Employee Benefits Report

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Health Cost Containment Options for Small Employers

Large employers often have the cash and bargaining power to reduce health care insurance premiums.

You only have to look at the joint affordable care partnership between Amazon, Berkshire Hathaway and JP Morgan or look at the individual efforts of Walmart, PepsiCo or General Motors, and you'll see that large employers are pushing for innovative, cost-effective changes.

Some of these innovations already have been implemented, are trickling down and are being adopted by smaller employers who self-fund their benefits — resulting in a winning situation for both employer and employees.

Here are some of the more innovative changes by large employers that

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Auto Portability Earns Thumbs Up from DOL

Many employees who leave your company for another job are tempted to cash out their retirement savings — particularly if there is little money in the account.

The U.S. Department of Labor recently issued guidance (Advisory Opinion 2018-01A on Auto Portability) that allows employers to make an automatic transfer of small 401(k) accounts to employees' new retirement plans. The guidance was written in response to a question from Retirement Clearinghouse LLC of Charlotte, N.C.

There are stipulations. Balances must be $5,000 or less and cannot be transferred if the employee opts out.

The Employee Benefit Research Institute (EBRI) estimates that 5.3 million employees who have 401(k)

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may be available to small employers right now or in the near future:

Self Insuring Group Health Benefits

Large employers: Employers with a few hundred employees or more can avoid the expenses associated with a fully insured plan by paying employees' medical claims with the company's own money. However, self-funding can present cash flow concerns.

Small employers: Small and mid-size employers can self-fund their health benefits if they purchase stop-loss insurance to cap loss. Any unused money in the claims fund is returned to the employer. Most small employers work with third-party administrators to handle the details and do the negotiation with providers for better deals.

Pegging Reimbursement to Medicare Rates

Large employers: Tired of high prices, some employers are insisting they will only pay the Medicare rate for health services. CNNMoney estimates that the government program typically pays only 80 percent of what private insurers pay.

Not all providers are pleased with the move, though. North Carolina State Treasurer Dale Folwell is trying to get hospitals and doctors to accept Medicare rates for the 550,000 employees and dependents who are part of the state's employee health plan — but is getting strong pushback from the providers.

Small employers: Small employers can self fund their health care benefits using stop-loss insurance which protects employers against unexpected claims. When they self-fund, they have the option to set a fixed price on the amount the plan will pay for certain health care services; this is called reference-based pricing. While some employers set their own prices, many are beginning to use Medicare prices or Medicare "plus" prices to determine what they will pay. Depending on the plan, employees may or may not have to pay the difference between what the provider wants and what the employer will pay.

International Pharmacy Options

Large employers: Several county governments — such as Schenectady County, N.Y., and Flagler County, Fla. — are encouraging their employees to purchase brand-name medicines from pharmacies in Canada and overseas. Overall savings range from 10 to 20 percent. Utah state government pays its workers to travel to Mexico to fill prescriptions. Even with transportation costs, the state is still saving 40 to 60 percent on drug expenses.

Small employers: Some pharmacy benefit managers are rolling out an option to import specialty drugs from Canada. Countries, such as Canada, control the price of drugs that are sold and distributed in their territories. This practice allows governments to negotiate the costs and keep prices low.

Onsite Medical Clinics

Large employers: According to Mercer, a unit of Marsh & McLennan Cos., a third of large employers had primary-care clinics at or near workplaces. Goldman Sachs and Capital One are just two large companies offering onsite medical clinics. Goldman Sachs gives employees access to an emergency physician during the week and primary-care physicians and specialists on a rotating basis. Capital One has full-service care for employees and telehealth access for employees' beneficiaries.

Small employers: Marathon Health, which operates workplace health centers, says that a general rule of thumb is that organizations with more than 1,000 employees can usually justify a full-time medical staff, while smaller organizations should instead employ a part-time or shared-services model. Small employees also use telehealth to provide onsite consultation with a doctor.

For employers who believe that a part-time option is still outside their budget, many are looking at Direct Primary Care (DPC) wrap plans. DPC doctors don't work with insurance companies. They contract directly with their patients. Because they don't need a staff to handle paperwork, their overhead is lower and they can make a good living with fewer patients; therefore, employees get more face time with their doctor. And, if the employer self-funds health benefits, they can add a plan that will handle employees' emergency services costs.

plans have less than $5,000 in their account at the time of their job change. And of those, more than 54 percent are likely to cash out their retirement savings within one year, and 75 percent will cash out by year seven.

The guidance is being viewed as a good first step toward minimizing 401(k) cash-outs. EBRI estimates that full adoption of auto portability could generate $2 trillion in retirement savings.

To read the opinion, visit https://tinyurl.com/ybk2kau4 or talk to your broker.

