Small businesses wait for verdict on 2017 health care costs

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In this Sept. 12, 2016, photo, Rocky Finseth, president at Carrara Nevada, works in his office in Las Vegas. The fall is an anxious time for many small and medium-sized business owners as they wait to learn whether their health insurance costs will go up for 2017. Some, like Finseth, end up paying less. (AP Photo/John Locher)

Autumn is an anxious time for many small and medium-sized business owners as they wait to learn whether their health insurance costs will go up for 2017—and if so, by how much?

"There's always a lump in your throat because you don't know what you're going to get," says Darren Ambler, a managing director at Insight Performance, a Dedham, Massachusetts-based human resources provider.

Whether a business sees a minuscule rise, a double-digit percentage increase or even a decline depends on factors including the state where the company is located and how much its insurance carrier paid in claims over the past year. If the average age of a company's employees rose or fell significantly—quite possible in a business with 10 or fewer employees—that could also affect the outcome.

Most of the increase in insurers' costs is a result of rising prescription drug prices, Ambler says.

While companies with 50 or more workers are required to offer affordable insurance to them and their dependents, many smaller businesses also do so because they believe it's right or they want to attract and retain good employees. When their carriers hike the premiums, companies have to decide whether to absorb the costs, scale back their coverage or find other alternatives.

Several medium-sized clients of The Megro Benefits Co., a consulting company, are facing 38 percent increases in their 2017 premium costs. Surges like that have owners thinking about what's called self-funding, says Cheryl Kiley, an adviser at Conshohocken, Pennsylvania-based Megro.

In self-funding, a business pays for all or part of employees' medical costs and hires an insurance company to administer its health plan. Companies typically purchase special policies to reimburse them in the event of employees' or dependents' catastrophic illnesses. Insurance companies charge less to administer self-funded plans because they don't have any risk, and employers also save because self-funded plans aren't subject to a 6.5 percent federal tax on premiums.

Although companies may be forced to find alternatives, Megro isn't seeing clients dropping insurance, president Bob Viola says.

"People won't come to work for them unless they have health insurance," he says.

RizePoint, which makes software for the food, lodging and retail industries and has about 75 employees, is paying 16 percent more for premiums on a policy that renewed Sept. 1. It's already considering self-funding for next year.

"It's a little bit risky," says Peter Johnson, a vice president at the Salt Lake City-based company. "But I don't want to see another 16 percent increase—it's nowhere near sustainable."

Johnson had budgeted for a rise of 12 percent. When RizePoint's carrier said premiums were going up more than that, Johnson searched unsuccessfully for a cheaper policy.

Rocky Finseth had the opposite experience. His premiums fell 11 percent although the policy was virtually unchanged from a year ago.

"I was surprised not only about the drop, but how large of a drop," says Finseth, owner of Carrara Nevada, a Las Vegas-based company that does lobbying on state and local issues in Nevada. His policy, which covers seven staffers, renews Oct. 1.

Finseth didn't question why his premiums dropped. He decided to use the savings to add vision coverage for his employees.

Some companies find that their policies have been discontinued.

"The plan we had was mysteriously canceled, and we were slotted into what we were told was the same plan, but when you looked at it, it was a worse plan," says Joseph Nagle, marketing director at EverCharge, a maker of electric vehicle charging stations. Among other things, the new plan had a higher deductible—$6,000 versus $5,000.

EverCharge, based in Emeryville, California, began researching other carriers and plans, chose three and asked its seven employees which they preferred. The company, which previously paid for all its staffers' insurance, gave them an option of continuing to have fully funded coverage, paying about $10 per month for better coverage, or $120 for another. They chose the middle option, and EverCharge was able to keep its health care costs unchanged, Nagle says.

Jason Anderson, owner of Datagame, a Kansas City, Missouri-based maker of software for online market research, hasn't received his renewal package yet. Anderson pays 100 percent of his three staffers' premiums, and 50 percent of their dependents' premiums.

He had a 5 percent increase for his 2016 premiums, an amount he doesn't see as significant. He says he can handle a 10 percent increase, but if he's facing a 20 percent hike, he might have to cut back on coverage for dependents.

"I keep waiting for the shoe to drop," says Anderson, who acknowledges that he'd be angry at an increase in the 20 percent range. "I don't see 10, 20, 30 percent improvements in what I am able to charge my clients," he says.