An Invaluable Manual *For Anyone Who Advises Employer Groups Regarding Their Health Plan Costs!*

"SENSIBLY REDUCING YOUR CLIENT'S HEALTH PLAN COSTS"

Typically, approximately 30% of a company's employees have a working spouse that has access to a health plan where they work. Since these families have two health plans to choose from, fairness would dictate that half of these families should be in an employer's health plan. In reality, some employers have substantially less than half of these families in their health plan, while others have substantially more than half of these families in their health plan. Those employers who have significantly more than half of these families in their health plan are incurring an enormous "extra cost" each year, much to the delight of many other employers in the area!

Any of your clients that have 60% or more of these families in their health plan could reduce their health plan costs enormously by effectively addressing this problem. For example, the difference between a company having 65% of these families in their health plan and having 50% of them in their health plan (i.e., their "fair share") represents an "extra cost" that typically amounts to nearly 10% of the company's health plan costs! This equates to approximately $600,000 for a typical company with 1,000 employees. Therefore, if this company went from having 65% of these families in their health plan to 50%, they'd achieve a cost savings of approximately $600,000! If this company went from having 65% of these families in their health plan to 40%, they'd reduce their health plan costs by approximately $950,000. Keep in mind that these approximate cost savings will be achieved every year. (See the case study inside for all the details.)

Even your clients that have less than 60% of these families in their health plan (but more than perhaps 40%) can achieve substantial savings by implementing an effective strategy to encourage employees to elect their spouse's health plan. For example, if a company was able to reduce the percentage of these families that are in their health plan from 55% to 40%, they would also achieve a cost savings of approximately $600,000 if they had 1,000 employees.

This comprehensive manual contains four highly effective approaches that you can use to substantially reduce the number of people in your client's health plan that have another health plan available to them. It's imperative that each employer implements the cost savings approach that's the most appropriate for them in light of their specific situation. An approach that's highly effective for one employer may be ineffective for another employer. This manual provides you with many detailed illustrations (i.e., templates) that you can modify to reflect the characteristics of your client's health plan which will enable you to estimate the cost savings that are achievable for each of the four effective cost savings approaches illustrated. Only a calculator is needed to accomplish this.

This manual also provides you with the information you need to conduct an effective dependent audit. Removing ineligible dependents, and the many "dependents" that aren't really dependents, will typically result in a 4%-6% reduction in health plan costs!

The most sensible way to reduce your client's health plan costs is to reduce the number of people that are in their health plan. Specifically, those that don't need to be in their health plan!

Introduction

An ever increasing number of employers are requiring their employees to inform them if they have a working spouse with access to a health plan where they work. Some of these employers offer their employees cash incentives to take their spouse's health plan, while others surcharge the employee contributions of those employees that don't take their spouse's health plan. A growing number of employers won't even allow the working spouses of their employees into their health plan if the spouse has access to a health plan where they work! If your clients aren't effectively addressing this issue it's highly probable that they're incurring an "extra cost" that can be anywhere from significant to absolutely enormous!

Your clients who aren't collecting information from their employees regarding their working spouses should seriously consider doing so in order to determine whether they're incurring this "extra cost" and how severe the problem is. They'll almost certainly discover that they are incurring a sizeable "extra cost" unless they have a health plan that has minimal benefits and/or a low employer contribution level. Once the cost problem is assessed, they will be very interested in effectively addressing this serious problem by implementing a "cost shifting" strategy of their own!

Some of your clients may already be using one of the "cost shifting" strategies described above. If so, are they using the approach that would be the most effective for them in their unique situation? Even if they are using the type of approach that makes the most sense for them, the information in this manual will enable you to show them how they can improve whatever they're doing to substantially increase their level of success.

NOTE: This manual is appropriate for all types of health plans (i.e., self-funded, experience rated, and fully insured) and for all types of plan designs.

Case Study: Illustrating The Cost Problem

Let's examine the health plan of the XYZ Company. This company has 1,130 employees, of which 500 are single and 630 are married. Out of the 630 married employees, 370 of them have a working spouse that has access to a health plan where they work. The other 260 married employees either has a spouse that doesn't work or their spouse works for a company that doesn't have a health plan that's available to them.

