

MINIMIZE COST, MAXIMIZE TALENT RETENTION

Utilizing Contribution Modeling to Your Benefit

Contribution modeling is when employers choose a health plan for their employee population, then determine the dollar amount they'll cover and the premium amount employees will be responsible for according to a cost-share model. (For example, if an employer covers 80% of the cost of the plan, the employee would be responsible for the remaining 20%.)

As healthcare costs continue to rise, employers are looking for effective ways to contain costs. One way is to leverage contribution models to allow both employers and employees to share the cost of ever-rising health insurance premiums so it's easier for both to afford.

Given today's war for talent, finding an optimal premium cost-share arrangement is key. Striking the right balance between reining in costs and offering valued health insurance benefits can make a difference for successful talent acquisition and retention.

In 2022, employers contributed an average of 80% of the premium cost for individual health insurance coverage and 67% for family coverage.

3 QUESTIONS EMPLOYERS CAN ASK WHEN CONSIDERING CONTRIBUTION MODELS:

- 1 How can you leverage benchmarking to choose the right contribution model for your organization?** 90/10? 80/20? 75/25? Knowing how similar-size companies in the same industry and location are sharing the cost for health insurance premiums with employees can provide a valuable baseline for thinking about the type of model to consider. This important data not only gives a window into what peer organizations are doing, but it can also begin to pave the way for developing an effective long-term strategy.
- 2 What is the organization's view of benefits offerings?** Some employers are focused on offering offer the best of everything to their employees, including high salaries and robust, albeit expensive, benefits. Others want to offer their employees high salaries only coupled with the best possible health benefits they can afford. Still others seek to minimize salary and benefits spend (in favor of offering equity in the company, for example) and consider price as the number one factor when deciding about benefit offerings and how to share costs. The point is how an employer views benefits can be a major factor in ultimately deciding what contribution model to use.

For instance, if offering the "best of the best" to employees is the main focus, it's likely that an employer will choose a model that picks up a bigger share of the cost.

3 How do benefits fit in an overall compensation strategy?

Since employee benefits typically fall within the top three line items for an organization, it's not only an important part of employees' health and well-being, but it's also a vital part of a company's finances. So, making sure any contribution model is in synch with an organization's overall philosophy for compensation can be an important part of an employer's story and corporate culture, especially meaningful for attracting and retaining talent.

OTHER CONSIDERATIONS

While the answers to these strategic questions can help provide a foundation for establishing an appropriate contribution model, employers should also consider other factors, including:

Affordable Care Act (ACA)

In designing a contribution model, employers must also keep in mind ACA regulations to offer a "qualified" plan and avoid penalty fees. For organizations with 50+ employees, ACA mandates the following:

- Provide affordable, comprehensive health insurance coverage to 95 percent of employees
- Cover at least 60 percent of employees' medical care
- Substantially cover doctor and inpatient hospital care
- Provide minimum essential coverage that meets all ACA requirements and follows limits on cost sharing

For complete details and requirements, visit: [irs.gov](https://www.irs.gov).

Employee Education

No matter how an employer ultimately decides to share health plan costs with its employees, it's crucial to educate employees about it. Communicating how the model fits the organization's philosophy about health insurance benefits allows an organization to tell its story to potential new recruits and demonstrate its commitment to existing talent.

BOTTOM LINE?

There are many factors to consider when structuring an appropriate contribution model for sharing health plan costs with employees. If you need assistance, contact one of our benefits advisors who can help guide you through a comprehensive process to tailor a strategy that meets your organization's goals.

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