Healthcare Cost Shifting – A Dilemma

As open enrollment begins again this year, employers will struggle with the continuing rise in healthcare benefit costs. In order to maintain profitability, employers will be forced to shift a portion of the cost increases to their employees via reduced coverage, higher premiums, higher copays, and larger deductibles.

Employees certainly won’t be happy about the cost shifting. Over the last few years, they have experienced an astounding increase in their costs for health benefits. Another year with another significant increase will perhaps make them question the employer’s commitment to employee well being. As a result, companies are in danger of losing good employees, and the recruitment of promising new employees will be even more difficult than it already is. Employers are stuck in a hard place, and they have no control over the external forces driving the cost increases.

The solution, of course, is in the design of the health benefit package. No employer relishes raising healthcare benefit costs for their employees. But since that outcome can’t be avoided, the benefit package itself must be closely examined and adjusted in a way that will produce the best result for all those involved. Most employers don’t have the resources to effectively navigate the tricky minutia of health benefit design, so they are increasingly turning to Alliant’s employee benefits account teams to guide the process.

According to PwC’s Health Research Institute, healthcare costs will rise 6.5% through next year. While employers will absorb some of that increase, a share of it will be shifted to employees. To lessen the impact, employers are looking for new ways to make the shift less painful to employees. In the past, mitigation has taken many forms.

For example, raising deductibles has been used to keep plan costs down. But this has its limits. In less than ten years, the average general deduction for workers with single coverage has gone from $303 to $1,077. Further, nearly half of single coverage employees have deductibles over $1,000 today. In 2006, only ten percent of them faced deductibles that high. Employees wonder how long this can go on.

Another idea, now used by 12% of employers, is a defined contribution strategy. In this scheme, employees are given a set sum of money to pay for their basic healthcare benefits. Any amount beyond that sum is paid by the employee. While this strategy might seem advantageous at first, each year’s rising healthcare costs will lead to employees paying out larger and larger sums for basic care. After a while, the employee will look around and ask, “Why is my employer doing this to me?”
Though cost shifting is unavoidable, negative employee perception is not. Employers can and should devote resources to employee communication that not only explains the unfortunate reality of rising healthcare costs, but also to assist employees one-on-one in crafting the best individual benefit package for themselves and their families.

Clearly, benefit design and management must take into account not only the employer's needs, but also the employees' perception of the situation. Healthcare costs will continue to rise. Employers must continue to shift the costs to employees. It's a brand new world, and employers need an employee benefits management team like the ones at Alliant to help design the best benefit plan possible.

William Mullaney, President of Institutional Business for MetLife Inc., says, “For employees who are highly satisfied with their benefit programs, we found that 85 percent plan to be working for their current employer 18 months from now, versus only 50 percent among those who are not satisfied with their benefits.”

**A partnership with Alliant Employee Benefits will ensure you keep your employees in the first group.**

alliantbenefits.com