Employee Benefits Report

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The What, Who and How Much of Offering Life Insurance

As an employer you are in a unique position to offer your employees an easy way to purchase a valuable benefit, costing them less than if they purchased it on their own.

We're referring to employer-sponsored life insurance. Your employees get the peace of mind that their loved ones will be protected from financial ruin if they die. But unlike an individual policy, a group life insurance plan doesn't require a physical exam, which could be difficult for some individuals to pass. Employers often cover all of the cost of the premiums, making it a "free" benefit for employees. Plus, employees can convert a group life insurance plan to an individual policy if they leave the company.

If you'd like to add life insurance to your employees' benefit package, here are some options to consider:

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Equal Health Care Benefits for Everyone – Even Congress?

More than a million Americans have signed the Change.org petition which proposes the elimination of health care subsidies for members of Congress and their families if Congress removes those subsidies for individuals.

Daniel Jimenez of Portland, Ore., started the petition. Jimenez' father was unable to get coverage through his employer and his treatment was delayed until his illness had progressed too far. Jimenez worries that if the Affordable Care Act (ACA) is repealed, many more people will also end up in the same situation, with no coverage.

Although the Senate failed to pass a bill to repeal and replace ACA in July, many worry the issue

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What

There are two kinds of life insurance — term and permanent. Under a group insurance arrangement, term life insurance covers employees until they leave the company, though it may be converted at that time into an individual policy if paid for by the employee, and it can also be offered to spouses and children. Term life insurance provides coverage only in the event of an employee's death. Permanent life insurance, however, builds cash value and provides employees with coverage for the rest of their lives and can be converted to cash; it may also be offered to spouses and children.

Employers generally provide employees with life insurance benefits equal or double their annual salary. Another popular approach is for employers to set a per-employee amount of coverage — for example, $10,000 per employee.

Who

If you want to offer coverage to all of your employees, you might be able to get lower rates, especially if you have a large group. Remember that some insurers won't provide coverage for companies with fewer than 10 employees, or may require more stringent underwriting.

You also have the option to only offer life insurance to a select few employees. However, you won't be able to deduct the premiums for federal tax purposes unless you meet special nondiscrimination requirements. Nondiscrimination requirements are designed to discourage employers from providing benefits only to the highest paid employees or providing benefits that are too expensive for lower compensated employees to participate in.

For a plan to be nondiscriminatory, it must satisfy at least one of these conditions:

- at least 85 percent of all participating employees may not be key employees;
- the plan must benefit at least 70 percent of all employees;
- the plan must benefit such employees as qualify under a classification set up by the employer and found by the Secretary of Treasury not to be discriminatory in favor of key employees; or
- the plan must be part of a cafeteria plan as properly defined by regulations.

How Much

Group life insurance is less expensive because the insurer faces less risk. Most employees will retire before using the benefit and it's unlikely that everyone in the company will die at the same time. And, since group life insurance often is bundled with group health insurance, the insurance company's sales and administrative costs are less.

Many insurers require employers to pay the premiums for their employees. This ensures the highest percentage of employees will participate in the plan.

Insurers base the rates on a number of factors: the size of the group, the company's claims history, the type of work the group performs, gender and average age of employees, and employee salaries. You should expect that insurers will reevaluate rates every five years to account for changes in your company's risk profile.

One of the biggest advantages of offering life insurance to your employees is that, unless you, as the employer, are the beneficiary, the premiums generally are deductible up to $50,000 per employee. You must have at least 10 full-time employees. However, the 10-employee restriction does not apply if you provide coverage to all full-time employees; the method for computing the amounts of insurance is set, such as a uniform percentage of the employee's yearly salary; and you do not require your employees to get physical exams to get coverage.

To start a group life insurance program for your employees, please give us a call.

will be resurrected.

"Like millions of people who are panicking about possible changes to their health insurance," Jimenez said, "I'm concerned the people elected to represent us won't have to live with the consequences or expenses that the rest of us may have to face soon. I want lawmakers to commit to treating themselves just like those who will be impacted by ACA repeal or replacement."

Senators and representatives currently can purchase a Gold Plan on the marketplace. About 72 percent of the premiums are subsidized by the federal government. If Obamacare were repealed, members of Congress could return to the generous Federal Employees Health Benefits Program.

Strategies for Making Your Wellness Program Pay Off

Wellness programs are promoted as win-win. Employers save money on health care benefit costs. Employees improve their health.

