

# Managing Benefit Costs

2017

# Objectives

Learn about proven cost-saving strategies

- Which strategies are the most highly recommended.
- Which strategies are being underutilized and why.
- The possible savings for implementing some of these strategies.
- The impact of implementing these strategies via case examples.
- The impact of healthcare reform on these strategies.

# Control Benefit Costs

What is the top priority for your employee benefits plan?



Source: International Public Management Association for HR 2011

# Cost-Management Research

## Study Metrics

Government Financial Officers Association (GFOA) conducted an independently study of employee benefits management using:

- Surveys
- Case Studies
- Secondary Sources

Findings and publication reviewed and approved by an independent panel of GFOA members with experience in employee benefit management.

# Key Findings

Four key leverage points emerge

## Supplier Management

- Purchasing Co-ops
- Re-Bidding
- ESP Enrollment
- Shift BECs Expense
- Self-funding

## Governance & Optimization

- Dependent Verification
- Benefit Waivers
- Plan Redesign
- Plan Restrictions
- Section 125

## Cost Sharing

- Increase Deductibles
- Increase Co-pays
- Increase Premium
- Move Benefits to VB

## Wellness

- Promote Healthy Behaviors
- Emphasize Preventive Treatment



**Savings**

*ESP: External Service Provider  
BECs: Benefits Education and Communication*

# Cost-Management Strategies

Ways you can save money on your employee benefits program.

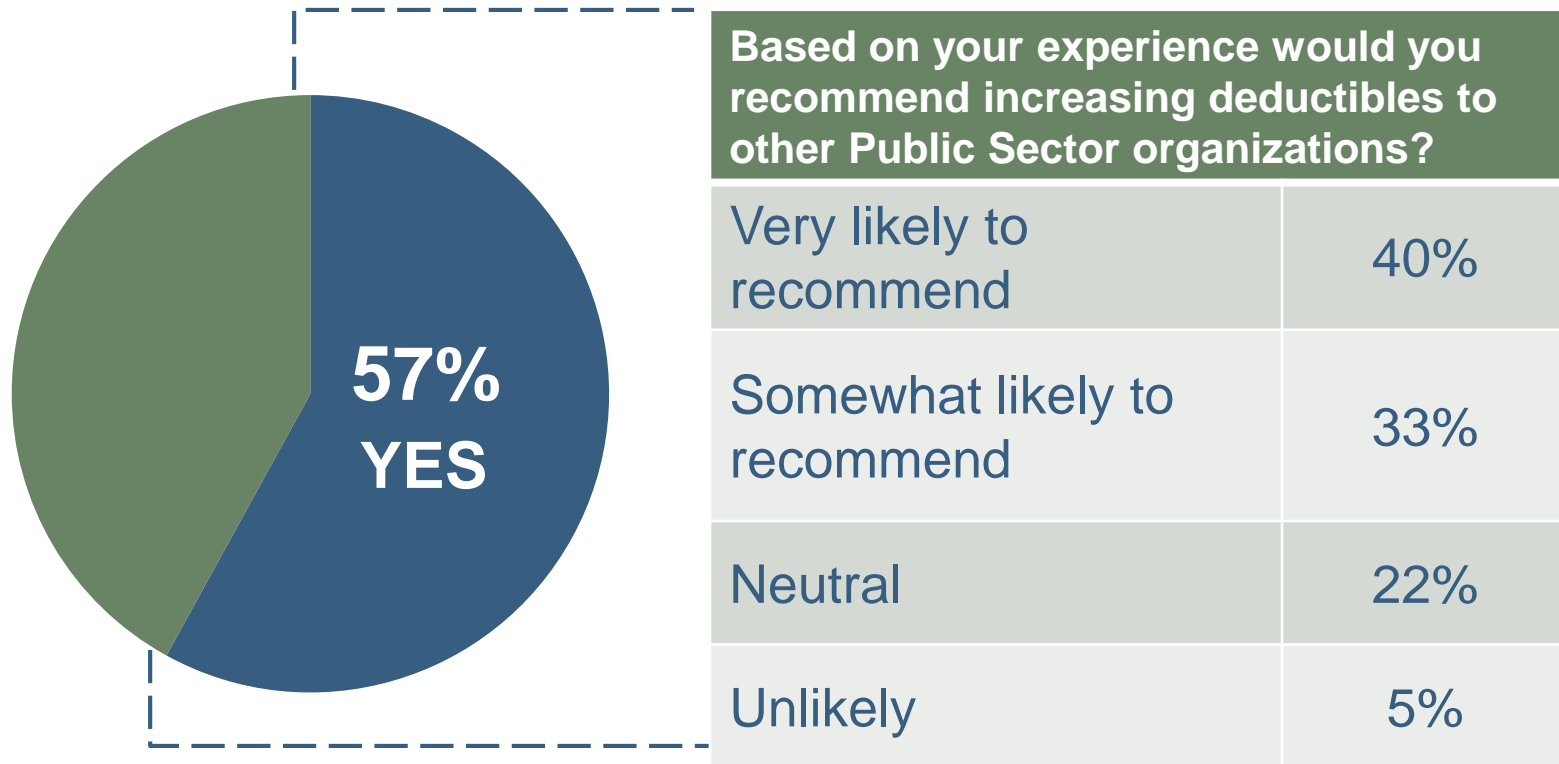
- Cost-Sharing
- Boosting Tax Savings
- Promoting Wellness
- Dependent Verification

