

Health Care Costs Continue to Climb

Members Explore New Options to Deliver Attractive Health Insurance Benefits

By Mary Sedor

Of the approximately 44 million people uninsured in the United States, small business employees are one of the fastest growing segments. Roughly 15 percent of small business employees don't have coverage.

Recently, Associated Equipment Distributors (AED) surveyed member dealers on their health care costs, coverage, and concerns. (Dealers with union contracts didn't participate in the survey.) The responses revealed group health insurance costs have continued to rise. In 2007, the majority of dealers faced an increase of 1 to 24 percent compared to 2006. For a lucky 31 percent, costs remained the same.

As costs have risen, nearly 40 percent of dealers have had to cut insurance benefits for their employees. Nearly half have shifted more of the financial burden to their employees. Dealers that cut benefits typically increased deductibles and total out-of-pocket expenses.

"My greatest concern is to be able to continue providing health insurance coverage to our employees," stressed Jeff Chlupach of Ditch Witch-Iowa. The Slater, Iowa business increased deductibles to help keep premiums in line. "Most of our employees prefer that their premiums stay at the same rate and have their deductibles go up instead. We also monitor our (health insurance) pro-

gram on a regular basis, massaging it to fit our employees."

Coverage options vary, but the majority of AED member dealers offer their employees a PPO, although a few offer HMOs. A handful provide Point of Service insurance, which is like an HMO with co-pays but allows the insured to obtain medical services out of network, usually by paying a deductible and co-insurance. None of the dealers who responded to the AED survey offered employees an HSA or HRA.

The majority of these dealers – 88 percent – offer prescription coverage, and 75 percent offer dental coverage. Just over 40 percent of dealers provide vision care benefits.

The average employee contribution has continued to rise since 2000, climbing 143 percent in seven years. Average out-of-pocket costs for deductibles, co-payments for medications, and co-insurance for physicians and hospital visits rose 115 percent during the same period.

The average cost of employee coverage is \$73 per month – just \$3 shy of the national average of \$76. On the low end of the scale, some dealers charge employees as little as \$35 for single coverage. On the high end, dealers are charging \$195 for single coverage.

For employee plus spouse coverage, dealers charge employees \$195; employ-

ee plus children averages \$202. The national average for family coverage is about \$300.

"The way that things are going, I worry more and more about what the employees can afford," stressed Steve Kayton of Nebraska Equipment, Inc. in Seward, Neb. "It's a catch-22. Ultimately, it remains a balance between what the dealership can afford and what the employees can afford."

According to the 2007 *Salary Compensation and Business Study*, most Iowa-Nebraska Equipment Dealer Association members – 96 percent – provide health insurance coverage for their employees. Three-quarters of those surveyed have deductibles of \$750 or more, with 35 percent at a \$1,000 deductible. Dental coverage is also offered by 41 percent, while nearly 14 percent provide vision care benefits.

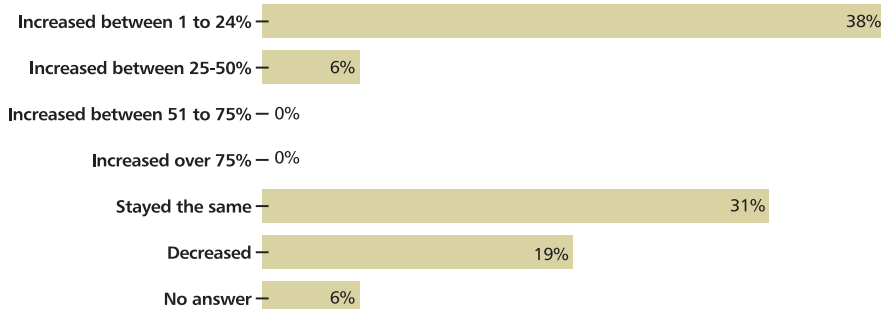
Decreasing benefits for employees is difficult and it can make attracting the best available prospective employees more challenging. Forty-four percent of dealers say a benefits package is "very important" in attracting new hires.