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Contracting Directly with Facilities

Large employers: To lower costs, many large employers are bypassing insurance companies and cutting deals with facilities to lower costs. Technology company Intel reported that it saved 17 percent on healthcare costs for its 38,000 employees by negotiating directly with a hospital system. Walmart developed a similar plan and consistently has expanded the number of procedures it can offer at reduced costs.

Small employers: This option is slowly becoming available to small employers through third party administrators.

Drug Coverage Deals

Large employers: Companies, such as PepsiCo and Exxon Mobil Corp., are making deals for pharmacy benefit managers (PBM) to pass through all rebates and other payments from drug companies back to the companies. Some PBMs allow pharmacies to get extra payments from employers if they hit goals for patient outcomes and financial savings.

Small employers: Third party administrators who work with self-funding employers are starting to structure their PBM contracts as 'pass-through' contracts where employers get the full benefit of the negotiated prices and rebates.

To discuss cost containment strategies appropriate for your business, please contact us.

Why Generics are Good for Your Pocketbook (and Health Insurance Premiums)

When available, generic drug substitutes generally save about 30 percent.

Generic medications have been hailed as a great way to save money on prescriptions and control escalating health insurance premiums. Generics usually cost substantially less than name brand drugs, but be aware that generics aren't immune to excessive price hikes.

Fortunately, the more you know about brand name drugs and generics, the more control you have over health care benefit costs.

Generic drugs are similar to prescription drugs since they contain the same active ingredients at the same strength and purity as brand-name counterparts, but at a reduced cost.

Generic drugs generally cost about 30 percent less than brand names. Recently, a dose of the antidepressant Prozac costs up to $185 a month. Its generic equivalent runs as little as $24.

However, doctors don't always prescribe generics because not every medication has a generic equivalent. An Archive of Family Medicine survey showed that doctors underestimated the cost of brand-name drugs 90 percent of the time and overestimated the cost of generics 90 percent of the time.

And, some generics don't work exactly the same as name brands because blood levels vary.

Why Prescription Drugs Cost More

Drug companies claim higher prices pay for the research, development, testing and marketing of drugs. There seems to be no apparent ceiling on how high prices can go. Humira, used to treat rheumatoid arthritis, cost one employer $31,993 per person.

Other reasons for high drug costs:

- Competition in the specialty medication market can drive costs up as companies increase the price of older therapies to match the price of new ones.
- To protect their investment, companies file for

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patents on new drugs to have exclusive manufacturing rights. Other manufacturers can then apply to the U.S. Food and Drug Administration (FDA) to make a generic version. Because these companies don't have to pay for research, they can sell the generic at a price closer to the manufacturing cost. While patents keep competitors at bay until the patent expires, some companies have found ways to expand the patent. AbbVie, manufacturer of Humira, added about 70 new patents on the drug that could keep biosimilars away until 2022 – even though the first patent expired in 2016.

According to Berkeley Wellness of the University of California, generic drugs account for more than 85 percent of U.S. prescriptions, compared to 57 percent in 2004. The popularity of generics clearly stems from the higher prices of prescription drugs.

Why Generics Cost Less

After a patent expires, a single generic drug manufacturer gets exclusive marketing rights, usually for six months. But when that period ends, other generic makers can make the drug and the resulting competition drops the price 80 or 90 percent or more.

The FDA has been under pressure to approve more generic drugs, but many generic prices are already so low, generic drugmakers are concerned increased competition could be a threat to their business.

Why Generic Prices Increase

According to the Government Accountability Office, more than 300 drugs recently had at least one price increase of 100 percent or more. The *New England Journal of Medicine* reports that one manufacturer raised a generic price 2,800 percent.

Some drugs are harder to manufacture than others. Humira, for instance, falls in the class of drugs called biologics. These specialty drugs are manufactured from a living organism and are difficult to replicate. The Federal Drug Administration refers to the generic versions of the drugs as "biosimilars." Pharmaceutical companies creating biosimilars must prove their products create the same effects as the drug they replicate, requiring the companies to fund case studies and tests with patients, increasing the cost.

Another reason for high costs is that some generic manufactures that lack competition can price their drugs at the same level of the branded drug.

Not all pharmacies charge the same price for generics. A reporter for Detroit's WXYZ-TV compared the retail prices of several generic drugs at more than 20 local pharmacies and found that prices for one medication varied from $10.99 to $97.99.

Drug discount cards also can reduce costs, but the savings depend on the card.

Ways for Employers and Employees to Save Money

Many experts agree that the key to lowering pharmaceutical costs is to educate your employees. They should seek second opinions and ensure they are diagnosed properly for chronic conditions and that their doctor prescribes the appropriate medication and dose. Of course, employees should request generic drugs when appropriate, and should compare prices at different pharmacies.

Employees can not only save money by purchasing generics, but their insurance premiums are generally lower when overall health plan costs for the group were kept down the preceding year.