# Increase Cost-Sharing

	Public Sector	Private Sector	
Healthcare coverage for part time workers	56%	26%	
Healthcare for retirees	75%	15%	
No EE Contribution to healthcare coverage	35%	7%	
Average Deductible Single/Family	\$400/\$1000	\$1000/\$2000	<b>Public Sector has lower average deductibles than Private Sector.</b>
Plan to raise deductibles Co-pays, OOPM	41%	35%	

Source: SHRM 2011 Employee Benefits Survey.

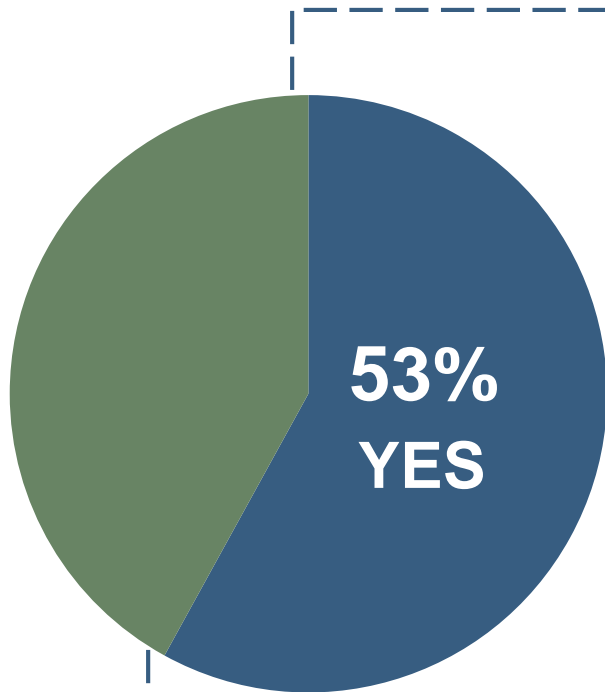
# Increase Deductibles



Source: GFOA-Colonial Life 2011



# Increase Co-Pays



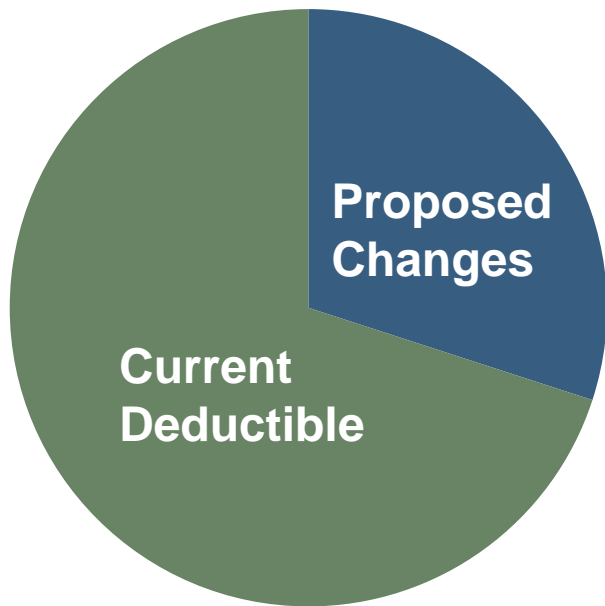
Source: GFOA-Colonial Life 2011

Based on your experience would you recommend increasing Co-pays to other Public Sector organizations?