The 370 married employees described above are referred to as "potential opt outs" (POOs) since they can "opt out" of XYZ's health plan and take their spouse's health plan if they so choose. Any of these 370 POOs who take their spouse's health plan are referred to as "opt outs" (OOs). Any of these 370 POOs that decide to take XYZ's health plan are referred to as "didn't opt outs" (DOOs). Therefore, a POO is classified either as a DOO or an OO. Let's assume that out of the 370 POOs, only 130 of them opted out (OOs) while 240 of them didn't opt out (DOOs). Since XYZ has more than half of their 370 POOs in their health plan (i.e., 240/370 = 64.86%), they have more than their "fair share" of POOs in their health plan and are incurring an enormous "extra cost". Here's a summary of where we are so far:

	In XYZ's Health Plan		
	COOs	DOOs	OOs
500 Single Employees	500		
630 Married Employees			
370 Have A Working Spouse With Access To A Health Plan (POOs)		240	130
260 Have A Non-Working Spouse Or No Health Plan Of Their Own (So Can't Opt Out)	260		

So, XYZ has 1,000 employees in their health plan: 500 single plus 500 married (i.e., 240 DOOs + 260 COOs). Let's assume that XYZ has a 2 tier plan where employees either have Individual Coverage or Family Coverage. Let's further assume that the health plan's total annual costs (i.e., employer plus employee portions combined) are $4,400 for Individual Coverage and $13,000 for Family Coverage. If XYZ contributes 80% of the total cost, XYZ's portion of the total costs is $6,960,000. This is calculated as follows: .80 X [(500 X $4,400) + (500 X $13,000)] = $6,960,000.

If XYZ had half of their 370 POOs in their health plan, they'd have their "fair share". Since they have 240 of them in their health plan instead of 185, the have an excess of 55 employees in their health plan and they all have Family Coverage. Since XYZ pays 80% of the total health plan costs, their "extra cost" is $572,000 which is calculated as follows: 55 X $13,000 X .80 = $572,000. Above, we determined that XYZ's cost was $6,960,000 for the plan year. If they didn't incur this "extra cost" of $572,000 their cost would have been $6,388,000. Therefore, XYZ's health plan cost was 9% more than it would have been if they only covered their "fair share" of their POOs.

Although the above example does illustrate the cost problem, it's an oversimplification of an actual situation. For example, we didn't specify whether XYZ has a self funded plan, a fully insured plan, or an experience rated plan. Instead of having a 2 tier plan, they could have had a 3 tier plan or a 4 tier plan. In addition, the average family size of those employees who didn't opt out (DOOs) could be substantially larger than the average family size of those employees who did opt out (OOs). We address these factors, plus many others in our manual.

The Enormous Cost Savings That Can Be Achieved

The following table illustrates how XYZ's portion of total health plan costs varies based on the percentage of potential opt outs (POOs) that elect XYZ's health plan (i.e., didn't opt out). [Remember, the potential opt outs (POOs) are either "opt outs" (OOs) or "didn't opt outs" (DOOs).] If the XYZ Company had 40% of their 370 POOs in their health plan instead of 64.86%, their costs would have been $6,003,200 instead of $6,960,000 which is a savings of $956,800. This represents a 13.75% decrease in their health plan costs! This $956,800 would increase each year by medical trend, all else equal.

	#Families in Health Plan			# of Employees	% of POOs	XYZ's Portion
#Singles	#COOs	#DOOs	OOs	in Health Plan	in Health Plan	of Total Costs
500	260	37	333	797	10%	$4,848,800
500	260	74	296	834	20%	$5,233,600
500	260	111	259	871	30%	$5,618,400
500	260	148	222	908	40%	$6,003,200 *
500	260	185	185	945	50%	$6,388,000
500	260	222	148	982	60%	$6,772,800
500	260	240	130	1,000	64.86%	$6,960,000
500	260	259	111	1,019	70%	$7,157,600
500	260	296	74	1,056	80%	$7,542,400
500	260	333	37	1,093	90%	$7,927,200