But there has been controversy in recent years over just how much return on investment (ROI) there is for promoting wellness. According to a 2010 study by a Harvard economist, a wellness program returns $3 in health care savings and $3 in reduced absenteeism for every dollar invested.

But in 2013, the release of the "Rand Report on Workplace Wellness: What Employers Must Know" rocked the wellness industry. The report, developed for the U.S. Departments of Labor and Health and Human Services, indicated that wellness programs don't save employers as much money as thought. The report said a more reasonable return on the program was $1.50 for every dollar invested per employee.

Since 2013, though, wellness program administrators have been reassessing and increasing what they see as the ROI in wellness investment.

The Centers for Disease Control and Prevention states that 86 percent of the nation's $2.7 trillion annual health care expenditures are for people with chronic and mental health conditions — costs officials say can be reduced substantially. With health costs and

lost productivity on the rise, and the greater prevalence of chronic illnesses such as diabetes, wellness programs can be a valuable way to save money. Many programs also increase morale and productivity.

Here's what some experts say is the best way to run an effective wellness program:

Build Trust

Before you declare that your new wellness program is the best thing since gluten-free sliced bread, make sure your company culture is strong. As an employer, you must ensure your employees believe in and enjoy their work and feel they are of value to the company. They also must trust you with sensitive information. This will make it easier to sell wellness benefits.

It also helps if employees have a say in designing the program and everyone understands its goals. Employers interested in a good return on investment should focus on employees who have chronic diseases, like heart disease, rather than those with bad habits, such as smoking.

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Invest in the Right Component

The Rand Report explained that wellness programs have two components. Lifestyle management focuses on helping employees with health risks, such as smoking and obesity. Disease management helps employees who have chronic diseases take better care of themselves, such as taking their medications or having prescribed medical tests performed.

The Rand Report authors found that the disease management portion was responsible for 87 percent of the savings, even though only 13 percent of employees participated in that part of the program. Successful disease management also can help reduce hospitalization costs.

While you might be tempted to offer health screenings and one-on-one coaching and counselling sessions, remember that this option can be expensive. Conducting seminars on how to change unhealthy behaviors or make better food choices is less expensive.

Offer the Right Perks

Access to low-cost gym memberships, yoga classes or other fitness programs are great benefits for many employees, but other employees might have behavioral health needs. Employees who are stressed, facing a financial crisis or dealing with substance abuse can benefit from behavioral counseling sessions.

Don't Scare Your Employees

Even if you have good intentions and only want to be helpful, asking certain questions about your employees' health can be invasive. Be careful what you ask. If you do need to know personal information to provide the right health care, consider using a third party administrator who won't share the information with you but will point the employee to the right place for care.

Also be mindful of how mandatory participation — particularly when combined with a penalty — can seem more like a punishment rather than something that will help your employees. Some employees might enjoy a new Fitbit to count steps, while others would view it as being intrusive. Always allow employees to opt out if they aren't ready to join the program to get healthy.

For help with your employee wellness program, please contact us. ■

New Ways to Keep Health Care Benefit Costs Down

After salaries, Health care benefits are an employer's largest employee-related expense, according to the Bureau of Labor Statistics. A 2016 survey by the Society for Human Resource Management (SHRM) pegged the annual cost in 2016 at $8,669 for each employee.

At the same time, employers are seeing medical benefit costs continue to climb at an alarming rate. The Office of the Actuary at the Centers for Medicare and Medicaid Services estimates that total health care spending in the United States will grow at an average rate of 5.8 percent through 2025. That is 1.3 percent higher than the expected annual increase in the U.S. gross domestic product. Recent studies suggest the increase could be five percent or more for group insurance next year.

Some of the reasons costs are climbing include soaring prices for medical services, insurance, prescription drugs and medical technologies combined with unhealthy lifestyles and lack of price transparency.

Obviously, some of these issues are beyond the control of employers, but that hasn't stopped the search for proven and effective methods to reduce health benefit costs. The 2016 SHRM survey showed that the most successful strategies for controlling health care costs ranged from offering consumer-directed health plans to adopting level-funded health benefits.