Very likely to recommend	42%
Somewhat likely to recommend	36%
Neutral	32%
Unlikely	0%

# Increase Deductibles

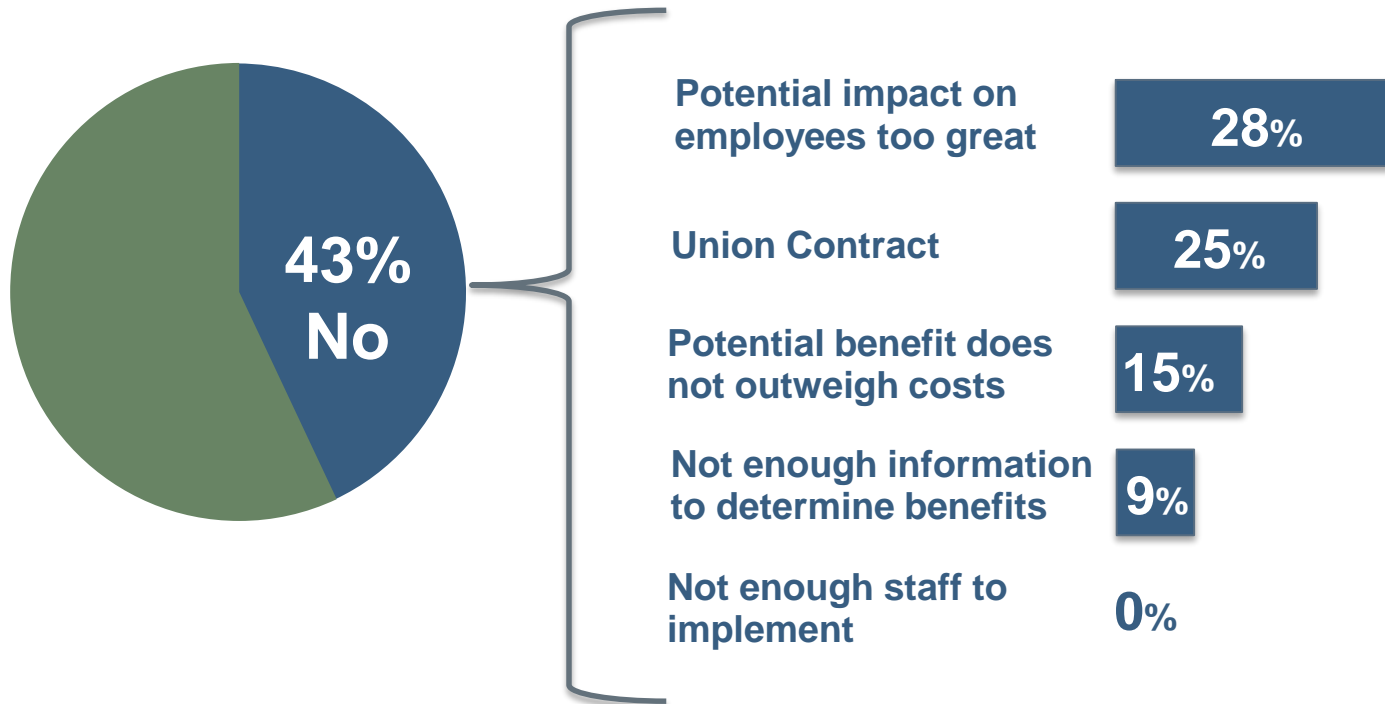
## Local Government Savings Illustrated



<b>Employees</b>	<b>300</b>
<b>Current Deductible</b>	<b>\$1,500</b>
<b>Renewal</b>	<b>\$1,836,000</b>
<b>New Deductible</b>	<b>\$3,000</b>
<b>Renewal</b>	<b>\$1,286,000</b>
<b>Savings</b>	<b>\$550,000</b>

# Execution Hurdles

Why are you not increasing deductibles?



# Mitigate Employee Impact

“Soft landing” can help offset new out-of-pocket costs



# Comments from those who have not Increased Deductibles

<b>Saves Money</b>	<i>“Reduced monthly premiums and saved us quite a bit of money”</i>	<i>“May serve as a hardship on lower paid employees”</i>	<b>Employee Impact</b>
<b>Mind Shift</b>	<i>“Deductibles help shift cost and change behavior”</i>	<i>“Health insurance is through our state plan”</i>	<b>Plan Control</b>
<b>Tough, But Necessary</b>	<i>“This was necessary, but certainly not popular”</i>	<i>“Union controls the plan”</i>	<b>Contract</b>
<b>Unavoidable</b>	<i>“This helped us avoid double digit increases”</i>	<i>“We did this 3 years ago, too soon to do it again”</i>	<b>Selective Usage</b>

