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Managing Health Care Costs: Tips for Small Businesses

Employer-sponsored health insurance is considered by business owners and employees alike to be one of the most important benefits available in the workplace today. Yet skyrocketing costs are making it more difficult for small businesses to attract and retain skilled workers with the promise of health insurance.

As a result, there is a growing sense of urgency among many small-business owners to find ways to reduce health care costs while meeting the mandates set forth in the Affordable Care Act. With that in mind, here are some strategies you may want to consider to help reduce your business's health care expenses.

High-Deductible Plans and HSAs

High-deductible health plans (HDHPs) are designed to drive down health care costs by placing more of the responsibility and cost burden on consumers, in effect, forcing them to be more cost conscious when deciding on medical care. Like traditional health care plans, HDHPs usually cover a wide range of medical and prescription costs—but only after a steep annual deductible has been paid. Such deductibles generally run from as low as $1,000 for individual coverage, to upwards of $7,500 for family coverage, depending upon the plan.

HDHPs are often used with health savings accounts (HSAs)—tax-preferred savings accounts that are used to fund qualified medical expenses. Workers or their employers make tax-free contributions to an HSA, then the employees use the funds to purchase medical care until they reach their deductibles.

HSAs and Employee Eligibility

Your employees are eligible for an HSA if they meet four qualifying criteria:

1. They are enrolled in a qualified HDHP.
2. They are not covered by another disqualifying health plan.
3. They are not eligible for Medicare benefits.
4. They are not a dependent of another person for tax purposes.

The maximum contribution to an HSA for 2014 is $3,300 for employees with single coverage, or $6,550 for those with family coverage. Workers over age 55 can contribute an additional $1,000 in 2014 regardless of whether they have single or family coverage. Such contributions are made on a pretax basis, meaning they reduce taxable income. Note that unlike IRAs and certain other tax-deferred investment vehicles, no income limits apply to HSAs.

A health reimbursement account (HRA), on the other hand, must be funded only by an employer—not by a contribution of employee income. Employees with HRAs then receive tax-free reimbursement for qualified medical expenses up to a maximum amount.

Shifting Costs and Cutting Benefits

Employers who want to continue providing health care benefits within the same general framework of their existing, traditional health insurance programs often face the prospect of reducing their costs by sharing expenses with employees and/or reducing available benefits. For example, employers may opt to raise employee premiums, raise deductibles, or place a limit on certain types of benefits, such as coverage for routine doctors' appointments.

However, employee backlash could be significant, so it's important to explain that the changes are necessary to maintain the overall fiscal well-being of the company. You may also want to consider offering other benefits designed to make up for the implementation of a less-generous health insurance policy. For example, if reducing your contribution to health insurance premiums, you may want to consider enhancing long-term care and disability benefits to compensate.

In some cases, small-business owners may even offer to help bridge the gap between the old health care benefits package and the new one. For example, an employer who raises the deductible for inpatient hospital care may offer to pay the difference in the event an employee is actually hospitalized.

Wellness Programs

While recent retirees and those nearing retirement may have adequate replacement income, the situation may not be so favorable in the future. For instance, the increasing financial strains on Social Security caused by the nation's aging population may lead Congress to alter the system at some point in the future, perhaps reducing Social Security benefits or increasing the age of eligibility. As a result of these trends, future retirees may have to rely more on income from personal savings and investments than today's retirees.

What You Can Do

According to research conducted by the RAND Corporation, approximately half of U.S. employers with 50 or more employees offer wellness promotion activities, with larger employers more likely to have more complex programs. Most employers (72 percent of those offering a wellness program) characterize their program as a combination of screening activities and interventions.[1]

While the goal of a wellness program is admirable—to reduce health care costs by fostering healthier lifestyles among employees—the programs aren't without their potential drawbacks. For example, a wellness program that rewards (or penalizes) workers based on arbitrary health benchmarks may be deemed discriminatory. A program that emphasizes education is likely to be less controversial than one that seems to single out individual workers for praise or admonishment.

[1]Source: The RAND Corporation, "Workplace Wellness Programs Study," sponsored by the U.S. Department of Labor and the U.S. Department of Health and Human Services, 2013.