel policyholders’ coverage. Additionally, insurers are prohibited from charging women more than men.
- **Medical-loss ratios.** Insurance companies must spend at least 80 cents of your premium dollar on your health care or improvements to care.
- **Coverage for young adults.** Young adults can stay on their parents’ health insurance plan until age 26.
- **Coverage for pre-existing conditions.** Individuals with pre-existing health conditions cannot be denied coverage or required to pay more based on their health status.
- **Preventative benefits.** All health plans must now cover certain preventative benefits without a copay or deductible.
- **Reducing the number of uninsured individuals.** It’s estimated that the number of Americans without health insurance has been reduced by about 25 percent, or approximately 8 million to 11 million people.
Why are health care costs rising?

Formulating a reason for rising health care costs is not easy. In reality, there are numerous and systemic explanations. To help pinpoint rising costs in 2016, research from PricewaterhouseCoopers’ Health Research Institute identified two factors inflating health care spending today:

1. **Specialty drugs:** The majority of FDA drug approvals is for specialty drugs and, because of their high costs, they will require new ways to identify, manage and pay for these treatments as well as quantify their value in reducing other types of health care services.

2. **Cybersecurity:** Large-scale security breaches add a new layer of expense to the health business, as companies move quickly to secure and protect the vast amount of personal health data they possess. The sophistication of attacks means health providers need to spend money on both prevention and, if a breach occurs, remediation.
Employees show they aren’t poised to handle increasing strain on their wallets

Unfortunately, while businesses are passing more of the cost of health care onto their employees, many workers signal they aren’t ready or able to take on the additional costs. According to the 2015 Aflac WorkForces Report,\(^3\) 52 percent of today’s workers would be able to pay less than $1,000 for out-of-pocket expenses associated with an unexpected serious illness or accident that occurred today, and 67 percent at least somewhat agree they wouldn’t be able to adjust to the large financial costs associated with a serious injury or illness.

Even with a comprehensive major medical plan, the out-of-pocket costs (both medical and nonmedical related) can be substantial. In fact, 20 percent of American adults are struggling to pay their medical bills, and 3 in 5 bankruptcies are due to medical bills. And despite having year-round insurance coverage, 10 million insured Americans ages 19-64 will face medical bills they’re unable to pay.\(^5\)

When it comes to benefits, employers face an imperative choice

In the current health care system with rising health care costs, employers facing the “pay or play” decision can:

- **Stay the course:** Keep group health insurance and pay inevitable annual renewal rates, while looking for options to keep costs down through employee cost.
- **Pay and exit:** Drop group health insurance and all employer-sponsored health benefits and pay the penalty. Employers with 100 or more full-time equivalent employees can choose to pay applicable tax penalties, and employers of all sizes that exit from offering health insurance may “pay” with difficulty in recruitment and retention.
- **Play differently:** Choose a different course of action to allow their company to provide health care options their workforce needs, while also minimizing health care costs.

Four ways employers can play differently

Employers who want to have greater control of their benefits options have several alternatives. Companies may choose one strategy or a combination to fit their workforce and their budgets.

Consider discussing the following four strategies with your benefits consultant:

1. **Employer-sponsored account-based health plans:** An account-based health plan is a consumer-directed strategy that can pair a choice of group health insurance plans with a tax-advantaged medical spending account. Options include:
   - **Health Savings Account (HSA)** - HSAs are individual bank accounts owned by employees that allow tax-free medical expense reimbursement. It’s required to be paired with a high-deductible health plan.
   - **Health Reimbursement Arrangement (HRA)** – An HRA is an employer-funded, tax-advantaged employer health benefit plan that reimburses employees for out-of-pocket medical expenses.
   - **Health Flexible Spending Account (FSA)** – Health FSAs offer a tax-free way for employees to save for qualified medical expenses during a single year. FSAs can be paired with any health plan or used alone.
   - **Health Incentive Account (HIA)** – HIAs are designed for the employee to solely earn funding for out-of-pocket health care expenses by participating in and completing a health rewards program.

2. **Private and public exchanges**

   Health insurance exchanges (also called marketplaces) are Web portals where individuals and businesses can shop for and buy health insurance. They’re gaining popularity and can make benefits administration easier for businesses. Plus, they give employees the option to purchase health care coverage that fits their needs and their budget. Regardless of your company’s size, private exchanges can help your company offer a variety of benefits options, including major medical and voluntary products. And if your company has fewer than 25 full-time equivalent (FTE) employees, you may be able to take advantage of tax credits through a government exchange option called the Small Business Health Options Program (SHOP).
3. Voluntary insurance

Another way employers can help provide an extra layer of financial benefits protection and a broader benefits package to their employees is by adding voluntary benefits to their employees. Unlike major medical insurance, voluntary policies pay cash benefits directly to the policyholder (unless assigned otherwise) if they get sick or injured. Research shows that, when compared to employees who aren’t offered voluntary benefits through their employer, those who are and enroll are more likely to say their current benefits package meets their family’s needs extremely well or very well.²

4. Outcomes-based initiatives

Companies are beginning to establish ways to keep providers and employees accountable for health outcomes. For providers, employers can look to bundled pricing arrangements with their insurer so employees get the best rates with doctors and hospitals with proven track records for success. For employees, companies are increasingly looking to health screenings and incentives. In 2015, 16 percent of businesses expected to introduce health care incentives, and more than 3 in 5 businesses (64 percent) with wellness programs include a wellness screening component.³

Build a road to compliance that works for your business

Although every business and workforce is different, the importance of having employees who are adequately protected by their health care coverage is increasingly a constant. Savvy leaders find a way for their businesses to succeed and build a health benefits package that meets their employees’ needs while actively controlling rising health care costs. New innovations in the health care market and trusted consumer-directed strategies can help employers to play differently.

Sources


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