# Section 125 Plan

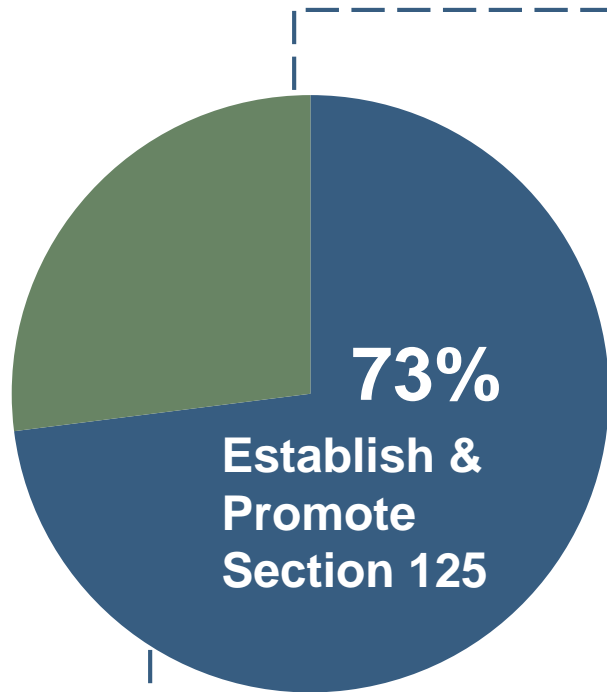
## Adoption vs. Participation

Public sector has **30% higher adoption rate**, **BUT** **30% lower participation** than private sector.

	Public Sector	Private Sector
Medical FSA	86%	65%
Dependent Care FSA	79%	61%
FSA Participation	28%	36%

Source: SHRM 2011 Employee Benefits Survey.

# Establish & Promote



Source: GFOA-Colonial Life 2011

Based on your experience would you recommend establishing & promoting Section 125 plans to other Public Sector organizations?

Very likely to recommend

73%

Somewhat likely to recommend

13%

Neutral

11%

Unlikely

3%

# Promote Participation

## Benefits of Education and Communication Programs

A good education and communication program has proven to be successful in helping public sector employees take full advantage of the pre-tax benefits being offered to them.

### School District 900EE

Participants	Before Program	After Program	+%
Health Care FSA	60	117	95%
Dependent Care FSA	3	7	133%
Pre-Tax* Insurance	862	888	3%

Contributions & Deductions	Before Program	After Program	+%
FSA's	\$63,681	\$144,895	127%
Pre-Tax Insurance	\$476,754	\$547,290	14%
Total Pre-tax	\$540,435	\$692,185	28%

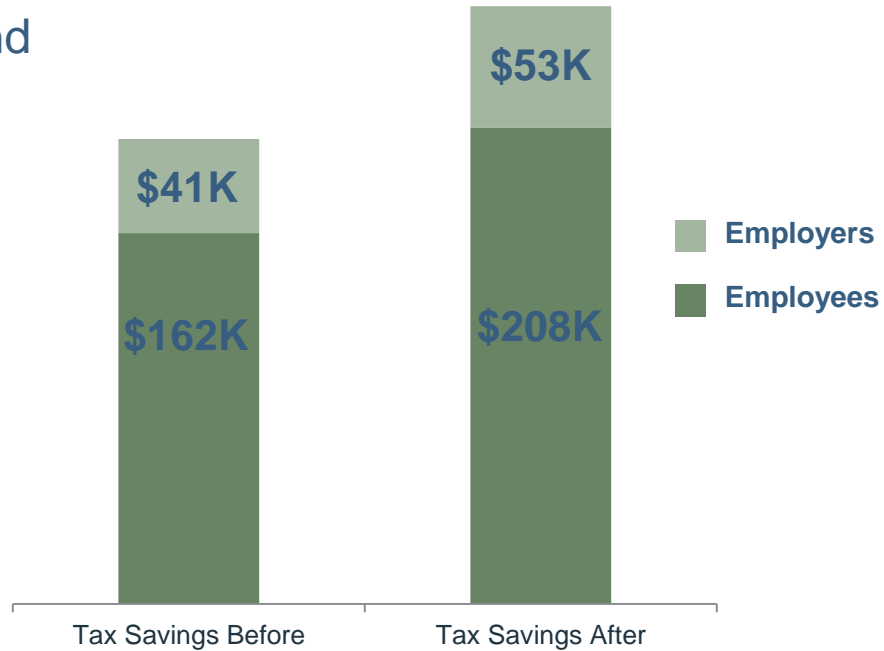
*\*Pre-tax insurance includes Dental, Vision, and Supplemental insurance.*



