Why Use a High Deductible Health Plan (HDHP)

Presented by:

MWG BROKER SERVICES
A division of Morgan White Group

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The Purpose of a HDHP

The purpose of this white paper is to educate employers on the value of a High Deductible Health Plan (HDHP). The term "high deductible" means different things to different people, but usually it does one of two things: 1) it sends chills down your spine and makes you think it has "terrible coverage" or 2) you associate the term with "lower premiums". In both cases, they could be accurate, but it all depends on how the group health plan is set up.

The HDHP concept makes sense to most employers; raise the group's deductible and/or out-of-pocket and the cost should go down per employee. It's like going from a 3,000-sq. ft. class A office space to a 3,000-sq. ft. open warehouse. They both put a roof over your head, but there is a difference in the view.

What the employer is sometimes not told, or chooses not to hear, in fear of complicating the group's medical plan, is there are several options that can be used to combat the "high deductible" or "high maximum out-of-pocket". This idea can be simplified and provide a more cost-effective solution, if implemented correctly.

This white paper will provide you with a roadmap on how to structure your health plan, so you can offer coverage that is ACA compliant without having to pay the price of a lower out-of-pocket plan.

HDHP | QHDHP Defined

Before we cover the positives and negatives of HDHPs, strategies, and market analysis, it is important to understand the difference between a HDHP and Qualified High-Deductible Health Plan (QHDHP). Many people refer to these differently, but for the purpose of this discussion, and to keep it logical for the average reader, we will define the HDHP/QHDHP as follows:

- A high-deductible health plan (HDHP) is a health insurance plan with lower premiums and higher deductibles than a traditional health plan. These plans have been around for many years and were designed to lower healthcare costs by allowing plan members the opportunity to analyze their healthcare decisions and share in a greater portion of the cost.
- A qualified high-deductible health plan (QHDHP) is a plan that meets the requirements for plan members to utilize a health savings account along with their health plan.
  - 2018 Deductible Requirement: $1,350 Individual/$2,700 Family
  - 2018 Out-of-Pocket Maximum: $6,650 Individual/$13,300 Family

Pros of HDHP

Because it's better to see the glass half full, we will start with the positives of the high-deductible health plans. The key to raising the deductible is utilizing the savings to fund secondary benefits (gap plans | HRA | HSA) which surpass existing benefits or maintain benefits while lowering premiums. This is accomplished by blended strategies which will be reviewed in this paper.

1. Lower Premiums

Raising your deductible and/or out-of-pocket will lower your premiums. It's like trading in your Mercedes SUV for a mini-van. It may not have windshield wipers for your headlights, but it will get the kids to school on time.

Affordability is a key factor for employers and raising health insurance deductibles are much more common in today's marketplace. According to the Kaiser Family Foundation, over 51% of employers have deductibles over $1,000. Each insurance company evaluates rates differently when it comes to high-deductible plans, but after 30 years in the insurance business, our organization would surmise that a 30% discount would be a consistent average for increasing a group's deductible from $1,000 to a $5,000. However, we have seen reductions up to 50%.

2. Blended Strategies

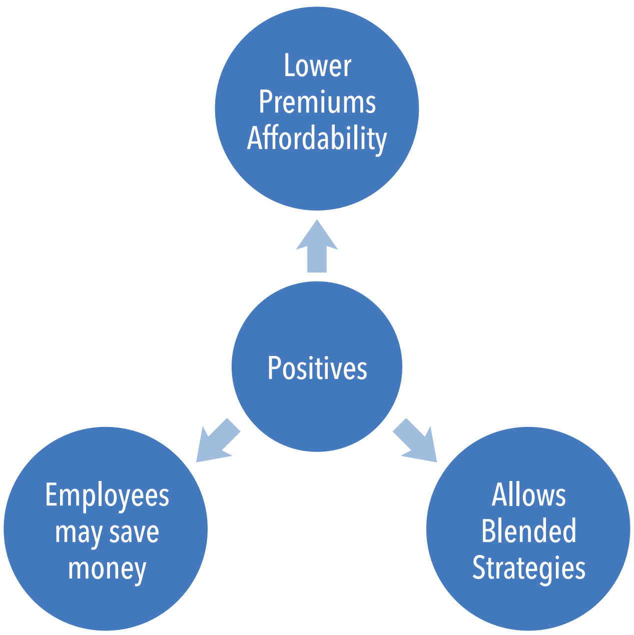
Many employers prefer a high-deductible/out-of-pocket plan because it allows the employer to customize alternatives for the group. Alternatives can include implementing an HSA, HRA or supplemental plan as options to provide benefits for the employee's maximum out-of-pocket. Each of these options have different pros and cons.

If you have a $250 deductible/100% plan, it would be difficult to implement a blended strategy. In this example, everything is covered by major medical after the deductible, which means you are paying the insurance company a premium to handle everything. No HRA, HSA, gap plan, or customized alternative to reduce costs.

3. Employees Save Money

In the statistic below, we see the average employee pays approximately $5,000 in premium, per year, out of their own pocket for family coverage. If premiums were reduced by 30% or $1,500 a year, with a little more skin in the game, most employees would approve of this change.

The Kaiser Family Foundation reports that for family coverage, the average policy totaled $17,545 a year with employers contributing, on average, 72% or $12,591. Employees paid the remaining 28% or $4,955 a year. Smaller employers, on average, pay only 65% of family coverage.



