

# HEALTH CARE BENEFITS

## PROBLEM SOLVER

for Human Resource  
Professionals  
and Managers

**Charlotte McDaniel, Ph.D., R.N.**

***Health Care Benefits  
Problem Solver  
for Human Resource  
Professionals  
and Managers***

**CHARLOTTE McDANIEL, Ph.D., R.N.**



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# *Preface*

The director of human resources holds a unique, yet, challenging position. The pivotal role of the director is basic to this book. Our economic climate and health care reform create an environment of change. Change offers administrators opportunities to create a tailored program for workers. It offers the opportunity to provide incentives for productive work. It provides the opportunity to enhance relationships between employers and employees. Change offers opportunity to address the health—not the illness—of American workers. These opportunities are, indeed, important challenges for the future of American firms. Use this book as a resource to assist in designing and meeting those challenges.

This book is organized around problems and solutions using a logical planning approach. The author assumes directors will revise their company's current health care benefits program. Thus the underlying philosophy of this book—its problems and solutions—is analyzing, planning, and forecasting in order to remain competitive. This approach is critical for the benefits program as well as for the company and its employees. With this underlying philosophy in mind, the problems of and solutions to today's and tomorrow's benefits programs for health care are presented.

The first three chapters focus on benefits analysis. Chapter

1 provides solutions to problems administrators face in assessing the company's current program. Assessments form the basis of designing a new or revised program. The second chapter addresses the problems and solutions as possibilities for change are explored. As administrators cut health care benefits, the third chapter offers solutions to problems among employees and companies when cutting occurs.

Chapters 4 through 11 are designed to address specific categories of problems to assist in planning programs. Chapter 4 is specific; it explores solutions to particular employee dilemmas. Attention is turned to employees with ability challenges, those who want family leaves, or employees with high risks or job stress. In keeping with the focus on managed competition, Chapter 5 highlights problems and solutions posed by managed care and changes in health service delivery. Relevant to these are problems emerging with shifts away from illness to health and prevention; also communicating change to employees. Chapter 6 presents problems directors face with increasing emphasis on flexible approaches.

In Chapter 7 strategies for retaining employees through health care benefits are presented. Rewarding employees for their work vis-à-vis health care benefits is explored in Chapter 8. These two chapters highlight the importance of health care benefits for employees and the role of the administrator in tailoring their benefits. Chapter 9 focuses on policies, regulations, and federal guidelines, emphasizing new or recently developed ones. For that reason, the family leave bill and new retirement regulations receive more attention than others. The increasing use of part-time and temporary workers in America is the basis for Chapter 10. New regulations relating to retirement as well as the expanding population projected for older and retired workers are considered in Chapter 11.

The last two chapters address prevention and forecasting phases of benefits administration. Prevention phases, explored in Chapter 12, are central to the director's role. Solutions to

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problems that encourage directors to forecast and design a program relevant in the twenty-first century form the basis of solutions to problems in Chapter 13.

This book serves as a guide to anticipating and preventing problems before they occur, as well as assisting with the resolution of ones that inevitably do. By focusing on problems as well as solutions, directors of human resources can tailor a health care benefits program to enhance companies and employees. This book enhances the role of the benefits director by providing solutions and strategies that will be relevant to the administration of benefits well into the next century.

The author has made every attempt to provide the reader with accurate and timely information, however, the reader is encouraged to check the most current sources before making any changes based solely on this material.

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# 1

## *Assessing Your Company*

Among the important decisions a director of human resources makes regarding health care benefits, no decision could be any more important than assessing the direction of benefit resources for the company. Assessment provides a foundation for decisions regarding cuts, planning, and directions for benefits. This chapter introduces a number of questions that directors will encounter as they move through the process of examining their own business, assessing where to go, then whether to cut and, if so, what to cut among health care benefits. In addition, it will explore strategies for moving through this process and emerging on the other side of decision making in a manner that is positive for the director, for the company, and for the employees. Although this process of assessing in order to determine what the next step should be takes time, it is well worth the investment. Astute assessments save dollars and enhance the motivation and productivity of your company's employees.

### **DETERMINING WHAT TO CUT**

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**Q** How do I know what to cut?

**A** Assessing your company to determine what to cut involves

an assessment of your employees. Get a complete list of all claims in the past five years and organize them according to the size of claim with the largest as the first or highest. Then, examine what the largest amounts are. It would also be helpful to link amounts with employees, as you may have some costly employees in your company.

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**Q** Do we need to cut?

**A** Cutting is an individual company determination. However, in these days of cost containment and high technology one of the largest outlays of any company is health care. While your company may, indeed, not need to cut it is hard to imagine that that would be the case. An assessment will assist you in determining if you need to cut. Last year, about 20 percent of the outlay of an average company was paid for employee health care costs (Thompson 1992, pp. 16–20).

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**Q** We want to continue health care insurance but we are a relatively small company and are not sure where we stand. Given there are few norms, how much does the average small company spend on health insurance for its average employee?

**A** This is a good question since it gives you some ballpark figures for comparison. In a recent year, the average spent per employee in national companies was \$3,573 (Thompson 1992, p. 16).

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**Q** Is there an indication health care costs are increasing, and if so, how much?

**A** Figures in 1991 found there was a 13 percent increase in the cost of employer medical payments (Gannett News Service 1993). Such costs should lead to a rash of new plans.

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**Q** Is there a list of items I should consider or run through in order to make a decision about cuts?

**A** There is no formal list but the following are important to consider. Tailor them in terms of “weight” for your own company, employees, or situation. Consider the size of the company in terms of product distribution, type of product, number of employees, budget size, environment in which your company is based, available options, and what you currently are offering. These are fundamental.