# Proven Results

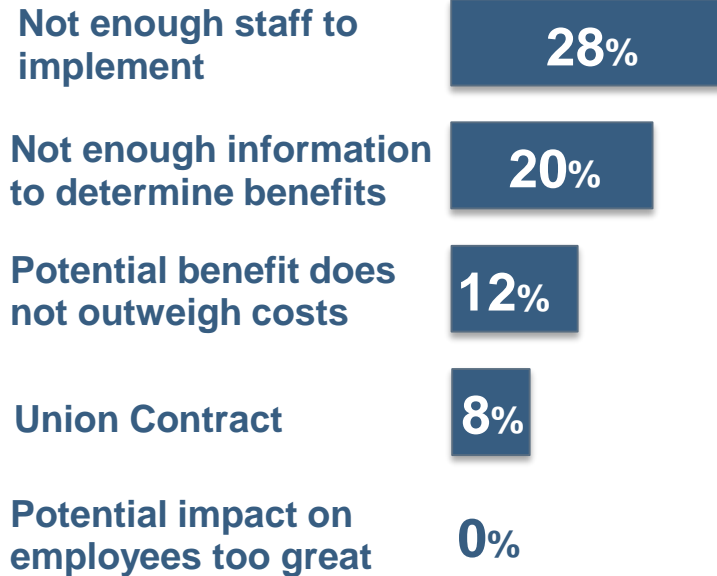
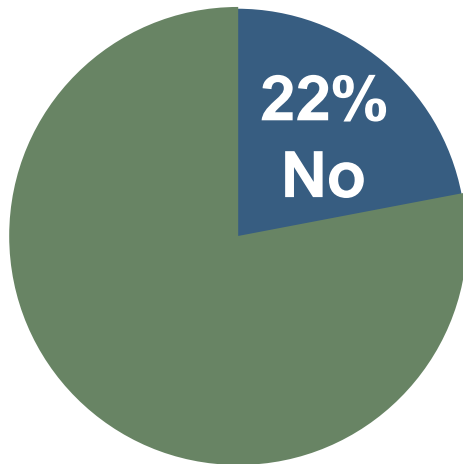
Results: More employees participating in benefits and \$58K in new tax savings.

\*Employee savings assumes a 30% combined federal, state, and local tax bracket. Employer savings based on FICA only



# Execution Hurdles

Why are you not promoting your Section 125 plan?



**Quantifiable Results**

*“Tax savings to the employees and employer is real and measurable”*

**Comments from those who are not using/promoting section 125.**

*“Lack of unused dollars is a downside to the program”*

**Plan Limitations**

**Low Cost**

*“Low cost benefit with high value to employees”*

*“Implementation of the plan takes staff time”*

**Staffing**

**Automatic**

*“This is a no-brainer”*

*“We not used this to full-benefit”*

**Limited Use**

**Union Support**

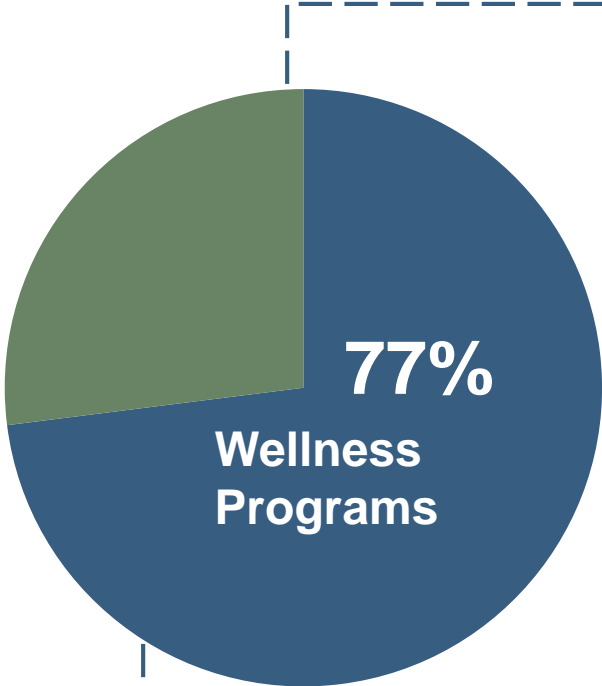
*“Employees appreciate the tax savings on their side so it is a positive that can used in negotiations”*

