

## Three Things You Can Do to Lower Your Health Care Costs

In last week's blog post, we shared an overview of cost drivers in the health care system. This week, we would like to share three strategies to consider to begin driving down health care costs for small employers.

Providing health coverage has numerous benefits for you as a small business owner. It can help you attract and retain good employees. But even more important, it can help you maintain a healthy workforce, which is critical to the future success of your business.

Too often, particularly in a challenging economy, health coverage can become another line item in the budget and may be sacrificed for more immediate needs. Here are three ways you can more easily manage health care costs for your business, your employees, and your budget, so you can continue to make this important investment in the health of your employees — and your business.

1. **Set your contributions.** When paying toward the cost of employee health coverage, you can do so without restricting employee choice. Offer your staff a menu of different health care options. The options can cover a range of services, with varying co-payments, deductibles and, of course, different premium costs.

Instead of paying the full cost of employee selections, determine how much you can afford. Then fix your contribution limit. The fixed amount could be the premium for the lowest cost plan being offered. If employees want broader coverage, they will have to bear the additional cost.

2. **Enable employees to pay for medical premiums on a pre-tax basis.** If you simply cannot afford to pay the cost of employee health coverage, you can at least arrange to let your employees pay for their health coverage through salary contributions on which they will not currently be taxed. This pre-tax payment arrangement, which is set up by the company, is referred to as a Premium Only Plan (POP).

Why is the POP called a pre-tax arrangement? The portion of employees' wages added to the POP is not currently subject to income tax. The POP contributions are not reported as wages on employees' W-2 forms.

3. **Use consumer-directed health care plans.** Health Savings Accounts (HSAs) are consumer-directed health care arrangements that combine a high-deductible (low premium) health insurance policy with a savings account for each employee. The

account is designed to cover the employee's out-of-pocket medical costs. Since amounts not used for this purpose belong to the employee, it is up to the employee to make decisions about which health care services to use. It is also up to the employee to retain receipts for qualified medical expenses and, if necessary, prove to the IRS which withdrawals are tax free.

### **Conclusion**

If you're looking for ways to lower employee health care costs, consider all three methods discussed here. Think of it as a kick-start to protecting your employees' health. The choices you make will ultimately be dictated by what your company can afford and the size of your staff. But with a little extra effort, you can give your employees the health care coverage they deserve.