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.
What is the top priority for your employee benefits plan?

- Controlling the organizations cost: 58%
- Ability to recruit and compete for top talent: 20%
- Retention / employee satisfaction: 13%
- Controlling employees out of pocket cost: 9%

Source: International Public Management Association for HR 2011
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

ESP: External Service Provider
BECS: Benefits Education and Communication
Ways you can save money on your employee benefits program.

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

<table>
<thead>
<tr>
<th></th>
<th>Public Sector</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare coverage for part time workers</td>
<td>56%</td>
<td>26%</td>
</tr>
<tr>
<td>Healthcare for retirees</td>
<td>75%</td>
<td>15%</td>
</tr>
<tr>
<td>No EE Contribution to healthcare coverage</td>
<td>35%</td>
<td>7%</td>
</tr>
<tr>
<td>Average Deductible Single/Family</td>
<td>$400/$1000</td>
<td>$1000/$2000</td>
</tr>
<tr>
<td>Plan to raise deductibles Co-pays, OOPM</td>
<td>41%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Public Sector has lower average deductibles than Private Sector.

Source: SHRM 2011 Employee Benefits Survey.
Increase Deductibles

Based on your experience would you recommend increasing deductibles to other Public Sector organizations?

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very likely to recommend</td>
<td>40%</td>
</tr>
<tr>
<td>Somewhat likely to recommend</td>
<td>33%</td>
</tr>
<tr>
<td>Neutral</td>
<td>22%</td>
</tr>
<tr>
<td>Unlikely</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: GFOA-Colonial Life 2011
Based on your experience would you recommend increasing Co-pays to other Public Sector organizations?

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very likely to recommend</td>
<td>42%</td>
</tr>
<tr>
<td>Somewhat likely to recommend</td>
<td>36%</td>
</tr>
<tr>
<td>Neutral</td>
<td>32%</td>
</tr>
<tr>
<td>Unlikely</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: GFOA-Colonial Life 2011
**Increase Deductibles**

<table>
<thead>
<tr>
<th>Current Deductible</th>
<th>$1,500</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Renewal</strong></td>
<td><strong>$1,836,000</strong></td>
</tr>
<tr>
<td>New Deductible</td>
<td>$3,000</td>
</tr>
<tr>
<td><strong>Renewal</strong></td>
<td><strong>$1,286,000</strong></td>
</tr>
<tr>
<td><strong>Savings</strong></td>
<td><strong>$550,000</strong></td>
</tr>
</tbody>
</table>
Execution Hurdles

Why are you not increasing deductibles?

- Potential impact on employees too great: 28%
- Union Contract: 25%
- Potential benefit does not outweigh costs: 15%
- Not enough information to determine benefits: 9%
- Not enough staff to implement: 0%
Mitigate Employee Impact

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

Old Deductible

New Exposure

Expenses Covered by Health Plan

HRA
And/ Or
Supplemental Insurance
<table>
<thead>
<tr>
<th>Category</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saves Money</td>
<td>“Reduced monthly premiums and saved us quite a bit of money”</td>
</tr>
<tr>
<td>Mind Shift</td>
<td>“Deductibles help shift cost and change behavior”</td>
</tr>
<tr>
<td>Tough, But Necessary</td>
<td>“This was necessary, but certainly not popular”</td>
</tr>
<tr>
<td>Unavoidable</td>
<td>“This helped us avoid double digit increases”</td>
</tr>
<tr>
<td>Employee Impact</td>
<td>“May serve as a hardship on lower paid employees”</td>
</tr>
<tr>
<td>Plan Control</td>
<td>“Health insurance is through our state plan”</td>
</tr>
<tr>
<td>Contract</td>
<td>“Union controls the plan”</td>
</tr>
<tr>
<td>Selective Usage</td>
<td>“We did this 3 years ago, too soon to do it again”</td>
</tr>
</tbody>
</table>
## Section 125 Plan

### Adoption vs. Participation

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

<table>
<thead>
<tr>
<th></th>
<th>Public Sector</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical FSA</td>
<td>86%</td>
<td>65%</td>
</tr>
<tr>
<td>Dependent Care FSA</td>
<td>79%</td>
<td>61%</td>
</tr>
<tr>
<td>FSA Participation</td>
<td>28%</td>
<td>36%</td>
</tr>
</tbody>
</table>

*Source: SHRM 2011 Employee Benefits Survey.*
Establish & Promote

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

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very likely to recommend</td>
<td>73%</td>
</tr>
<tr>
<td>Somewhat likely to recommend</td>
<td>13%</td>
</tr>
<tr>
<td>Neutral</td>
<td>11%</td>
</tr>
<tr>
<td>Unlikely</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: GFOA-Colonial Life 2011
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**

