Helping Employees Make Sense Out of Health Care Plan Costs

by Dennis R. Ackley

In spite of all the national attention, most employees don't understand the basics of health care plan financing. Teaching employees the financial facts won't completely eliminate emotional reactions to cutbacks in what employees view as their most important benefit. However, by providing a clear description of the financial aspects, employers can better explain why the changes are being made and what the employees can do to help control the problem of cutbacks in the future.

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Most employees don't see the link between their employers and the money that pays for their medical services. These employees believe they're insulated from rising health care costs. It isn't unusual to hear them say, "What's the fuss about skyrocketing health care costs? Isn't that why we've got our health insurance?" A recent survey found that nearly two-thirds of human resources professionals believe that employees think insurance companies pay for their health care.

This should be no surprise. An employer may refer to its medical plan by the name of the claims payer—usually an insurance company. Or the employer may use the insurance company's logo on the medical plan book, and some of these books say, "The insurance company pays…" when describing the plan's benefits. When payments are made, they come on an insurance company's check.

The first lesson in health care plan financing: It isn't someone else's money. This applies whether the plan is insured or *self-insured*. Even with insured plans, employees and employers pay the insurance company or HMO the amount of the expected claims in addition to administrative fees and profit. The money employees save by reusing paper clips, turning off unneeded lights, reducing errors, and building quality products efficiently is the same money they waste when they go to the emergency room for nonemergency treatment. **When the cost of the claims increases, so does the cost of the coverage.** Unless Congress enacts workable cost-containment legislation, there's virtually no chance for the employees', and employers', cost of coverage to do anything but go up.

Employees Often Doubt the Publicized Cost of Health Care

One way in which companies publicize the value of their medical plans is by showing employees the cost, which is always several thousand dollars. By highlighting this amount, organizations hope employees will have greater appreciation for the plans. Instead, employees often view the dollar amount with skepticism. It's easy to understand why.

The dollar amount is an average. Because fewer than 20% of the people covered in medical plans usually generate more than 80% of the claims, the average amount isn't very meaningful. For the majority of employees, health care expenses don't come close to the average publicized cost.

Organizations unintentionally confirm employees' suspicions about the validity of these costs. Here's how: Employees who choose not to take medical coverage — such as in a flexible benefits program — are not paid the cost the company publicizes. Although the cost has been communicated as part of employees' total compensation or flex credits, they usually receive only a few hundred dollars or nothing at all when they don't take the coverage. This becomes part of the "*proof*" that the cost of health care is exaggerated.

There's a simple reason why employees aren't paid the average cost. Those who choose not to be covered under a flexible benefits plan are probably covered by another plan, such as a spouse's. Therefore, it's likely these employees would cost the flexible benefits plan very little in expenses (claims). That's why, when they trade their plans for money or flex credits, there isn't a several-thousand-dollar payment for giving up the coverage.

To gain appreciation for the value of health care coverage, employees must learn how the plan works and how costs are determined. It's human nature not to appreciate the value of those things we don't understand — no matter how often we're told about the cost.

As a natural reaction to the customer-satisfaction aspect of total-quality management, some employers are conducting employee-satisfaction surveys of their benefits plans. On the surface, this seems like a good idea. However, employee benefits aren't designed for *total customer satisfaction*. If they were, health care plans would pay 100% of everything. When employers ask how satisfied employees are, they're implying that if the employees are dissatisfied, improvements will be forthcoming. Therefore, asking employees for their ideas and opinions about health care benefits before teaching them how the plan is financed and what viable alternatives exist may well be asking for unnecessary complications.

Nevertheless, employee involvement is critical to the success of health care benefits changes. This can be accomplished by providing employees with background information — such as articles in the employee magazine — and holding face-to-face discussions in focus-group sessions and other meetings. To attain realistic goals, the organization must carefully plan the information it gives to employees as well as the questions it poses.

The Balance-Scale Model Can Help Teach Health Care Plan Financing

One simple way to explain health care financing to employees is with a balance-scale model. By using the image of a scale, employers can accurately reflect the real workings of health care plan financing. This model can direct attention to the key issue: Health care plan expenses must be balanced by income.