Note: Column 3 plus column 4 always adds up to the # of POOs which is 370

* [(500 Singles X $4,400) + (408 Families X $13,000)] X 80% (XYZ's Contribution) = $6,003,200

A Brief Overview Of Each Chapter In This Manual

Chapter 1: Introduction

This introductory chapter describes the two cost problems that are examined in this manual; the extra cost associated with a company having more than their fair share of "potential opt outs" in their health plan (chapters 2-13), and identifying and minimizing dependent fraud (chapter 14). These two problems are arguably the most serious cost problems facing most health plans today! We'll review the process that an employer can use to require employees to disclose if they have a working spouse that has access to their own health plan. The various types of health plans (i.e., self funded, experience rated, and fully insured) are also described and compared to one another. Lastly, this chapter instructs the reader as to how they should use this manual to maximize their client's cost savings.

NOTE: Chapters 2-7 are virtually the same as Chapters 8-13 in that they deal with the same topics. The only difference is that <u>Chapters 2-7 focus on a self funded plan</u>, while <u>Chapters 8-13 deal with fully insured and experience rated plans</u>. These plan types are examined separately because the techniques used to develop the cost savings estimates differ somewhat for each type of plan. Chapter 14 applies to all types of health plans.

<u>CHAPTERS 2-7 EXAMINE A SELF FUNDED PLAN</u>

Chapter 2: An Examination Of Our Self Funded Case Study And Their Cost Problem

Here, we'll introduce the case study that we'll be examining throughout Chapters 2-7. This is a SELF FUNDED health plan with 1,000 employees in the plan. This case study is analyzed in great detail which involves an examination of the how their employees are distributed by family composition (i.e., Individual, Couple, Couple + 1 Child, Couple + 2 Children, and Couple + 3 Children). We examine the employees who can't "opt out" separately from those who opted out (OOs) and those who didn't opt out (DOOs). In this case study, the average family size of those employees who opted out is smaller than the average family size of those who didn't opt out. This self funded plan has 67.9% of their POOs in their health plan, and results in them spending nearly $600,000 more than they would have spent if they only covered 50% of their POOs. This extra cost represents more than 10% of this employer's health plan costs. In Chapters 3-6, we'll examine four approaches that can be used to substantially reduce this extra cost, eliminate it, or more than eliminate it. We'll summarize the results of each approach in Chapter 7.

Chapter 3: Offering Cash Incentives To Employees To Encourage Them To Take Their Working Spouse's Health Plan

In order to develop an estimate regarding the savings that each particular cost savings approach examined in this manual should generate, we must estimate what the chances are that an employee will switch health plans due to a specific change in their cost. In this chapter we provide a table of probability factors that <u>conservatively</u> estimate the probability that an employee will change health plans if their cost changes by $300, $400, $500, etc., up to $1,600 per year. Naturally, this table of probability factors can't possibly predict what will happen in regards to every group of employees in every possible situation. These probability factors can be adjusted if you feel that an adjustment is in order which will enable you to develop cost savings estimates that are fine-tuned for your client. We'll examine many situations where an adjustment is appropriate.

This chapter will show you why the traditional cash incentives approach (i.e., giving $500 to each employee that doesn't take the employer's health plan) being used typically results in minimal cost savings. Then we'll examine a far superior cash incentives strategy where the cash incentive amount varies based on the number and type of dependents that each employee has in the health plan. This approach can generate significant savings, especially in regards to those employees with the largest families. Lastly, we'll examine the most important considerations that should be contemplated when deciding if a cash incentives strategy is the best approach for a specific client. A cash incentives strategy makes sense for some companies, and doesn't make any sense for others.

Chapter 4: Surcharging Those "Potential Opt Outs" That Have One Or More Family Members In The Health Plan

When an employee is deciding whether they should take their employer's health plan or their spouse's health plan, differences in covered benefits and the difference in cost are the prime concerns. Virtually every health plan increases employee contributions by 6% to 10% each year to reflect the impact of medical cost inflation (i.e., medical trend). Therefore, if an employee's health plan contribution will increase by 8% in the next plan year, the difference in costs between both plans available to this employee (and his/her family) probably won't change much since the cost of the spouse's health plan has probably increased by roughly 8% as well during the past year. Therefore, the <u>increase in an employee's health plan contribution that's in excess of medical trend (roughly 8%)</u> is what we need to focus on when we consider whether an employee will change health plans or not.