<table>
<thead>
<tr>
<th>Participants</th>
<th>Before Program</th>
<th>After Program</th>
<th>+%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care FSA</td>
<td>60</td>
<td>117</td>
<td>95%</td>
</tr>
<tr>
<td>Dependent Care FSA</td>
<td>3</td>
<td>7</td>
<td>133%</td>
</tr>
<tr>
<td>Pre-Tax* Insurance</td>
<td>862</td>
<td>888</td>
<td>3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contributions &amp; Deductions</th>
<th>Before Program</th>
<th>After Program</th>
<th>+%</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSA’s</td>
<td>$63,681</td>
<td>$144,895</td>
<td>127%</td>
</tr>
<tr>
<td>Pre-Tax Insurance</td>
<td>$476,754</td>
<td>$547,290</td>
<td>14%</td>
</tr>
<tr>
<td>Total Pre-tax</td>
<td>$540,435</td>
<td>$692,185</td>
<td>28%</td>
</tr>
</tbody>
</table>

*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.

Tax Savings Before
- $162K

Tax Savings After
- $41K
- $53K

$208K

Employers
Employees
Why are you not promoting your Section 125 plan?

- Not enough staff to implement: 28%
- Not enough information to determine benefits: 20%
- Potential benefit does not outweigh costs: 12%
- Union Contract: 8%
- Potential impact on employees too great: 0%
Comments from those who are not using/promoting section 125.

Quantifiable Results

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

Plan Limitations

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

Low Cost

“Low cost benefit with high value to employees”

Staffing

“Implementation of the plan takes staff time”

Automatic

“There is a no-brainer”

Limited Use

“We not used this to full-benefit”

Union Support

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

Already Covered

“Employees have not been interested in the past”

Comments from those who are using/promoting section 125.

Low Cost

“Low cost benefit with high value to employees”

Limited Use

“We not used this to full-benefit”

Union Support

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

Already Covered

“Employees have not been interested in the past”
Wellness Programs

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

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very likely to recommend</td>
<td>65%</td>
</tr>
<tr>
<td>Somewhat likely to recommend</td>
<td>25%</td>
</tr>
<tr>
<td>Neutral</td>
<td>10%</td>
</tr>
<tr>
<td>Unlikely</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: GFOA-Colonial Life 2011
Preventive Treatment

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

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very likely to recommend</td>
<td>67%</td>
</tr>
<tr>
<td>Somewhat likely to recommend</td>
<td>22%</td>
</tr>
<tr>
<td>Neutral</td>
<td>11%</td>
</tr>
<tr>
<td>Unlikely</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: GFOA-Colonial Life 2011
Execution Hurdles

Why are you not promoting your Wellness Program?

- Not enough staff to implement: 43%
- Potential benefit does not outweigh costs: 17%
- Not enough information to determine benefit: 9%
- Union Contract: 0%
- Potential impact on employees too great: 0%
Comments from those who do not use Wellness Programs

- **It Works**
  - “Our wellness program reduces health costs”
  - “Popular to implement, difficult to keep the momentum and interest”

- **Low Cost**
  - “These can usually be handled at little or no cost”
  - “There has to be a monetary gain for employees to jump aboard”

- **Work Environment**
  - “It’s a great culture improvement with financial benefits”
  - “Fairly low cost, probably do some good, but it is difficult to quantify”

- **Future Benefits**
  - “If only one stroke is avoided, the small cost is worth it”
  - “In the process of getting information”

Comments from those who use Wellness Programs

- **Employee Engagement**
  - “It Works”
  - “Low Cost”
  - “Work Environment”
  - “Future Benefits”
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.

<table>
<thead>
<tr>
<th>Savings Illustration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
</tr>
<tr>
<td>Discovered Ineligible Dependents</td>
</tr>
<tr>
<td>% of Dependent Population</td>
</tr>
<tr>
<td>Savings per Dependent</td>
</tr>
<tr>
<td>Final Savings</td>
</tr>
</tbody>
</table>
Comments from those who do not use Dependent Verification

- It Works: It helped us save money
- Minimal Impact: Does not hurt eligible enrollees and saves money
- Healthcare Reform: With Obama-care must insure until age 26 so no use to verify
- Staffing: Process is very time consuming
- Healthcare Reform: Would recommend due to new extensions of dependent coverage
- Size: We are a small government and know each others dependents
- Good Governance: We verify dependents every year
- Already Covered: Responsibility of health plan
Execution Hurdles

What prevents organizations from using this technique?

- 33% Not enough staff to implement
- 16% Potential benefits do not outweigh costs
- 11% Familiar with technique but not enough information to determine benefits
- 4% Not familiar with this technique
- 0% Union contract
- 0% Potential impact on employees too great

Source: GFOA-Colonial Life 2011

42% Not verifying dependents
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.