Please contact us if you have other questions about generics. ■

Benefit Planning Strategies for 2019-2020

Although employer-sponsored group health benefit open enrollment is behind us, it's not too early to start looking at what strategies will be in favor in 2019 to curb costs.

The Society for Human Resource Management (SHRM) reports that group health benefits are expected to approach $15,000 to $20,000 per employee this year. And while some employers are paying as much as 70-100 percent of employees' premiums, health benefit costs still are rising at twice the rate of wage increases and three times general inflation, according to National Business Growth on Health, a human resources consultant.

Employers are taking matters into their own hands and are looking at new products and benefit changes for the 2019-2020 season.

Popular Health Insurance Trends

Consumer-Directed Health Plans combine a high-deductible health in-

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surance plan with a tax-advantaged account that employees use to pay for eligible medical expenses — a health savings account (HSA) or health reimbursement arrangements (HRA). Any unused funds in an HSA can be rolled over to the next year. Also, employees can continue to use the funds for medical expenses after they reach age 65 and are enrolled in Medicare. The National Business Group on Health says many employers are helping employees by contributing to their employees' HSAs, on average $500 for an individual and $2,000 for a family. In contrast, an HRA is a company-funded, tax-advantaged health benefit used to reimburse employees for personal health care expenses, and may be aligned with any type of health plan, not just a qualified high deductible health plan. However, HRAs can only be funded with employer contributions. HRAs may rollover funds at the employer's discretion in plan design.

Employee purchase programs help employees pay for things they really need — such as appliances, tires or computers — but don't have the emergency funds to pay for unexpected expenses. Bankrate, a consumer financial services company, estimates that nearly one fourth of all Americans do not have adequate emergency savings. An employee purchase program means that employees facing a financial crisis are less likely to withdraw funds from their 401(k) plan or put the expenses on a high-interest credit card if they have access to emergency funds through the program. Employees pay back the loan over several pay periods through payroll deduction.

Group legal insurance plans give employees low-cost access to attorneys for will preparation, adoptions, estate planning, tax audits, traffic violations, real estate purchases, child

custody issues and document review and preparation. One reason many people don't seek legal assistance is fear of high fees. Having a ready bank of attorneys also saves employees' time from having to search for appropriate legal assistance. The benefit is not a new one. It was first offered in the United States in the 1970s and become more mainstream in the 1990s.

Student loan repayment programs. According to a report by CNBC, more than one million people default on their student loans every year. And CollegeinColorado.org says that many of those loans average $25,000. Student loan repayment programs allow employers to assist employees with repaying their student loans. The Internal Revenue Service in 2018 issued a private letter ruling allowing a company to amend its 401(k) plan to allow employer contributions of up to 5 percent toward student loans to individuals who contribute at least two percent to their student loan. It's assumed that this ruling may lead to more student loan debt solutions. Employers who can't afford to assist with student loan costs can opt to provide educational tools about navigating debt.

Virtual care, also called telehealth or telemedicine, is becoming more and more popular as a way to provide easy and inexpensive access to board certified physicians. Employees who have access to virtual care can have a phone or video conference with a professional physician or behavioral professional at low or no cost. Many of the telehealth physicians can prescribe medications.

Voluntary benefits are insurance products employers can offer employees at rates lower than they would pay for individual coverage. These products cover a large range of needs, such as life, disability, critical-illness and accident insurance, plus pet coverage, ID theft protection, legal services and financial counseling. Employees' premiums usually are automatically deducted through paychecks. For planning guidance on your group health benefits, please contact us.

Trending: New "Instant" Payroll App

Even employees who save money can run into a bit of financial trouble. A new payroll option might make their lives easier.

ADP, Daily Pay, Kronos, Even and other online payroll administrators now give employers the option of offering their hourly employees access to their paychecks for work already completed before payday.

The payroll app is paired with an employer's current scheduling and payroll system and an employee's direct deposit account. The app keeps track of when an employee completes a scheduled shift and the amount of money earned. Employees can access some or all of their earnings from that shift. There is a fee for the service — ranging from $1 to $5 — which is paid by either the employee or employer.

Bankrate, a financial services company, reports that nearly 20 percent of Americans don't save any of their annual income, meaning they live paycheck to paycheck. Having immediate access to their paycheck often means they won't have to rely on high interest credit cards or expensive payday loans or pay bank overdraft charges.

A downside is that employees might choose to take early payments often and find themselves under the same financial problems they were hoping to avoid. Walmart has an app that helps employees avoid this by letting employees figure their monthly expenses before accessing their paycheck.

Employers who decide to offer this benefit should know there may be costs when enrolling your workforce into the app. There also may be legal ramifications if you're not in accordance with state and federal law concerning pay. For example, pay rates must be based on an hourly wage, rather than a flat daily rate.

Despite these concerns, many employers report the app has improved recruiting, retention, absenteeism and morale. Some employers discovered their employees are willing to work longer hours and more shifts when they see an immediate return for their efforts.