In this chapter, we'll utilize a disincentive approach that only applies to employees that have the potential to opt out (i.e., the POOs). Employees who can't opt out because they're either unmarried, or they have a spouse that either doesn't work or works for a company that doesn't have a health plan available to them will be unaffected by this disincentive. We'll start off by developing the "business as usual" employee contribution amounts by tier for the next plan year assuming that no surcharge will be in effect, then we'll adjust these contribution amounts upwards for those employees who could have opted out but didn't (DOOs). The employer's cost savings will come from two sources: Some of their employees (i.e., DOOs) will opt out of the health plan at the beginning of the next plan year because of the surcharge, and the employer's contribution regarding those DOOs that remain in the health plan will be lower than before since these employees are paying a surcharge.

Chapter 5: Increasing The Number Of Rating Tiers To Encourage Employees With Large Families To Opt Out (Which Also Improves Employee Equity Regarding Contributions) [FOR COMPANIES THAT HAVE A 2 OR 3 TIER PLAN]

Virtually every employer would agree that each employee should be charged a fair contribution amount based on the number of dependents that the employee has in the health plan. In other words, a family of 2 or 3 people shouldn't pay the same amount as a family of 5. Despite this, most employers aren't treating their employees as equitably as they could in regards to contribution levels since approximately 60% of employers have either a 2 tier plan or a 3 tier plan, in contrast to a 4 tier plan which treats employees more equitably. Although many employers with a 2 tier or a 3 tier plan would like to convert their plan to a 4 tier plan, many employers won't go forward with this conversion if they realize that their costs could increase significantly because of "returning opt outs".

For example, if a company wants to convert their 2 tier plan to a 3 or 4 tier plan starting next year, the employee contribution amount for childless couples will <u>decrease</u> dramatically. This is because "childless couples" paid a "Family" rate under the 2 tier plan, and they'll pay a much lower "Two Person" rate under a 3 or 4 tier plan. Any employees that have no children that are presently in their spouse's health plan will be extremely tempted to drop their spouse's health plan and return to their employer's plan to take advantage of the substantially reduced cost. This serious problem can be avoided by using a strategy that's described in our manual.

In this chapter, we'll illustrate how a company can convert their 3 tier plan to a 4 tier plan, or convert their 2 tier plan to a 3 tier plan, or convert their 2 tier plan to a 4 tier plan AND achieve substantial cost savings at the same time. Besides dramatically improving employee equity by increasing the number of tiers, we also incorporate a sophisticated surcharge mechanism to protect the employer from "returning opt outs" and to generate cost savings.

Chapter 6: Not Allowing Working Spouses Of Employees To Join The Health Plan If These Spouses Have Access To A Health Plan Where They Work

A growing number of employers don't allow the working spouses of their employees into their health plan if these spouses have access to a health plan where they work. Obviously, these employers have far less than their "fair share" of their POOs (and their dependents) in their health plan which generates <u>substantial</u> cost savings for them. This translates into extra costs for those employers whose employees aren't permitted to join their spouse's health plan. If an employer decides to implement this "banning working spouses of employees" approach, it will generate <u>enormous cost savings</u> but also introduces significant employee equity concerns regarding employee contributions which must be addressed. This is because none of the DOOs will be allowed to have their spouse in the health plan. In this chapter, we'll show you how to develop employee contribution amounts for sub-classifications within each rating tier to eliminate this "employee equity problem". For example, by sub-classifications within a rating tier, we're referring to having an employee contribution amount for an "employee plus spouse" and an employee contribution amount for an "employee plus child" instead of just having one contribution amount for "two persons". Employee equity improves because the health plan cost associated with a child is typically 60%-65% of the cost for an average adult. So DOOs with one child (whose spouse is not in the health plan anymore) would pay nearly 20% less than employees that have a non-working spouse but no children in the health plan; which is fair. The above can also be done for all other types of family compositions within each remaining tier (i.e., the "family" tier under a 3 tier plan, and "three person" and "family" tiers under a 4 tier plan).