While there is no clear solution, the following cost saving tips for small businesses may help reduce health care costs:

- **Do your homework.** Survey your employees about their insurance needs. Do their families require insurance? And consider insurance plans that require second opinions and include built-in cost containment features.
- **Talk to your employees.** Design a plan that includes employee contributions toward the cost and keep employees informed of changes in health care costs and rates. Create a committee to investigate the group health insurance market.
- **Educate your employees about the cost of health care.** Encourage employees to request second opinions and alternative treatments.

continued on page 9

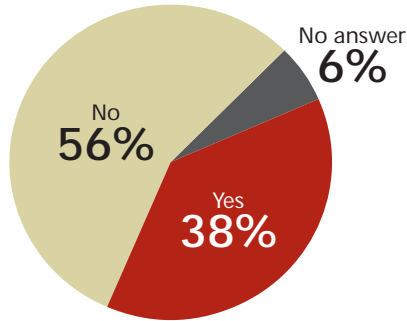
Health Insurance Costs



Source 2007 AFD Health Care Survey

In 2007, the majority of dealers faced a health insurance price increase between 1 to 24 percent. As health insurance costs continue to rise, dealers are finding other options to lower their costs such as wellness programs for employees.

Percentage of Dealers That Have Cut Benefits Due to Increased Costs



Source 2007 AFD Health Care Survey

Rising insurance costs have not yet affected the majority of dealers surveyed. Those that did say they increased deductibles and co-pays and limited coverage options.

continued from page 8

Help employees understand what is and is not covered under the plan.

- **Create a health-conscious work environment.** Limit smoking at work to designated areas or eliminate it entirely. Offer classes and incentives to help employees quit smoking. Subscribe to a newsletter that offers health-conscious information to your employees, and offer healthy choices in vending machines and alternatives to pizza and beer at employee

events. Promote moderation in the use of alcohol and establish a zero tolerance drug and alcohol abuse policy. Add a fitness center, offer memberships in health clubs, and encourage or provide incentives for employees to participate in weight loss classes and programs. Provide your employees with health education materials and resources.

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Two Plans Better Than One

In recent years, with the introduction of Qualified High Deductible Health Plans (QHDHPs) and Health Savings Accounts (HSAs), business owners have more tax-saving options in health insurance. While you may need to offer employees a traditional health plan with lower deductibles as an employee retention strategy, you may also benefit from the tax-free accumulation of funds in a health savings account. So, how can you get the best of both worlds?

One way is to keep a traditional plan and use a class system to take advantage of an HSA account. You can set up two separate plans – one traditional plan, and one QHDHP for you and your highly compensated key employees that would fit into this class.

You and those key employees can contribute up to \$2,850 to a health savings account for an individual and as much as \$5,650 for a family in 2007, capped with a maximum of the deductible amount in your QHDHP. This money grows tax-free and can be withdrawn tax-free to pay out-of-pocket medical expenses.

Unspent balances in health savings accounts can roll over from year to year and continue to grow tax-deferred. After age 65, you can use the money

for any purpose without paying a penalty. In essence, the QHDHP can act as a supplement to your retirement accounts – a great opportunity to accumulate additional monies for post retirement health insurance or long-term care expenses. These dual plans can be administrated fairly easily and provide a tax break for you.

You can offer a Qualified High Deductible Health Plan for all employees if they are willing to exchange higher out-of-pocket expenses now for possible tax-free future benefits. If you have questions on how to classify employees who want to be included in the plan, contact your tax or legal advisor or ask your health carrier.

Qualified High Deductible Health Plan (QHDHP) - Premium savings in exchange for high deductible. Patient pays for services (office visits, prescriptions, etc.) up to limit of deductible.

Health Savings Account (HSA) - Savings deposited tax-free and withdrawn tax-free as needed for qualified expenses. Money accumulates year to year, to be used for medical expenses or insurance after retirement.

Source: *The Shield, Federated Insurance Co.* ■

continued from page 7

- Leasing makes sense for producers who share equipment. Rather than debating who gets to claim the depreciation on a purchased unit, it's much easier to split out their portions of a lease payment by pro-rating the cost over the number of acres they run.
- Payments often are lower with a lease, which helps cash flow.

Typically, leased equipment is neither an asset nor a liability on a producer's balance sheet (off balance sheet financing).

"Before making the final decision, customers should consult with their tax advisers as each operation's situation is different," Takle notes. "Also, while many equipment lenders offer leasing programs, compare them carefully. One lender might provide lower payments, but the total payments plus the residual – the 'cost to own' – might be more than a lease from another lender."

Takle said equipment dealerships are likely to get more questions about leasing during the fourth quarter of this year. "Salespeople don't need to become leasing experts, but at a minimum, they should brush up on the advantages of leasing and how to calculate a lease payment," Takle advises. "They should also know that if they have questions or need help putting a quote together, they can always call their AgDirect relationship officer or the AgDirect processing center." ■