On one side of the scale are the plan's expenses for medical services. These are the costs of the claims paid out, any HMO membership charges, and admistration costs. The other side represents the income — the contributions paid in by the employees and the employer in order to balance the expenses.

This model helps employees understand two critical points about health care plans:

- *There's no blank check from an insurance company to pay the expenses*. The money for health care comes from only two sources — the employees and the employer.
- *The cost of a health care plan is driven by health care claims and HMO membership charges*. Employees may be more interested in finding ways to help control expenses once they understand the financing model and realize whose money

Business Expense of the Health Plan

Sources of Costs		Sources of Funds
• Claims paid	must be balanced by	• Employer
• HMO memberships		• Employee
• Administration (5% - 8%)		
Business expense	^	**Ultimately paid by customers**

One way to control rising health care plan costs is by lowering expenses. After considering the balance-scale model, most employees will see there are only two basic means of doing this. The first is by restricting benefits so that the plan doesn't pay as much in claims. This can be done by:

* Increasing the deductible.
* Cutting back coverage.
* Excluding certain types of care.
* Limiting the use of health care providers (utilization control).
* Reducing the number of people covered (if their medical expenses exceed the income for their group).

The other method of controlling expenses is by using only lower-cost providers. Doctors and hospitals can be selected based on their agreement to provide health care at a volume discount.

These are the only cost-reduction alternatives. **The tough financial reality of health care plan financing is that organizations must either implement one of these options or pay the increasing costs through higher contributions from both the employer and employees.**

By studying the income side of the balance scale, employees can find opportunities to redistribute contributions. Naturally, employees would prefer to have the employer pay the extra cost. But employees today are well aware the financial health of their company may not be strong enough to allow this.

Most employees also understand that every dollar the company has to spend comes from its customers. Employees can consider the results of increasing the price of their company's goods and services to cover the growing health care costs. Will sales drop? Will competitors find ways to control their health care expenses and thus offer lower prices?

On the sensitive issue of employee costs, the balance-scale model helps employees consider various contribution schemes. Should these be based on pay levels, expected use, or the number of family members enrolled? These and other issues will surface as employees study the balance-scale model.

With the help of an actuary to project the costs, employers can develop several cost-and-benefits scenarios using the balance scale. If the company's and the employees’ contributions remain the same, what benefit cuts must be made on the expense side to keep the scale in balance? How many jobs will have to be eliminated to pay for the expected expense increase? How much pay would employees have to sacrifice to cover the increased expense? What if the company offered only HMOs? All of these questions spur discussions that can help employees develop a better understanding of their health care plan financing and the limited alternatives in plan design.

Help Employees Understand Flexible Benefits Plans

Organizations that have a flexible benefits plan can show the employers’ contributions for medical costs on the income side of the balance scale in two parts:

- Direct contributions
- Flexible credits

The credits employees take as cash or as benefits other than medical are added to the expense side of the scale. If the amount of the credits paid to them exceeds the amount of claims they would have submitted, overall expenses simply increase. To exaggerate the point, consider the unmarried male employees who want money instead of maternity coverage. Because there couldn't be any claims, there wouldn't be any expenses. If they receive money for not using the coverage, it only adds to the overall cost of the plan.

Another form of payment that can be more easily understood using the balance-scale model is the *healthy-employee bonus payment.* **If employees who are healthy (and presumably not filing expensive claims) are paid a bonus, the cost of the bonus must be added to the expense side — and the cost goes up**. Offering an incentive payment for people who have healthy life-styles is a popular thing to do. Yet the balance-scale model shows it will increase the current costs. Naturally, it is expected that this will reduce long-term costs. Naturally, it is hoped this will reduce long-term costs.

Everyone wants to be assured of access to affordable, quality health care. That's why there's no panacea when it comes to communicating changes in health care benefits. But until employees are taught the financial facts of their benefits, reactions will remain mostly emotional. **Only when they understand that the money for their health care expenses is coming from their paychecks, their employers' profits, or both, will they begin acting like actual consumers.** Then they may begin learning about their choices and looking for value. And better yet, they may begin trying to cut health care costs by exercising, eating right, wearing seat belts, giving up smoking, and taking other steps to stay healthy

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