By Donna Mendieta

Staff Benefits: Keeping a Lid on Rising Health Care Costs

Are you able to offer competitive health benefits to employees without straining the practice's finances? Here's what to consider.

Physicians are all too familiar with third-party health care coverage. The day-to-day activities of a busy medical practice require you and your staff to be well-versed with a multitude of plans, each of which has its own idiosyncracies, shortcomings and unique approach to coverage. But when selecting a health care package for your own employees, are you able to provide them with a plan that offers the best care at a reasonable premium with only a modicum of hassle? In these volatile times, it's worthwhile to thoroughly research all the options and periodically update your benefits package.

Never before in the history of employer-employee relations have we witnessed the current transition in employee benefits. Employers and employees are experiencing rising costs and decreasing benefits, while the array of available products is expanding. Medical practices, just like any employer, are strained to meet the financial burden imposed by providing employee benefit packages and employees are "scratching their heads" trying to make sense of the changing nature of their benefit package. Today's benefit packages generally include higher premiums to the employer and employee, as well as higher deductibles.

In a recent survey published in *Medical Economics*, medical practices were asked if they have cut staff health benefits in the past few years. While 44 percent of the practices responding to the survey said yes, it should also be noted that the practices absorbed most of the increase. Thirty-nine percent reported no change to health care benefits but stated that salary increases and other benefits have suffered. It is estimated that small businesses are being hit with increases in their health insurance that range from 15 to 35 percent.

In a similar survey conducted by *Medical Economics* in January 2005, medical practices reported spending 2.3 to 3.1 percent of their receipts to support staff benefits. Members of the Allergan Practice Consulting Group, in conjunction with BSM Consulting, have been conducting staff surveys in medical practices for the past six years. Staff members are asked to provide feedback regarding their salary/benefit package, as well as the quality of their work environment.

When asked about their satisfaction level with their benefit package, more then 1900 employees interviewed reported their satisfaction level at 6.99 on a scale of 1 to 10 (with 10 being most satisfied). This question draws one of the lowest scores in the 12-question survey. Staff members frequently request better medical coverage, as well as dental and vision benefits. Paid time off is another area staff members frequently comment on.

Benefits are a key component to any staff compensation plan. In general, medical practices operate in an environment where employees expect to receive comprehensive benefits. This is at a time when the financial demand of providing these benefits to your employees is having an increasingly dramatic impact on your practice. Clearly, in order to attract and retain a strong staff, today's medical practice must offer an extensive and competitive benefit package.

Designing or re-evaluating the benefit package offered to your employees is a complex and tedious task that involves input from your team of outside professionals (legal, accounting, etc.). A benefit plan has tax and legal implications for your practice, so it is critical to receive accurate counsel from your accountant and attorney, especially if you are considering changes. The goal is to offer an attractive plan while taking into account the financial health of your practice

An employee benefit plan should protect your employees from economic hardship in the event of an illness, disability, death, or unemployment. The plan should also provide some assistance for retirement income, as well as providing for paid time off. Benefits which are mandated by the government include: Social Security, unemployment insurance and workmen's compensation. Unemployment insurance benefits and worker's compensation benefits are also state mandated. Additionally, some states also mandate short-term disability benefits.

Optional benefits include health insurance, disability insurance, life insurance, retirement plans, flexible compensation (cafeteria plans), and paid time off. Benefit plans may also include bonuses, awards for service, and reimbursement for continuing education. Let's take an up-close look at health, dental, and disability benefits.

Health Benefits

Health benefits are perceived by most employees as the most critical component of their overall benefit package. As an employer, you can choose from an insured

Don't Sign that Contract Just Yet: Ask These Important Questions First

A practice should ask the following questions before signing any benefits contract:

- *Who is the insurance carrier?*
- *How long have they been in business?*
- *What percentage of their business involves smaller businesses and/or medical practices?*
- *What is the financial health of the carrier? What is their rating?*
- *How is the agent compensated for his/her services?*
- *Is there a list of references available? Does the reference list include medical practices of similar size in your city or state? Ask for practices that have the same number of employees/profile as your practice.*
- *What is the choice of medical professionals/hospitals?*
- *What is the process for claim reimbursement?*
- *What is the enrollment process? Is there a waiting period?*
- *Are their any restrictions that may exclude employees from the health plan?*
- *Are there any minimum participation requirements for employees or their dependents?*

plan, which is also known as an indemnity/fee-for-service plan, or a pre-paid plan, which is the well-known health maintenance organization (HMO) option. Preferred provider organizations (PPO) fall between these two.

