WORLD CLASS EDUCATION

EMPLOYER HEALTH INSURANCE COSTS

Health insurance is a crucial benefit that can cost companies just as much as employees.

Nearly 60% of Americans have health insurance through an employer. While the passage of the Affordable Care Act (ACA), also known as Obamacare, made direct-purchase health insurance more accessible for those without employer-sponsored options, for many workers, health insurance is seen as a draw of regular employment.

This means that the insurance benefits an employer offers, and how the costs of that insurance are shared, directly impacts a business's ability to hire the right people.

"Employer health benefits are such a crucial part of attracting and retaining talent," said Michael Stahl, executive vice president and chief marketing officer at Health Markets. "It is essential to get it right."

Healthcare is going to cost you, whether you own a business or you're just an average employee. Stahl and two other health insurance experts helped us break it down.

How employer-sponsored insurance costs are shared

Costs are generally shared in two ways: premiums and out-of-pocket costs, said Stahl. Depending on the plans chosen by you and your employees, these costs can be split across a variety of payments and savings plans.

Out-of-pocket employee costs

- The **deductible** is the amount paid for healthcare services before the insurer begins paying. Most deductibles are yearly amounts and a portion of the cost shared by employees. For example, an employee may have a $2,000 yearly deductible, which means they must pay for $2,000 of medical services before the insurer covers the rest of the costs.

- A **copayment**, or copay, is the amount employees pay directly to a healthcare provider at the time of service. Not all services or plans require copays.

- **Coinsurance** is the percentage of insurance costs that employees are still responsible for after their deductible, and it applies only to services covered by insurance. For example, if a plan has 20% coinsurance, then the insurance company will pay 80% of each covered medical bill, and the employee is responsible for the other 20%.

How much does insurance cost for employees?

According to the Kaiser Family Foundation, a leading healthcare public policy nonprofit, the annual cost to an individual employee in 2019 for employer-sponsored health coverage was $1,242 for single-person coverage and $6,016 for family coverage. The foundation's research revealed the following statistics for employer-sponsored single-person health insurance premium costs:

- 13% of employees were responsible for none of their premium costs.
- 23% of employees were responsible for between 0% and 25% of these costs.
- 63% of employees were responsible for between 25% and 50% of these costs.
- 1% of employees were responsible for more than half of these costs.

The foundation's research also revealed the following statistics for employer-sponsored family plans:

- 4% of employees were responsible for 0% of their premium costs.
- 36% of employees were responsible for between 0% and 25% of these costs.
- 46% of employees were responsible for between 25% and 50% of these costs.
- 15% of employees were responsible for more than half of these costs.

Additionally, employees at small firms were more likely to have a greater share of costs covered than employees at large firms. However, almost no employers cover out-of-pocket employee costs.

How does employer health insurance work?

Through employer health insurance, employees can receive substantial discounts on their health insurance premiums. Employers often subsidize the cost of the insurance plans they offer, making them significantly more affordable to their employees, who can sign up for the insurance plan through the company's human resources department. Typically, employees have a limited range of plan options when it comes to employer health insurance.

Shared employer and employee costs

- **Premiums** are payments made to the health insurer that allow employees to keep their coverage. These are due at regular intervals, often monthly or quarterly. Under most cost-sharing plans, employers and employees both pay a portion of the premium, with employers often paying the larger share. It is therefore almost always cheaper to get health insurance through an employer.

- **Health savings accounts**, or HSAs, are tax-free savings accounts that can be used for future medical expenses. An HSA can be paired with certain high-deductible insurance plans. Employees do not need to spend all of the money in their HSA every year. Employees may contribute to an HSA on their own, or an employer may contribute a portion of savings as well.

- **Flexible spending accounts**, or FSAs, are pretax accounts designated for healthcare costs not covered by insurance, including copays and deductibles. FSA funds are set aside by the employer, and the employee must use them by the end of the year. Funds that are not used are sent back to the employer.

When must an employer offer health insurance?

Technically, an employer is never required to offer health insurance, and employees are not granted the explicit legal right to demand insurance from employers. However, the fines that the ACA imposes on certain employers who don't offer health insurance are so severe that employers tend to offer health insurance to avoid these fines.

