

5 smart ways small firms can slash health-care costs

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Robin Wiener has achieved something many small-business owners have struggled to do: She has lowered her firm's health-care premiums.

The dip isn't huge. Her health-care IT firm, Get Real Health in Rockville, Maryland, has saved about 1 percent. But achieving the small savings took some careful planning, given that her firm—which covers 100 percent of employees' health-care costs—has a high-quality PPO with Blue Cross Blue Shield.

"Our employees really like it," said Wiener, whose firm has 38 employees in the U.S. and about 40 overseas and generates annual revenue in the \$6 million to \$8 million range.



Alex Raths | Getty Images

As many small-business owners have found, reducing their spending on health care, or even keeping it relatively flat, takes some deft maneuvering. The average annual premium for family health insurance coverage is now \$16,834, according to the Kaiser Family Foundation/Health Research & Educational Trust (HRET) **2014 Employer Health Benefits Survey.** For individual plans, premiums average \$6,025. For comparison, premiums were \$16,351 for a family and \$5,884 for individuals in 2013.

As a result, many small firms can't afford to offer health coverage. The **Bureau of Labor Statistics** recently found that only 57 percent of workers at firms with 100 employees or less have access to employer-sponsored health care.

And many of those who do offer health care are worried about the rising price tag. In a recent national **survey** by **Bank of America**, 72 percent of small-business owners said they are concerned about health-

care costs.

Paul Entin, who runs epr Marketing, a two-employee firm in Bloomsbury, New Jersey, is among them. His premium costs from Horizon doubled from last year after his plan was discontinued and he was given a replacement plan, an EPO. "I immediately called my broker. I thought it was a mistake," he said. It wasn't—and now he's trying to figure out if there is an option that will cost him less. "This is the trigger that has made me seriously consider moving to states with other opportunities for health care," he said. He is skeptical that there is another option where he can save.

In this climate, some experts say that looking to lower health-care costs significantly isn't realistic for many firms and that slowing increases is more realistic.

"Reducing your cost over time from one year to the next is probably an unrealistic standard," said Alan Cohen, chief strategy officer and co-founder of Liazon, a New York City firm that runs private benefits exchanges. "A company that is keeping its benefits costs in line with its compensation costs is probably doing exactly right."

That said, there are some firms that have found creative ways to keep costs in check. Here are five options for small firms to consider.

1. Negotiate harder

Many small businesses think that when their new annual premium arrives in the mail, it's set in stone. But more substantial-sized small firms often have more leverage than they think, according to Jeffrey Ingalls, president of The Stratford Financial Group, a full-service insurance brokerage in Wayne, New Jersey, and author of "Healthcare

Reform Made Easy.”

“In the 50- to 99-employee space, a lot of employers don’t realize they can negotiate their health insurance premiums,” said Ingalls. “They think, ‘My renewal is my renewal.’ You can negotiate in that marketplace.”

Health insurers will typically cite reasons for hiking small firms’ premiums, such as everyone being a year older or the firm having a bunch of large claims, Ingalls said. But a good broker can point out factors that the insurer should also take into account to lower the premium, he said. He’ll ask clients, “Do you have any claimants that left the company? Is the health of the company getting better?” That typically gives Ingalls some leverage.

2. Try the SHOP Exchange

As of Nov. 15, small businesses with 50 or fewer “full-time equivalent employees” under the Affordable Care Act’s formula can now turn to the Small Business Health Options (**SHOP**) exchange. “It is essentially a federal or state-run supermarket—or marketplace—where businesses can shop for small-business plans,” said Sally Poblete, founder and CEO, Wellthie, a New York City digital health firm that offers technology to help small firms understand their health insurance options. Companies can enroll in SHOP in any month or time of the year.

A small business can define the amount of money it wants to contribute to premiums and allow employees to select from the health and dental plans. “It allows for different types of personalities, needs, ages and so forth to pick plans best for their health-care needs,” said Poblete.

Some businesses may be able to qualify for tax credits if they purchase insurance from the SHOP. The credits are structured so that smaller businesses, with 10 employees or less, qualify for the greatest credits, but firms with up to 25 employees may qualify. On average, employees must make \$50,000 or less, according to Poblete. If the business meets these criteria and covers at least 50 percent of the premium for an individual employee, it can potentially get up to 50 percent of the premium back. "That could be a pretty significant savings," said Poblete. "The business that is already providing benefits can get some tax relief."

The SHOP offers an online tax-credit [estimator](#) to help companies determine what, if any, credits may be available to your firm.

Will employees get inferior coverage under an individual plan sold through the exchanges? Alan Cohen at Liazon pooh-poohs the idea. "Employers have to understand that through the public exchange, people can get really rich plans if they want to," said Cohen.

