

Mission Critical

By Karen DeMasters

How advisors can help small businesses find affordable health insurance plans.

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Financial advisors are being thrust, willingly or not, into the complex and expensive world of health care and health insurance. Although the drastic increases in costs for both medical care and insurance have moderated a bit in the past two years, the increases still are far outstripping the rate of inflation and more financial advisors are being looked to for advice in this confusing arena.

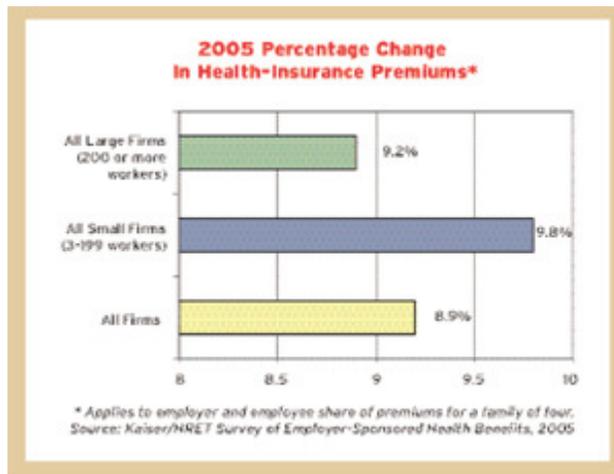
Owners of small businesses are turning to their financial advisors with questions about how to continue providing health insurance as a benefit for their employees.

"The problem is not access to health insurance for employers. It is strictly affordability," says Leon Rousso, CFP, of Ventura, Calif. "The people who call me are substantial corporations, even if they are small. By that I mean they are making some money, but they are looking for ways to save money and they trust me. Health care and health insurance are critical areas of financial planning, and most CFPs and other advisors are ill-equipped to advise in this area. I would also add that a large percentage of insurance agents are also ill-equipped to represent clients. This is based on my 24 years of experience with a major career agency insurance company."

Health insurance costs for employers fluctuate wildly and the options that business owners can offer their employees keep changing, with completely new options frequently being added to the mix. Large double-digit increases in costs to employers were seen in the late 1980s and then declines set in until 1996, when insurance premiums began climbing again and peaked in 2003 with a 13.9% increase that year. Prices have moderated a bit with an 11.2% increase in 2004 and a 9.2% increase last year, according to "Employer Health Benefits, 2005 Annual Survey" by the Kaiser Family Foundation and Health Research and Educational Trust.

Employers provide health insurance for 160 million people in the United States, or three out of five of all people under the age of 65, the study says. But the percentage of firms offering health insurance as a benefit dropped from 69% five years ago to 60% in 2005, the study adds. The drop, the study noted, was driven by a significant decline in the percentage of small firms (3-199 workers) offering coverage, which fell from 68% in 2000 to 59% last year.

For a time, HMOs seemed to be the answer to increasing costs; their costs also went up. Now some employers are starting to offer high-deductible accounts combined with Health Reimbursement Accounts, in which the employer sets aside money to reimburse employees for costs, or combined with Health Savings Accounts, in which employees can contribute pre-tax dollars to an account to pay for uncovered expenses. This type of insurance was authorized in the same law that revamped Medicare to provide prescription drug coverage for seniors. Its popularity is increasing slowly.



"We are starting to get some interest among business owners for HSAs," says Rousso, who is an insurance broker as well as a financial advisor. "Ten to 15 years ago, insurance companies started rolling out HMOs, and it was a difficult transition at first. Now you are starting to focus on HSAs, and it will be an educational process to show employers how it can help them. It is a communication process. A lot of advisors do not know how these plans work. They should go to the large insurance companies and find out the details. They should not rely on an insurance agent.

"A client's first hang-up is that this seems too complicated because they have to set up savings accounts," advises Rousso, who counts among his clients the owners of television soap opera companies for whom money used to be no object. Now they are more concerned with savings.

"I spent two hours with four decision makers the other day, and showed them how they could have a 7% or 8% increase in health insurance costs instead of a 12% to 19% increase. Now they have to go to their employees and explain," he notes. "The communication part is the hard part, because owners and employees are used to having everything given to them. None of my companies have gone broke because of health insurance costs and none have dropped health insurance as a benefit, but some are getting close."

Small companies in particular are not migrating toward HSAs, in part because the savings are not there right now and because the plans are more complicated, says Robert Wander, CFP and owner of Wander Financial Services in New York.

Edward Dee Hinds III of Paso Robles, Calif., who specializes in planning for small business owners, advises, "Health savings accounts, whose contributions and earnings can be used to defray health-care expenses tax free, represent a new financial vehicle with which financial planners should become familiar. Enough HSA money should be kept in a money market or checking account to

cover a full year's deductible, plus other qualified expenses not covered by the plan."

Other options that business owners have utilized include asking workers to pay more of the cost of the premiums, increasing the co-pay for services rendered or increasing the deductibles, according to the Kaiser Foundation 2005 survey of business owners. The average cost of coverage for a single worker is \$4,024, and for a family it is \$10,880.

"For companies that have been offering top-of-the-line plans, they can easily moderate their offering and cut costs. It is the ones at the lower end of the spectrum, who already have cost-effective plans, who are having more trouble," Wander adds. "A lot of companies offer more than one plan, with the employer paying the bulk of the basic plan and employees paying more if they want a richer plan. These are not new strategies, but what has evolved is that there are more options now. It is also not inappropriate to have a cost-sharing plan, so that those who use the insurance more pay a little more out of pocket. This is a middle ground."

Wander's clients who own businesses have five to 75 employees, and none have been forced to drop health benefits completely as yet. But many have asked employees to pay a greater percentage, he says.

However, even financial planners who are or have been insurance brokers warn about planners trying to take on the responsibilities of an insurance agent. Wander says he relies on an insurance company to keep him up to date on the options.

"A financial planner has to have a resource, someone who specializes in insurance," he advises.

Christine Povenmire, owner of CMP Financial Planning in Columbus, Ohio, agrees, even though she started her career in insurance.

"I shifted from health insurance to financial planning and even I now use a broker for my clients," she says. "Insurance plans differ from state to state and plans change every year. What would take me three hours to lay out, an active broker can do in an hour. You need to do a spreadsheet comparing three or four key offerings, making sure you are comparing apples to apples, (because) business owners are looking for ways to fight escalating health insurance costs."

Bill Russo, owner of Concord Financial Planners in Solon, Ohio, says, "There is no question providing health insurance for a small business owner is a major problem. A financial advisor should not be selling health insurance plans. He or she should be directing clients to an entity that focuses on health insurance for small businesses because there are a lot of options."

Among the many things a business owner needs to look at in order to select a good plan are the out-of-pocket costs for deductibles versus the premiums and how healthy the group is, Russo advises. In some areas of the country, like Ohio, association health plans are offered by groups such as a Chamber of Commerce that are often less expensive than plans on the open market. Some insurance companies offer discounts for wellness programs, while some charge more for unhealthy lifestyles.

"There are a number of things that can cut a business owner's costs, and that applies to both small and large companies," Russo says. "A financial planner needs to partner with someone he trusts to shop for the best rates for his clients. It is like anything else. You go by word of mouth, find someone your clients have dealt with and trust. Your relationship with other professionals is the key."

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