How to wrangle skyrocketing health insurance costs

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Health care costs are rising at rates that exceed inflation, and middle market executives are looking for ways to contain them.

In the past five years, the Bureau of Labor Statistics reports that the consumer price index, which measures general inflation, has risen less than 2 percent annually. Conversely, medical cost trends have hovered in the 6-7 percent range, according to a report by PWC.

“For most employers, health insurance is a significant component of employee compensation,” said Dee Lenfest, Vice President of Health and Welfare Services at Insperity. “Employers face difficult choices to control their expenses.”

Health care costs are among the top concerns for 90 percent of middle market executives, according to the National Center for Middle Market.

But you do have options.

- **Change your health insurance offering or your employer contribution.** Changing to a plan with higher deductibles, reducing the level of benefits, or lowering the amount you contribute towards coverage could save you money. However, all of these options negatively impact employees by increasing their costs.
- **Switch to a self-insured plan.** Your company takes on more compliance and administration duties with a self-insured plan. You also assume the financial risk for claims, which adds unpredictability to cash flow. This is typically only a viable option for larger middle market employers.
- **Join a PEO.** Providing your employees with benefits through a PEOs-sponsored plan provides a value proposition that goes far beyond cost containment.

Cost Containment

“For middle market companies, a significant challenge in controlling their health care costs is the lack of economies of scale,” according to Lenfest. “That lack of size makes health care costs more volatile and increases the administrative costs of a health plan.”

A PEO will typically have strong and long-standing relationships with carriers, and will work closely with those carriers to manage risks and negotiate favorable plan terms. This means the PEO’s plan costs can often be lower and more stable than a business would be able to achieve on its own.

PEOs also provide a comprehensive value proposition that includes plan design and administration, carrier management, employee eligibility and enrollment, communications, COBRA administration and more – all of which create administrative costs for employers.

Beyond the immediate cost containment, by having a large and diverse employee base, a PEO is able to offer health benefits typically reserved for very large employers. A greater choice in plan options can improve employee satisfaction, reduce turnover and increase morale and productivity.

Budgetary certainty

In what is referred to as a "co-employment relationship," a PEO is the employer of record for certain HR responsibilities. These can include benefits; workers' compensation administration; and payroll processing and reporting, for which you pay a comprehensive fee.

Even better, you won't cringe every year awaiting news about your rate increase. Some PEOs offer longer-term agreements so you know what your company will pay year after year for the PEO's services.

"PEOs provide a comprehensive value proposition that lets the executive management focus on their core business," Lenfest said.

Do your homework

Not all PEOs are created equal. There are some that are more hands-on, with a focus on customer service, while others let you handle things on your own.

"Companies should perform due diligence on a PEO's benefits solution to determine the breadth, depth and level of care included and their track record of cost containment and administrative simplification," Lenfest said.

About the authors

Jason Randall, managing director, Middle Market business development, guides Insperity in building relationships with mid-sized organizations and has more than 25 years' experience in consulting and senior management roles.

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