*“Employees have not been interested in the past”*

**Already Covered**

**Comments from those who are using/promoting section 125.**

# Wellness Programs

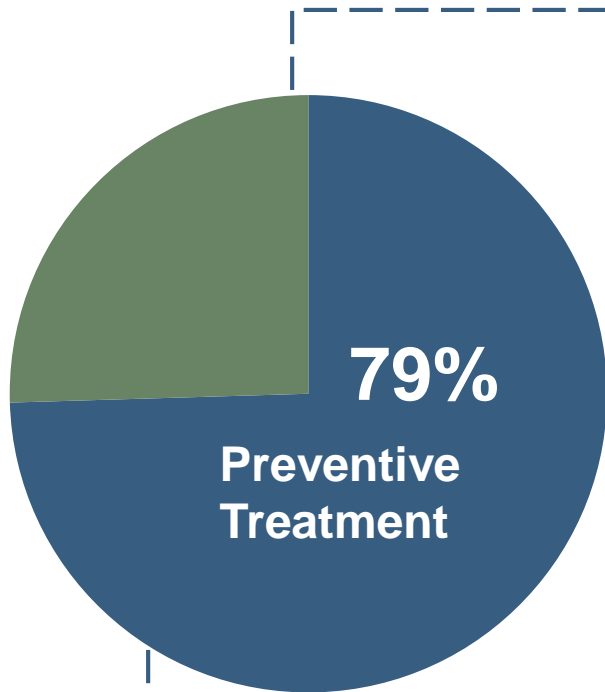


Source: GFOA-Colonial Life 2011

Based on your experience would you recommend establishing & promoting wellness programs to other Public Sector organizations?

Very likely to recommend	65%
Somewhat likely to recommend	25%
Neutral	10%
Unlikely	0%

# Preventive Treatment



Source: GFOA-Colonial Life 2011

Based on your experience would you recommend preventive treatment programs to other Public Sector organizations?