Chapter 7: A Summary Of The Cost Savings Achieved By Each Approach

Here, we'll summarize the cost savings amounts associated with each of the four approaches examined in this manual. We'll elaborate on each of the approaches and make recommendations regarding which approach appears to be the best for this employer. [FYI - The annual cost savings estimates for our self funded case study ranged from 2.9% to 13.4% of health plan costs.]

CHAPTERS 8-13 EXAMINE "FULLY INSURED" AND "EXPERIENCE RATED" PLANS

Chapter 8: An Examination Of Our "Experience Rated" Case Study And Their Cost Problem

Here, we'll introduce the case study that we'll be examining throughout Chapters 8-13. This is an EXPERIENCE RATED health plan with 300 employees in the plan. [NOTE: A "fully insured" health plan would be analyzed the same way as an "experience rated" plan.] This case study is analyzed in great detail which includes an examination of the family composition of each employee that's in the health plan (i.e., Individual, Couple, Couple + 1 Child, Couple + 2 Children, and Couple + 3 Children). We examine the employees who can't "opt out" separately from those who opted out (OOs) and those who didn't opt out (DOOs). This experience rated plan has 64.2% of their POOs in their health plan, and results in them spending over $180,000 more than they would spend if they only covered 50% of their POOs. This is a substantial amount of money for a group with 300 employees in the health plan. This extra cost represents nearly 10% of this employer's total health plan costs. In Chapters 9-12 we'll examine ways to substantially reduce this extra cost, eliminate it, or more than eliminate it. We'll summarize the results of each approach in Chapter 13. [FYI - The annual cost savings estimates for this case study ranged from 3.3% to 14.0% of health plan costs.]

THE DESCRIPTIONS OF CHAPTERS 9-13 ARE IDENTICAL TO THOSE FOR CHAPTERS 3-7. THE ONLY DIFFERENCE IS THE TYPE OF HEALTH PLAN THAT'S EXAMINED.

Chapter 14: Identifying And Minimizing Dependent Fraud

Having a tremendous number of people in a health plan who simply don't belong in the health plan will drive a company's health plan costs through the roof. Here, we're referring to the many "dependents" that aren't actually dependents, and dependents that aren't eligible for benefits. This chapter provides you with the information you need to know in order to conduct an effective dependent audit to enable your clients to identify and eliminate those dependents who don't belong in their health plan. Typically, employers reduce their health plan costs by 4% to 6% as a result of an audit. A Fortune 500 company with 70,000 dependents in their health plan conducted an audit not that long ago and found that 13% of their "dependents" (i.e., over 9,000!) didn't belong in their health plan. Removing these people from their health plan reduced their health plan costs by 6%!

About The Author

Scott M. Snow FSA, MAAA is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and the President of S. M. Snow & Associates, Inc. He has thirty four years of group health insurance experience and is one of the foremost experts in the industry. Since 1995, Mr. Snow has conducted over 150 training seminars and has developed a wide variety of comprehensive manuals.

About Our Company

S. M. Snow & Associates, Inc. was founded in 1989 and has been providing the most comprehensive and worthwhile training seminars and training manuals available in the group health industry for the past fifteen years. To date, over ten thousand insurance professionals have benefited by attending our seminars and by purchasing our comprehensive manuals. We provide our clients with the detailed information they need to be successful!

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Our "Sensibly Reducing Your Client's Health Plan Costs" manual is available at the price of $795. This price includes all handling and shipping charges. We're highly confident that you'll be able to reduce your client's health plan costs substantially by implementing some of the approaches illustrated in this manual. This manual is appropriate for all types of health plans and will be the best investment your company will ever make!

Mr. Snow devoted over 700 hours of his time researching, analyzing, and developing the sophisticated methodologies presented in this manual to enable employers to substantially reduce their health plan costs. Since this manual contains 152 pages of invaluable actuarial advice, we cannot allow anyone to study this material, learn a great deal in the process, and then return the manual for a refund. We highly doubt that anyone would not be fully satisfied with this manual, however, due to the nature of the material in this outstanding manual, ALL SALES ARE FINAL.

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