



S T R A T E G I E S

Employee Benefits

Treating Your Health Plan Like a Family Budget

BY CHRIS DAVIS

When you are developing a household budget, a primary segment of that budget is earmarked for utilities. This typically includes electricity/gas, water/sewage, cable, internet, phones and the like. Some of these bills are fixed rate under an annual contract, while others are variable based upon some mix of household consumption and the cost rate on a per-unit basis, such as a price per kilowatt hour for electricity.

Regardless of whether a bill is fixed rate or variable rate, you still receive an itemized bill every month that specifies the per-unit cost, charges, utilization and every other metric that dictates the amount owed. This allows a family to monitor some basic elements that drive up the overall cost to the household. For a family of four, the total cost of these utilities usually exceeds \$1,000 per month.

If a family member is taking 16-minute showers instead of six-minute showers, does that increase the water bill? If it's 26 degrees outside and the thermostat is set to 80 instead of 72 because your family is in shorts and t-shirts instead of warmer clothes, does that drive up the heating bill unnecessarily?

Utilization does play a significant role in costs, but another contributing factor is fixed-rate contracts. The cable, phone and other contracted-rate bills oftentimes include features that are mandatory to pay for whether you use them or not. For example, the sports channel you don't watch represents 13% of the cable bill. Also, in many markets, there is typically only one or two viable cable providers, which reduces the chance that the price will be lowered due to competition. Another factor is that these providers are opaque in their pricing, and hidden charges can accumulate over time.

So if the goal is to lower the overall family utilities expenditure without reducing service quality, how do we go about achieving that task? First, the family has to develop strategies to limit overutilization. This may mean shorter showers, more assertive thermostat controls or turning off lights when not in use. Second, the family has to look at mediums that allow them to pay for what they want but not pay for what they don't want at a transparent price.

Finally, the family must shop only with vendors that allow both the first and second steps and then conduct price comparisons of those vendors.

This process provides a better opportunity to measure cost, quality, service and

the behaviors that affect all expenses. By applying these tactics, that family could save as much as 25% off their monthly utilities.

While this largely explains your family's utility bills, it also explains your company's health care situation. Your organization is most

likely paying over \$12,000 per year in health care "utilities" for every employee on your health plan. However, a key difference is you likely don't get detailed itemized bills, nor do you have the option to see how different providers vary in both price and quality for the services rendered to provide care to employees.

Understanding the health care supply chain in a comparable manner to how household utilities work is a strong first step in [containing health care costs](#). 📌



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