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**Q** I am not sure what the environment has to do with cuts. What does one look for in terms of the environment?

**A** The environment can be discussed in terms of several features. First is the current national environment for health care which is somewhat turbulent. Second is the more immediate environment in which your company is based, and third, how your company thinks of itself in terms of an “environment.” For example, if your company product is an international one, then the environment is quite different and more complex than a company with a regional product or a more defined parameter for distribution. In these instances your environment is easier to assess and predict in terms of health care.

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**Q** How can the environment influence the company?

**A** If the environment is turbulent, it is complex, erratic, and difficult to assess; it changes quickly and dramatically. This influences both your employees as well as the benefits and profits of your company.

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**Q** How will this affect our employees?

**A** Those employees who work in what is termed a turbulent environment may feel that they are on shaky ground and

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want features offering stability. Thus, they may look for stability in their benefits in ways employees in other companies, or in other environments, would not.

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**Q** What impact will health care benefits cuts have on our company?

**A** The influence of the cuts will be determined largely by how the company goes through the process of both determining the cuts as well as the implementation of the cuts. However, in most instances, health care cuts will influence American business.

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**Q** How does the size of the company affect health care benefits?

**A** The larger the company the more readily the company can absorb large claims or offer more options on a benefits menu. The smaller company, usually under 100 employees on a steady payroll, may have to limit its offering.

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**Q** Should I use the term *cuts*?

**A** Why not? Everyone else is. Perhaps *cutbacks* or *reductions* are more palatable terms. Nevertheless, most people know that a term like reduction is another way of saying cuts. Call it what it is and use candor as a means of enhancing your image as a person of integrity with your employees.

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**Q** What impact will health care benefits cuts have on our employees?

**A** The impact on employees will depend both on how much you cut and what your company specifically decides to cut. The process of cutting can be as important as the actual cut itself. Read on for more information on specific issues related to managing reductions. In fact, the metaphor for

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today's health care environment could be termed "managing reductions."

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**Q** How much advance notice should I give to employees regarding cuts?

**A** To some extent timing is determined by the size of the company and the amount of time communication travels within your organization. About a week is the average, give or take some days. Because employees are poised for news when they return to work on a Monday, a document released on Monday will be distributed throughout the company by Friday, but one released on a Wednesday will take longer. If the cuts involve loss of key coverage allow at least a month of advance notice to give employees enough time to make a realistic alternative plan.

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**Q** How can I determine our most costly benefits?

**A** Start by listing all the benefits you offer, placing first those you suspect will be the most frequently claimed, or those of large financial amounts even if for a one- or two-time claim. Then, get copies of last year's claims. You can then do one of two things contingent on the size of your company. If you work in a large company randomly select about a dozen claimants. List all claims and place those amounts in the list by the company claim list. Or, for a smaller company, list all of them. A computer is helpful in keeping track of these claims as well.

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**Q** How do we compare to the big picture?

**A** One assumes that the big picture is the large well-functioning company. The average company today spends more than \$3,000 on health care per employee annually, whereas, a smaller company spends, on average, more than \$3,500

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per employee annually. The real question is how much of your gross product you spend on health care, not actual dollar amounts (Thompson 1993, p. 38).

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**Q** What is the bottom line on health care benefits and cuts?

**A** The bottom line is that your company does not want to spend more than 20 percent of its gross company product on health care benefits. In fact, in terms of future projections, it would be wise to come in at less than that amount. The essential bottom line is the balance between paying out for employees and the productivity of your work force in terms of their return. Only you, as the human resource director, can determine if there is an appropriate balance.

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**Q** We need to compare our company costs with those of other companies. We think we are out of line but we do not know. Where can we get such information?

**A** Sources vary. However, in 1991 in all industries, benefits as a proportion of payroll were 38.2 percent with an annual cost per employee of \$13,126. In manufacturing, the percentage was a similar 38.8 percent and \$14,317 (Thompson 1993, p. 38).

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**Q** How can we get data we need into the information machine\*?

**A** Keep minutes and file them for future brainstorming and creative-thinking sessions. Develop some quality circles<sup>†</sup> on benefits and the future. Companies in the Northwest are doing so with great success.

\*The information machine is a concept used to refer to the analysis and creative thinking needed for decision making in companies.

<sup>†</sup>Quality circles are discussion groups composed of key individuals designed to elicit creative thinking about critical issues.

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**Q** As I begin to examine areas to assess for cutting and for making changes, what are some key questions to keep in mind?

**A** Essential to your assessment is your company bottom line. Among those relevant to the health care benefits sector are the questions pertaining to the insuring firm as well. For example, how stable is the company; does it increase its premiums, and how often; are the deductible rates competitive with other companies? This is information that a director would want to have prior to finalizing a plan.

**Q** I keep hearing a lot about health assessments. Is this term being used today in the same way as it was used in the past?

**A** Most health assessments are discussed in one of two ways, although there certainly are others as well. First is the health assessment that a patient or consumer receives to determine overall health status. That is fairly traditional, and is the way in which the concept was used in the past. However, given the current reform attention to prevention, outcomes, and community, the more current emphasis is on health assessment conducted for the community to determine what works and what doesn't (Sherer 1993, p. 36). You might use the analogy of the community for your employees and assess what works and what does not, as well as assessing and designing a plan for the future. One implication is that assessments take on broader parameters than just one patient.

**Q** What are the implications for our own assessment for benefits in health care?

**A** As communities assess what is appropriate for them, and design services in collaboration with medical services in response to the assessment, the results will determine what

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