Very likely to recommend 67%

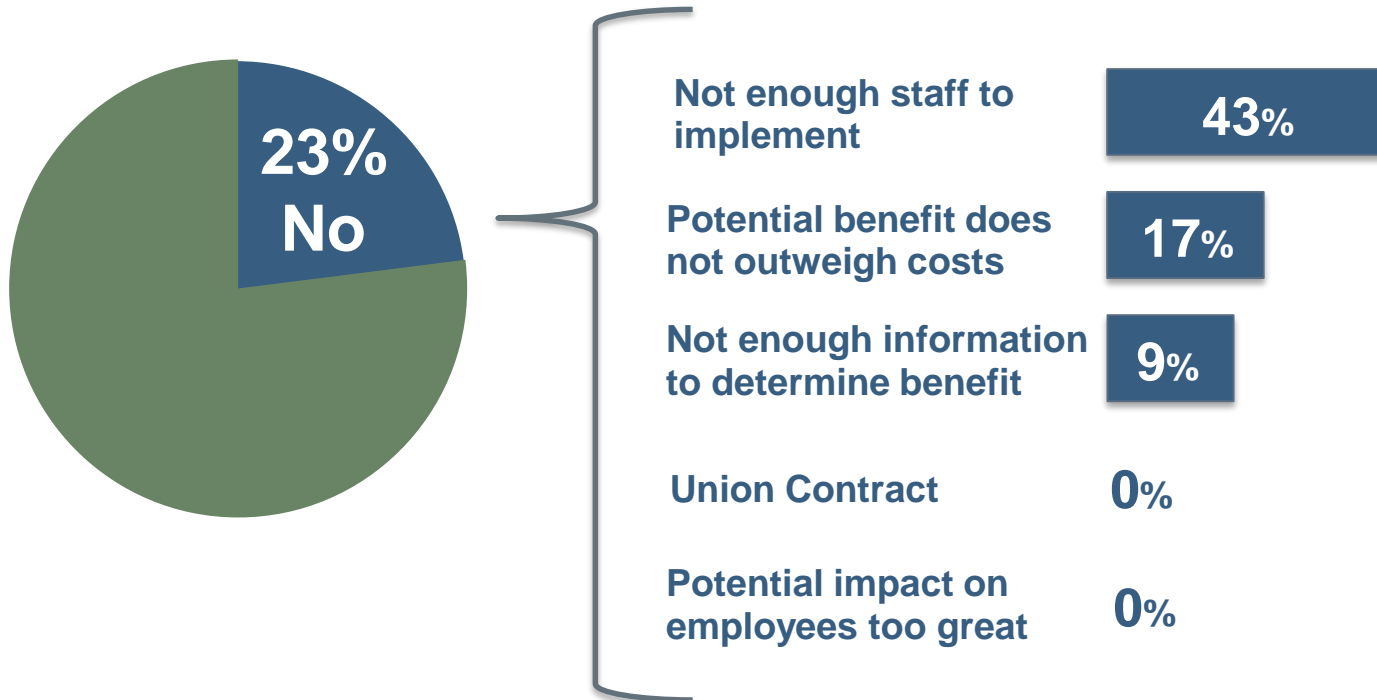
Somewhat likely to recommend 22%

Neutral 11%

Unlikely 0%

# Execution Hurdles

Why are you not promoting your Wellness Program?



**It Works**

*“Our wellness program reduces health costs”*

**Comments from those who do not use Wellness Programs**

*“Popular to implement, difficult to keep the momentum and interest”*

**Employee Engagement**

**Low Cost**

*“These can usually be handled at little or no cost”*

*“There has to be a monetary gain for employees to jump aboard”*

**Incentives**

**Work Environment**

*“It’s a great culture improvement with financial benefits”*

*“Fairly low cost, probably do some good, but it is difficult to quantify”*

**Hard to Measure**

**Future Benefits**

*“If only one stroke is avoided, the small cost is worth it”*

*“In the process of getting information”*

**Planning Stage**

**Comments from those who use Wellness Programs**

# Dependent Verification

## Who is a Dependent?

- Domestic partner
- Birth child
- Adopted child
- Step-child
- Grandchild
- Legal guardianship
- Domestic partner child
- Disabled adult child
- Adult children





# Throwing Money Away?

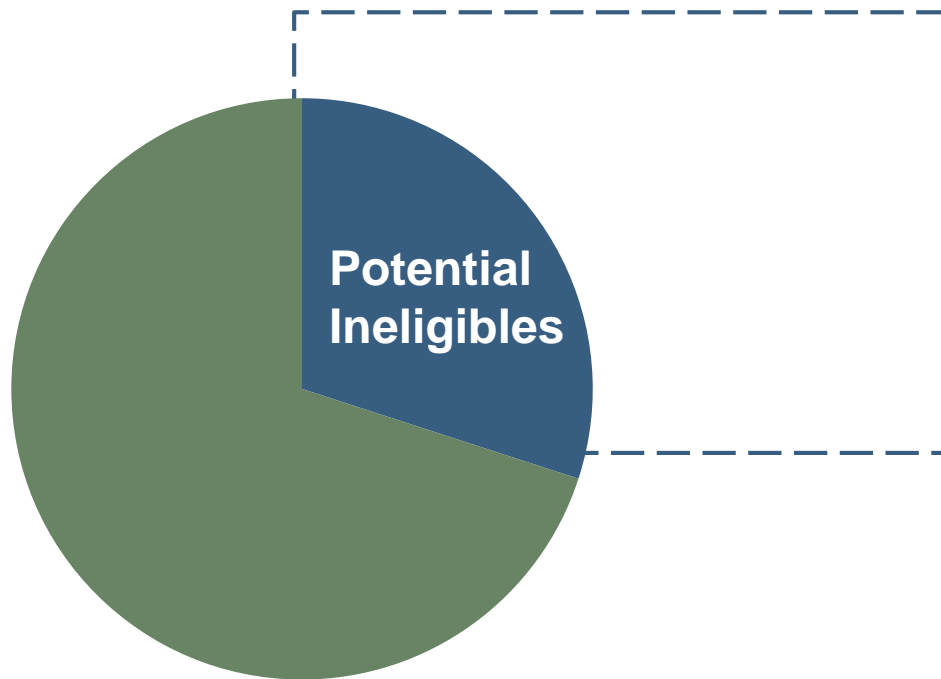
**15% of employee dependents could be ineligible for coverage.**

Not only does a dependent review help better manage a benefits budget – it can also free up money for other benefits, help keep employee benefit costs down, and reduce legal risk.

*Source: GFOA-Colonial Life 2011*

# Potential Savings

Most common reason for ineligibility:  
Divorced individuals who continued to carry spouse.



