Welcome to the Modern Era of Health & Welfare Benefits

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The current landscape of employer-sponsored health & welfare benefits scarcely resembles what many of us workforce veterans remember. Gone are the days when employers enticed workers with rich health & welfare benefit plans for which the business absorbed most, if not all, of the premium. And while benefits remain an important recruiting and retention tool, the reality is that the costs are dramatically higher, the plans are generally not as rich, and the employee is expected to pay a great deal more of the premium.

In this new age of health & welfare benefits, the employer provides plan options and helps the employee pay for them.

How did we get here?
The onset of employer-sponsored health & welfare benefits coverage over a century ago was borne out of a need to stabilize a struggling economy and attract workers. Offering benefits instead of increasing wages allowed employers to boost compensation without the employee having to incur income or payroll taxes on those benefits.

Through the years we’ve witnessed a consolidation of numerous medical carriers to a select few, resulting in less competition and choice. UnitedHealthcare acquired MAMSI in 2004, and Great West merged with Cigna in 2007. It remains to be seen if the latest merger between Anthem and Cigna will be approved.

Today, the harsh reality is that drastically rising healthcare costs, fueled by a combination of more advanced treatments and technologies and the introduction of expensive specialty drugs, have forced employers to rethink how they offer health & welfare benefits and who should foot the bill. In particular, specialty drugs, including biologics used to treat conditions like multiple sclerosis, some cancers and hepatitis C, account for nearly 35% of total prescription drug costs and about 6% of overall medical costs.¹

Just how much have overall health insurance premiums increased? From 2005-2015, premiums rose 61% while workers’ contributions increased 81%!²

How do we contain health & welfare benefits costs?
The steady increase in healthcare costs has led employers to get creative with cost containment strategies. In defined contribution models, the employer establishes a set amount they’ll contribute to benefits and allows the employee to choose the level of benefits appropriate for them. This concept is similar to the shift from traditional pension plans for...
retirement to 401k plans in the ’80s. Variations on this strategy include core/buy-up plans or percentage of salary contributions.

Spousal surcharges and carve outs, which exclude spouses from insurance coverage if they have access to benefits through their own employer, are a less popular cost containment strategy but can be effective in some cases. Companies with fully insured programs are likely to see less of an advantage using this strategy than self-funded groups.

Finally, health & wellness programs, particularly when paired with consumer-driven health plans, continue to gain in popularity. They’re most effective when a well-thought-out incentive program is combined with creative plan designs and a comprehensive communications strategy.

Where are we today?
How do employees make good benefit decisions in this more complex and expensive age of healthcare? The modern era of health & welfare benefits requires selecting a suite of benefit products to meet employee needs rather than simply selecting which medical plan seems the best or the cheapest.

Today, employees value choice, so offering multiple medical plans can be helpful. The number and mix of plan types will depend upon the business size, industry, demographics and geography, among other factors. It’s helpful at open enrollment to provide a comparison of plan features and rates to help employees choose the appropriate plan for their needs. And when possible, utilize benefits administration tools that provide decision support and additional information on plan costs and features.

Carefully consider voluntary benefits to help bridge the gap and appeal to various levels of risk tolerance. For example, a younger worker at a lower pay scale may elect a high-deductible health plan to save on their premium but may appreciate the safety net that an accident or hospitalization policy could provide. This combined premium may still be lower than selecting a richer PPO plan. In contrast, a worker over age 55 may find the tax benefits and catch-up contribution appealing when an HSA is offered with a consumer-driven plan, and may also take comfort in purchasing a critical illness policy.

The bottom line is that benefit decisions are complex and are forcing employees to treat purchasing healthcare more like they treat other big purchases—with lots of research and consideration. It’s a shared responsibility for the employer to provide their employees with tools, options and information and for the plan participant to make informed decisions that fit their budget and health needs.

1 Milliman, “2016 Milliman Medical Index”
2 Kaiser Family Foundation, “2015 Employer Health Benefits Survey”

For more information, please call 1.877.426.7779