ASK THE ADVISOR

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Employee benefits after the ACA:

Are there any strategies left for small to mid-size companies?

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As rates continue to increase and the Affordable Care Act (ACA) requires more services to be covered, many small and mid-sizes businesses are struggling to find the right insurance fit for their workforces – at a price they can afford.

So what options do they have these days? Many think their only option each year is to identify a plan with the lowest price and simply hope for the best. While that might seem cost effective on the surface, it's far from prudent. As a broker for the last 25 years, I can tell you firsthand that today's healthcare and insurance worlds are more complex than ever before. CFOs are clearly daunted as they try to keep costs down while still providing coverage that employees actually see as a benefit.

However, even in this time of heavy regulations and mandates, there are more levers than you might think to help you control costs. Because we live in a country where economics drive progress, the good news is that medical carriers and stop loss underwriters have adapted to the economic need and are coming out with new solutions. This means CFOs of small and mid-size companies actually do have options with lower downside risk than were available prior to the ACA. Let's talk about two of these opportunities: retention accounting and a private marketplace (also called a private exchange).

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Retention Accounting

If you are currently purchasing your employee medical plan under a traditional funding format, then you are fully insuring your risk. That means that your broker negotiates a constant set of rates that you pay for each employee and family enrolled in your plan. If your claims run better than the carrier planned, the carrier wins. If the claims run worse, the carrier technically loses but can blend your loss with someone else's good year and mitigate their expense.

When you receive a quote from a carrier under a retention accounting contract instead of a fully insured contract, you are given the chance to share in the savings in a good claims year. You still receive a constant set of rates for each employee and family member enrolled in the plan. Each claims year is evaluated separately, and there is a set percentage of the rate that covers administration. However, once all of the claims for that year are paid, if there is money not yet spent on claims, the carrier agrees to either share that savings with the employer or gives 100% of it back. Once available only for companies with more than 500 people on the medical plan, this is now an opportunity for companies with as few as 100 employees on the plan.

The risks under these contracts are usually small. For instance, one common requirement would be that you renew your policy in order to share in the unused premium. Another requirement is that in a "loss" year, you may have a carrier who rolls that loss forward and uses that loss in the accounting equation before any refund or sharing takes place in that subsequent year.

Private Marketplace

Don't confuse a private marketplace or exchange with the public exchanges resulting from the Accountable Care Act. A private marketplace is simply a strategy that an employer utilizes to deliver your employee benefit plan. This would include medical, dental, vision, life, disability, etc., and each of these benefits would be with one carrier, not a mix of several.

This option becomes more attractive to an employer because you have two fabulously new purviews:

1. You can offer many more than just two or three plan designs within each insurance option. Employees have a smart algorithm that guides them through the decision-making process online to help them identify a plan that is just right for them. Having choice and the assistance to make such decisions is shown to deliver a satisfaction rate in the 90-percent range.

2. You can also use a defined contribution strategy and provide a specific dollar amount for each employee to spend. This caps your spend and stabilizes your budget. Employees also see the entire rate, which promotes a stronger consumer-driven mentality.

In our private marketplace, called ClearPath Prime, claims have been reduced and medical trend has seen a reduction. Many of our clients have experienced annual renewals without any rate increase. Additional information about ClearPath Prime can be found at http://lovitt-touche.com/clearpath-prime.

While today's healthcare system is complex and constantly evolving, the good news is that more options are appearing for small and mid-sized businesses, and those options have the potential to save companies money, streamline administration and keep employees satisfied. Contact your broker to explore the solutions that are best for your workforce.

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(Editor's Note: Chris Helin is Vice President in Employee Benefits for Lovitt & Touché, one of the largest insurance agencies in the United States with nearly 200 employees and more than $400 million in total annual premiums. Contact Chris Helin at chelin@lovitttouche.com, (520) 730-9323 (cell) or (520) 722-7140 (office). Founded in Tucson more than 100 years ago, Lovitt & Touché represents thousands of Arizona businesses across all lines of insurance and risk management, including commercial lines, workers compensation, employee benefits and surety. More at www.lovitt-touche.com.)