According to the ACA, any employer with 50 or more full-time employees (defined as employees who work 30 or more hours per week) or an equivalent number of part-time employees must offer health insurance to 95% of their full-time employees. Should an employer fail to meet these criteria, they must pay $3,860 per employee, per year to the IRS. Additionally, an employer of 50 or more full-time employees who provides health insurance to one employee is legally obligated to do so for all "similarly situated" employees (meaning employees with similar titles, salaries and job duties).

For employers with 50 or more full-time employees to comply with the ACA, the health insurance they offer must meet ACA-established minimum coverage and affordability requirements. Employer-sponsored health coverage must also be available to the employee's dependents. Biological and adopted children under the age of 26 qualify as dependents, but spouses, stepchildren, and foster children do not.

Can an employee opt out of an employer's health insurance?

In almost all situations, an employee can opt out of an employer's health insurance. The exceptions to this rule are if the employer entirely covers employees' health insurance premiums, or the employment or union agreement requires an employee to use the employer's insurance.

An employee can opt out of their employer's health insurance during the company's open enrollment period. Should an employee choose to forgo their employer's health insurance, they'll need to sign up for a healthcare marketplace plan during the national open enrollment period (usually Nov. 1 through Dec. 15 of every year). They can also purchase insurance plans directly from certain nonmarket place insurers.

Two common reasons why workers opt out of an employer's health insurance are that the plans have a high deductible or there is a limited range of medical services covered. For workers who forgo employer-sponsored insurance in favor of marketplace insurance, the premiums and plan options are determined in part by the individual's income.

If the employee's income is within 400% of the federal poverty line for their family size, they may be eligible for a tax credit that reduces healthcare costs by lessening premiums. Upon filing next year's tax return, if the annual income exceeds the amount they listed on their marketplace application, they will need to pay the IRS the difference between their new tax credit amount and the previous year's. Likewise, if income decreases, they will get a refund.

How employers can keep health insurance costs down

1. Shop around.

"With so many different options, understanding and ultimately choosing the right health insurance plan can be confusing," said Stahl. "The key is to work with an agent who is unbiased and can show you all the options."

These options may include group health-sharing plans, traditional group plans, ACA marketplace plans, or even level-funded plans, which provide rebates at the end of the year if employees have made few health insurance claims.

"By having the opportunity to learn and compare from multiple carriers, you can be sure you are getting the best benefits structure with the best rates available," Stahl advised.

2. Encourage proactive healthcare.

In general, said Rudolf Berzins, principal of Apex Benefit Group, it costs less to insure people who are proactive about their health. Many insurance companies offer incentives for companies that encourage employees to participate in workplace exercise programs or regular visits to primary care providers. Before selecting an insurance provider, check if any of them will provide discounts or rebates for proactive health initiatives in the workplace.

3. Shift cost-sharing to employees.

To reduce their portion of health insurance costs, employers often choose plans that shift more of the costs to employees, said Arthur Tacchino, chief innovation officer at SyncStream Solutions.

"The employee will likely be required to contribute more to the cost of their employer-sponsored healthcare coverage," Tacchino said. "These contributions remain tax advantaged, but … it means a smaller paycheck for the employee."

While this strategy can save money for employers, it may hurt their ability to recruit and retain employees.

4. Look for prescription drug discounts.

"Pharmacy and prescription coverage [have] a tremendous impact on overall insurance premiums," said Berzins.

In addition to saving money on insurance costs by seeking generic drug alternatives within the plan, Berzins recommends investigating whether you can get direct discounts: "Contact the pharmaceutical company directly for possible coupons or discounts."

How much does insurance cost for employers?

According to the Kaiser Family Foundation's research, in 2019, the average annual employer healthcare insurance cost was $5,711 for single coverage and $14,069 for family coverage. Data from the Kaiser Family Foundation's survey also shows that since 2009, annual employer costs for single coverage and family coverage have increased, respectively, $2,193 and $4,744.

What is the minimum employer contribution for health insurance?

There is no national rule determining the minimum employer contribution for health insurance. Many state legislatures have passed regulations that require employers to contribute at least 50% of employee health insurance costs, but in 2019, the Kaiser Family Foundation found that 15% of employees paid for more than half of their family coverage premiums