## Savings Illustration

Employees	12,000
Discovered Ineligible Dependents	1,100
% of Dependent Population	7%
Savings per Dependent	\$2000
<b>Final Savings</b>	<b>\$2,200,000</b>

**It Works**

*“It helped us save money”*

**Comments from those who do not use Dependent Verification**

*“With Obama-care must insure until age 26 so no use to verify”*

**Healthcare Reform**

**Minimal Impact**

*“Does not hurt eligible enrollees and saves money”*

*“Process is very time consuming”*

**Staffing**

**Healthcare Reform**

*“Would recommend due to new extensions of dependent coverage”*

*“We are a small government and know each others dependents”*

**Size**

**Good Governance**

*“We verify dependents every year”*

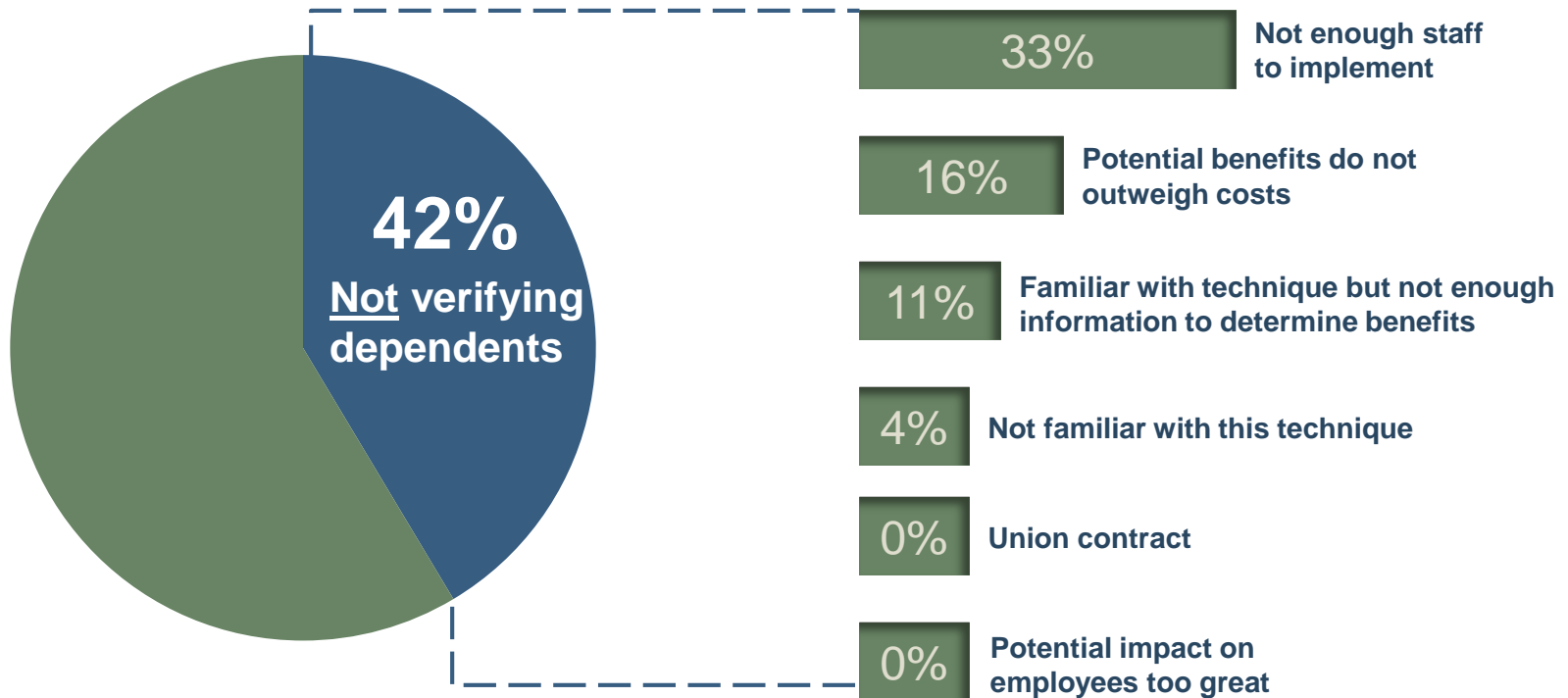
*“Responsibility of health plan”*

**Already Covered**

**Comments from those who use Dependent Verification**

# Execution Hurdles

What prevents organizations from using this technique?



Source: GFOA-Colonial Life 2011

# Summary

- Analyze and understand your current costs and trends.
- Take a multi-pronged approach to benefit cost management.
- Nickels and dimes are important! Pursue even small savings.
- Look at both short and long term strategies
- Involve employees and bargaining units in program development and implementation.
- Communicate early and often with employees, they need to understand the context of any changes.

