# The Benefits Dilemma

**By Mano Mahadeva, CPA, MBA** | Column Editor

Demographic changes, unhealthy lifestyles, an aging population, and the advancement of research and technology are major factors that contribute to explosive health-care costs in the United States. We assume we offer the best health care across the globe, and this is undoubtedly true as it relates to our advances in research and technology. However, this care consumes 18 percent of the U.S. GDP today, with greater projected growth in years to come.

This rise in the cost of health care has taken its toll on financial statements through steadily increasing benefit costs. What began as a low-cost employee benefit is now a sizable compensation expense. As such, company benefit programs are under significant scrutiny as employers look for ways to access quality health care for their employees, while balancing the cost to both the organization and the individual.

Employers are well aware that to be competitive in the marketplace, they have to offer attractive benefits to hire quality talent and retain their best. Today, receiving benefits is a given; it is an expectation of any employee. With this in mind, employers frame their benefit offerings with two simple questions: how much does it cost to provide a benefit, and how much should the employee be expected to assume?

Having great talent on your team offers a competitive advantage, which might mean offering attractive benefit packages to prospective and existing talent. Employees need to be educated consumers so that they are smart about the "when and how" of their health-care spending. It is critical that employees understand the costs of the entire benefit so that they are receptive to programs instituted by their employer. Wellness programs can be created to help change employee lifestyles to control health-care costs and to reduce their absenteeism. Protecting employees from hardships due to catastrophic illnesses is a moral need. The answer will depend on the priorities chosen, balanced against the costs of provision.

Employers have responded to increases in health-care premiums by doing the following: increasing employee co-pays and deductibles; premium contributions and cost sharing; reducing, modifying or eliminating specific coverage; offering lump sum payments to providers for specific diagnoses; and providing self-help services and offering flex spending accounts to help pay for health care. Future trends portend the use of higher deductibles and tiered co-pays, greater out-of-pocket payments for the use of "brand" medications, higher out-of-pocket payments for out-of-network use of hospitals or physicians, and an increasing use of prevention and disease management programs.

As market-driven forces and legislative forces collide to transform the health care ecosystem, benefit strategists expect to see more consumer-driven health care, defined contribution strategies and wellness programs flourish in coming years. Consumer-driven health plans come in various forms, but they are high-deductible health plans that are paired with a spending account. The spending account helps pay for routine expenses, whereas the health plan protects against catastrophic medical expenses. The employee or "consumer" pays routine medical claims via a prefunded spending account. Unused funds roll over at the end of the year to be used against future expenses. Since the cost of a high-deductible health plan costs less, the employer can help fund some or all of the savings account to help transition plans.

In a defined-contribution strategy, an employer pays a fixed contribution per employee benefit, thereby limiting any additional exposure to the employer. The establishment of the individual mandate and public health insurance exchanges has given rise to private exchanges, a marketplace of health insurance through which an employer can purchase insurance. Then it is up to the employee to choose a health plan from those supplied by participating payers. This option helps the employer facilitate the migration from a defined benefits model to one of a defined contribution model. Again, this option places the burden on the employee to make smarter qualitative and economic decisions with their care.

Keeping employees healthy is a great cost containment strategy for employers. Healthy employees are happier and more productive, and they cost employers less. Despite the skepticism of some, pushed by rapidly increasing health-care costs, many employers have begun to understand the potential of such programs. The programs can be designed broadly or targeted to specific areas, such as weight loss, smoking cessation, etc. Companies such as BP have provided Fitbits to employees as part of a million-step challenge. Some offer cash incentives paid into health savings accounts for measured progress on targeted goals of blood sugar, blood pressure, body mass index and cholesterol.

The way to change consumer behavior is to be transparent, and share the basket and value of benefits received by the employee. Proactive communication, ongoing education, the provision of reasonable plan choices, fair contribution and committed investment by an employer could help alter behavior, creating a win-win for all. It is a healthy step for companies to play offense rather than defense by proactively dealing with the benefits dilemma and resolving it.

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