

## **Supplemental Case**

### **Chapter 11: Cutting Costs at Elite Financial Services**

As Albert Johnson, Director of Compensation at Elite Financial Services, examines the annual budget, he is concerned about the rising cost of the healthcare insurance the company provides to its' employees. In response to some recent challenges in the marketplace, Elite's CEO has sent out the directive to cut costs wherever possible. The company's healthcare insurance benefit accounts for more than one third of the overall benefits budget and Albert thinks that there may be some opportunity for savings.

Elite Financial Services provides financial planning support to a variety of clients. Unlike many of their competitors, Elite provides healthcare insurance to all of their Financial Planners and also to the entire administrative staff. The company provides a basic fee-for-service indemnity plan for its' 275 employees. The company also provides vision and dental insurance. About 60 of the employees have single coverage, 75 cover themselves and their spouse and the remaining employees have full family coverage.

Over the past ten years, Elite has had to compete with other leaders in their industry for talented Financial Planners. As a result, the company's priority in the past has been to make the company benefit program as attractive as possible to current and future employees. Pay for Financial Planners is based primarily upon incentives and therefore, offering a generous benefit program allowed Elite to attract and retain top Financial Planners. However, Albert is aware that several competitors are seeking to reduce healthcare insurance program costs as well, and therefore making changes should not hurt their position in the market.

In an attempt to keep the costs low for the employees, the plan deductibles and coinsurance are relatively low. These factors have led to fairly high premiums and Elite

currently pays 90% of the premiums for all of their insurance offerings, leaving just 10% for the employees to contribute to the premium. Finally, Elite has done very little in the past to manage the cost of their healthcare insurance benefit. For example, their experience ratings have impacted the company's premiums as employees have high usage rates of their benefits. Albert is certain there are many opportunities to cut costs, he just has to decide where to begin.