The traditional indemnity plan allows the employee to choose his/her own physician. These plans typically use deductibles which range from $100 to $1,000 per year. Co-insurance is also a common component of these plans, usually requiring the employee to pay a percentage of the cost (generally 20 percent), while the plan assumes the remaining 80 percent burden for approved medical expenses. A comprehensive health plan would cover both hospital and medical care with a deductible, as well as a co-insurance component.

A PPO is a network of physicians and hospitals that contract with a health insurer to provide health care to plan participants at a contracted rate. While PPOs tend to be more expensive than an HMO, employees have a wider range of provider choices, even though the benefits may be less comprehensive than those received through a HMO.

HMOs provide health care through contracted physicians and hospitals. Costs for providing this coverage to a practice are lower because there are fewer options for care. Providers in this system are paid on a per capita (capitated) basis or a reduced fee for service methodology. Typically there is no coverage outside of the provider network. The practice prepays HMO premiums on a fixed basis per employee. Employees may have to pay a small co-payment at the time of service.

Dental benefits are increasingly being included in an employee's health benefit package. These plans pay for all or a portion of routine care, fillings, crowns and dentures, oral surgery, and orthodontia. These benefits generally include annual payment limits and co-pays.

Disability Benefits

Disability benefits provide for employees in the event of an accident that is not work related but prevents them from returning to work. Short-term disability begins when an employee has used all sick leave (normally on the eight day of the disability) and continues for a maximum of 26 weeks. The employee's salary determines the amount of benefits, generally ranging from 60 to 80 percent of his/her regular pay. Long-term disability continues for the length of the disability or until retirement. Benefits are also calculated at a percentage of the employees' salary. Social Security benefits will usually offset employer provided long-term disability benefits.

Finding a benefit plan that works for both your employees and your practice takes time, resources, and experience. Proven knowledge sources to consider include chambers of commerce, medical associations, and independent insurance agents. It is critical to ask for referrals and investigate the level of service that the company provides for other practices with whom you are familiar. Referrals are vital to this industry. Check with your state department of insurance, as well as independent insurance reports *(i.e.*, BEST Insurance Reports: Property-Casualty Ed. And Life-Health Ed., published annually by A.M. Best Company, Old Wick, NJ).

A recent *Wall Street Journal* article revealed that some insurance agents receive fees for recommending certain health care plans to companies. When interviewing insurance agents, it is important to determine how they are compensated and incentivized by the companies they represent. Make sure their recommendations are in the best interest of your employees and your practice.

Other Options

Flexible compensation or "cafeteria" plans have become an increasingly popular way for employees to offset the increasing costs associated with health care plans. These plans also provide opportunities for practices to control costs. While they may, indeed, help control costs in some areas, it is critical to pinpoint all administrative expense associated with the plan; they can be significant, eating away at any savings.

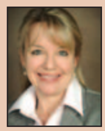
A cafeteria plan, also known as a Section 125 plan, can be set up to cover the premium only. These accounts allow for the employee to set aside pretax earnings to cover premiums for health, dental, and/or disability benefits. For a premium only plan, the set-up fee and annual maintenance fee could be in the range of three to four dollars per employee per month.

Flexible spending plans allow employees to use pretax dollars to offset dependent care spending and/or non-reimbursed medical expenses. Most flexible spending plans allow an employee to designate up to $5,000 per year in pretax earnings. The important caution to remember here is that, if these funds are not used within the plan year, they are lost. The administrative costs associated with flexible spending accounts can range from $1,000 to $2,500 per year for a practice.

Self-insurance is an option large practices sometimes consider when faced with increasing health-plan costs. This option requires the practice to predetermine and pay a portion or all of their employees' medical expenses. Funding for this option generally comes through establishment of a trust or reserve account. Some practices require that employees contribute a portion of the cost. A stop-loss policy, coinsurance purchased by the practice, would be used for catastrophic coverage. Obviously, the draw back to this type of coverage would be heavy claims. There is a certain amount of risk inherent in self-insurance and practices should be diligent in ensuring this is the best alternative for everyone involved.

Due Diligence

In these times of rising benefit costs, what should a practice do? Like any other major practice component, you should perform due diligence annually, closely scrutinizing the details of your health care plan, and shop around for more affordable insurance at least every two years. Larger practices (40 or more employees) are in a better position to change plans than are smaller practices. Some smaller practices that change plans too often can be hit with a hearty surcharge by their new carrier, but this should not stop you from investigating your options and performing an annual review. The benefit package offered by your practice is a key component to retaining your valuable employees and attracting new talent to your organization. Surveying your staff annually will provide you and your administrator with some direction before you begin an annual or biannual review of your practice's benefit package. While many physicians are interested in providing a strong retirement package for their staff, staff members are more focused on benefits that affect them today. **PN**



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