Here are a few tactics employers across the country are using to keep costs down while maintaining quality benefits:

Tax-Advantaged Health Plans

There are four types of programs that qualify as tax-advantaged plans:

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- **Flexible Spending Account (FSA) –** Employees can contribute up to $2,600 to their account annually and use the money to pay for medical expenses. They can carry over up to $500 of this to the next year. Employees don't pay taxes on the money they put into the account. Employers also can make contributions to employee accounts.
- **Health Savings Account (HSA) –** These are tax-exempted accounts employees can use to pay for eligible out-of-pocket expenses. HSAs must be linked to a high deductible health plan (HDHP). The account is owned by the employee. Unspent funds are carried over from year to year and from job to job. Employees do not pay taxes for the employer's contributions, and they make contributions with pre-tax dollars.
- **Health Reimbursement Arrangement (HRA) –** This is an employer-owned account that is funded solely by the employer to help employees pay out-of-pocket medical expenses. HRAs often are linked to high-deductible health plans, but this is not a requirement. Employees do not pay taxes on the employer's contributions.
- **Premium Offset Plans (POP) –** Employees make contributions to the plan with pre-tax dollars. They can then pay for their health coverage premiums with the accumulated savings — if there are enough funds in the account. An advantage of the POP is higher take-home pay, since less tax is deducted.

Prescription Drug Costs Managed

Prescription drug costs now account for 30 percent of a company's overall health care spending, an increase from 20 percent in the early 2000s.

To manage these costs, many employers are requiring employees to:

- Get prior approval from the insurance company before filling a prescription.

- Pay the difference between generic and brand prices.
- Purchase maintenance medications by mail order.
- Try step therapy — which is using less expensive medications first.

Wellness Programs – The Society for Human Resource Management reports that up to 70 percent of health care spending can be attributed to lifestyle choices, such as overeating or smoking. An effective wellness program can lower the number of health insurance claims if employees can be helped to make better choices. The key is to engage employees by using incentives and even disincentives for participating. Wellness programs also must be tailored to individual requirements. No wellness program can be one-size-fits-all. One employee might benefit from an affordable membership to a fitness center, while another would be more interested in a monthly health education seminar.

Shifting Costs – Employers have been shifting plan costs to employees by raising deductibles and co-payments, having employees pay a larger portion of the premiums, and increasing the costs of using out-of-network providers.

Level-Funded Plans – Historically, only large companies could afford to self-fund health care benefits for employees. That has changed.

In a traditional self-funded plan, the employer pays employees' health care claims, except for the employees' portion, such as deductibles and coinsurance. The employer then absorbs all the losses regardless of their frequency and severity. Large, well capitalized firms can usually handle these often unpredictable expenditures comfortably. Smaller firms, which lack the cushion of large cash reserves may not be as fortunate.

Level-funding is a way to smooth out the rough parts and is similar to traditional insurance because the employer pays a fixed amount each month. To cover claims that are higher than expected, these employers will buy stop-loss insurance, though larger employers, too, will often buy stop-loss to also better manage their cash flow.

For help reducing your firm's health care costs, please contact us.

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Group Health Costs Continue to Climb

It could cost you five percent or more to provide your employees with health care benefits in 2018.

After surveying large employers, the National Business Group on Health released a report on plan design costs this summer. They estimate that costs for an employee could rise from $13,482 per employee to $14,156. This is the fifth consecutive year benefit costs increased by five percent. Most employers cover 70 percent of an employee's costs.

For smaller employers who do not have the bargaining power of larger groups, the rate hike could be more.

Despite the increase, employer plans still are cheaper than individual plans. Insurers say costs for individual plans on the Affordable Care Act exchange should increase by double digits.

Ways to Reduce Costs

One popular way among employers to reduce costs is through plan design. The high-deductible health plan (HDHP) is effective, though not often popular with employees. These plans require employees to pay all medical expenses up front until the deductible is met. With 2018 out-of-pocket Limits as high as $6,650 for self-only coverage, or $13,300 for family coverage (or even higher with a deductible under an HRA plan design), HDHPs limit an employee's ability to afford medical treatment. Still, as many as 40 percent of companies expect to offer HDHP plans in 2018.

Many employers are now relying on services and tools to reduce costs, increase favorable post-care outcomes, and increase employee satisfaction with the health care process. Services include:

- Concierge medicine – Doctors charge patients a monthly fee for full access to their services. Many employers are purchasing concierge or direct primary care services, combined with a high-deductible health plan.
- Tools to navigate the health care system – Many insurance companies provide access to experts and centers of excellence to help individuals with chronic conditions, such as diabetes, or who need surgery.

Another popular benefit is telehealth (also called telemedicine). Almost 96 percent of employers surveyed said they planned to offer this benefit. Telehealth, which delivers health care through the use of smart phones or laptops, is often provided at no cost or a heavily discounted rate. ■