3. Convert to individual plans

While discontinuing group health insurance can be a hard sell to employees, they may be better off if you do. The average worker's contribution to a family plan for 2014 was \$4,823, according to the Kaiser Family Foundation. If, hypothetically, a moderate-wage team member is contributing \$5,000 annually toward the cost of family health care obtained through your firm, that employee might be better off financially with an individual plan bought through the exchanges set up under the Affordable Care Act, said Michael Stahl, senior vice president at HealthMarkets Insurance Agency, a national insurance marketplace based in North Richland Hills, Texas.

If you shifted to the individual market, the employer contribution would disappear, he noted. Meanwhile, if workers qualified for subsidies, he said, they would pay, on average, less than \$100 per month to cover their premiums. The Centers for Medicare & Medicaid Services (CMS) found that the average for 2014 plans, after subsidies were subtracted, was \$82. Some employers offset that by giving the workers a pay raise, though this is counted as taxable income, he explained.

It is possible that the quality of plans provided on the exchange might also be better than what your firm can now afford to offer, as well, though that depends on whether you have been offering a so-called Cadillac plan with very rich benefits or one that is more limited with high deductibles.

"Every employer with under 50 employees should be offering money to buy individual plans vs. group plans," according to Paul Zane Pilzer, author of the book "The End of Employer-Provided Health Insurance: Why It's Good for You, Your Family, and Your Company," and founder of Zane Benefits, a firm in Murray, Utah. Zane Benefits helps small businesses reimburse employees for the cost of health care." Employers can do this by giving a raise or stipend or setting up a reimbursement plan under current federal rules, said Pilzer. The reimbursement plans operate under the premise, "Buy health insurance; show me the receipt; I'll pay you," he said.

However, employers need to be aware that under a recent guidance from the federal government, they cannot tell employees that a raise or stipend needs to be spent on health care, said Martin Haitz, vice president in the Corporate Benefits Group of Marcum Financial Services LLC. "Some employers were saying I'll give you X dollars or your health care," Haitz said. "Now they can't say, 'You won't get the money if you don't use it on health care.'"

Instead of shifting to the individual markets, some firms prefer to opt for a high-deductible group plan and set up a health reimbursement arrangement (HRA) to help offset employees' medical expenses. The employer can dictate the expenses they will reimburse for in the plan document and therefore limit their out-of-pocket exposure.

The advantage of an HRA over a health savings account (HSA) is that the plan can be structured so that if an employee does not use the money in an HRA, the money will still belong to the company. An HSA is another option, but it gives employers less control over how the money in an account is spent; the funds are made available to employees whether or not they incur any medical expenses, said Haitz.

4. Explore direct primary care

A growing number of primary-care physicians are partnering with employers to deliver affordable preventative and primary care on a fixed-monthly membership model, in what is known as direct primary care.

Instead of billing patients' insurance, direct primary care providers charge users a monthly fee for unrestricted access to their doctor, said Mason Reiner, co-founder and chief executive officer of R-Health, a network of independent primary-care practices in Philadelphia and the southern part of New Jersey that offers direct primary care. Unlike in concierge practices, which also charge monthly fees, providers in direct primary care do not bill insurers or Medicare for medical visits. "The price point is significantly less than most concierge practices," said Reiner. Often, it costs less than \$1,000 per year per person. R-Health's retail price is \$79 per person per month, but the company offers group discounts to employers.

The drawback of direct primary care is that it generally isn't, on its own, a solution for the kind of catastrophic illness, such as cancer, that bankrupts many people.

"Direct primary care, coupled with a high-deductible health insurance plan, can oftentimes be an outstanding and relatively affordable solution for entrepreneurs and small business," said Reiner. When direct primary care is combined with a high-deductible plan, he said, it can often save 12 percent to 15 percent over what a firm would spend for traditional health insurance.

If you are looking for a direct primary-care provider in your area, the [Direct Primary Care Coalition](#) may be a good place to start. The organization has not published its physician directory yet but does list physicians who are members of its steering committee.

5. Investigate health care-sharing ministries

The Affordable Care Act offers members of a recognized "health care-sharing ministry" exemption from the penalty if they don't offer what it considers the minimum essential coverage. These **ministries** are organizations whose members share a "a common set of religious and ethical beliefs and share medical expenses among themselves in accordance with these beliefs," according to the CMS.

"Basically, small to midsize employers can offer employees health ministry benefits vs. health insurance benefits," said John Beidle, an enrolled agent in St. Louis, Missouri, who specializes in benefits planning for small-business owners. Employers can offer a health reimbursement arrangement to reimburse employees for the membership fees that these health ministries charge. [IRS notice 2013-54](#) (IRS notice 2013-54) explains how to integrate an HRA into a company plan. "You need to have a good tax person on your side who understands this," said Beidle. "It's complicated."

Among the nonprofit health ministries that offer health care are Christian Healthcare Ministries and Samaritan Ministries. Membership ranges from \$45 a month for a single person to \$150 per month. For a two-parent family, it ranges from \$135 to \$450. In Samaritan Ministries in Peoria, Illinois, the monthly "share" is \$160 for an individual and \$405 for a family.

Membership is not an option for every firm, however. "You have to be a Christian and abide by their rules," said Beidle.