Cons of HDHP

Similar to the positives, the negatives are pretty easy to understand. Keep in mind, as you read the negatives, they are strictly discussing a HDHP on its own (unpaired with the common alternatives).

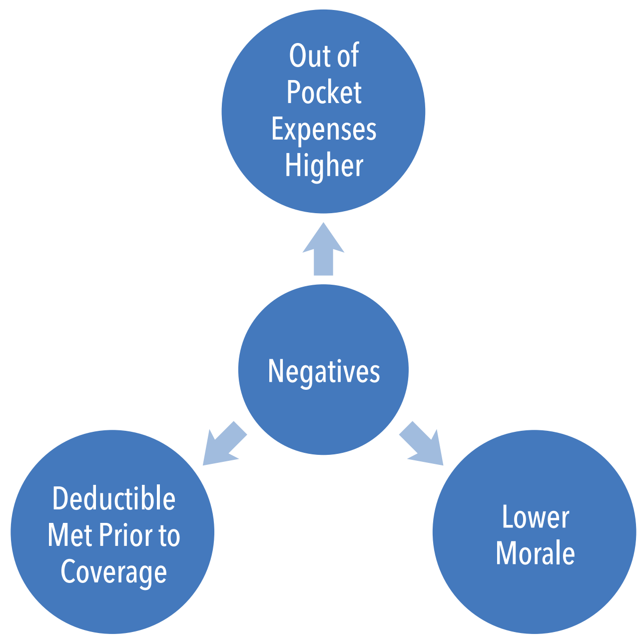
1. **Higher Out-of-Pocket Costs**

   If an employer chooses to keep the savings and forgo secondary alternatives to the high deductible plan, the employee's expenses will go up. Any survey will show that higher healthcare costs, experienced by the employees, is not well received and can hurt morale.

   Employees who visit their doctor with a minor illness a few times a year will not really feel the effect of a high-deductible plan. However, employees with chronic conditions will bear the expense burden when the HDHP is left standing alone. Higher employee costs, which lead to lower morale, affects the business in many ways.

2. **Deductible Met Prior to Coverage**

   On a Qualified High-Deductible Health Plan (QHDHP), insurance claims go toward the deductible prior to being actually paid by the insurance company. Prescription costs and doctor office visits are the biggest headache with this plan design. Although coverage feels invisible until the deductible is met, employees can have a Health Savings Account (HSA) which helps cover expenses.



Strategies with a HDHP

Employers understand raising their employee's deductible, and/or out-of-pocket expenses, is not the best way to say thank you. Employers should take the initiative to show their employees the increase in healthcare costs, and demonstrate they are looking at alternatives to maintain their existing benefits while getting premiums under control.

While some employers will want to use a portion of the reduction to possibly fund an HRA or HSA, other employers may choose to pocket the savings. The third option would be to put in a supplemental plan that can maintain the same benefits while pocketing some of the savings.

Strategies with a HDHP Continued...

Employers wanting to consider an HDHP, while trying to stay close to their current plan design, can try one of the following three options:

1. **Health Reimbursement Arrangement (HRA)**

   In a nutshell, an HRA plan is set up to allow employees to be reimbursed up to a certain amount when they have a covered expense. The employer puts these funds into an account with a specific limit per employee. Any funds not used by the employee can be rolled over to the next year, at the discretion of the employer. For example, an employee who uses $0 of the $1,000 annual HRA in Plan Year 1, has a carryover, making available an increased $2,000 HRA in Plan Year 2.

   The HRA can be used for doctor's office visits, prescriptions, surgeries, or any other 213d expenses allowed by the plan. This is a way to help employees cover the portion under the deductible. Remember, the goal would be to take a portion, or all the savings, from switching to a high-deductible plan and put it into an HRA for each employee. If you were saving $100,000 a year, and you had 50 employees, you could put $2,000 a year in their HRA.

   As good as this may sound, the HRA only pays out what has been contributed or set into the employer's HRA contract to be paid out. This is still a good alternative for the majority of employees, but high users on the group health plan may feel the pain. An alternative would be to use a supplemental medical/gap plan, which is basically like an "Insured HRA". There are numerous gap plans that can provide this benefit; however, there is only one plan in the market that does not have all the exclusions. This plan is called the Premium Saver Plan and is offered by four different insurance companies (AmFirst Insurance Company, Standard Life and Accident Insurance Company, Monitor Life Insurance Company or New York, and TPM Life Insurance Company).

2. **Health Savings Account (HSA)**

   A health savings account allows employees and/or employers to set aside money for future health expenses (medical, dental, vision, etc.) with a tax deduction and tax-free growth up to $3,450/$6,900 in 2018. To set up an HSA within a group medical plan, it must be a Qualified High-Deductible Health Plan. Remember, this means the member must meet the deductible prior to anything being covered by the plan. The biggest "gotcha" to these QHDHP's is the prescription & doctor's office visit is not covered during the deductible period; however, if you have set aside money in your HSA, those funds can be used for these expenses.

   According to LifeHacker, QHDHP plans can be 50-60% lower than traditional plans. Although, the discounts are much greater, the employee can be left with a greater out-of-pocket if the employee/employer does not set aside funds in the account.

   Implementation Strategy Ex. 1: When a group is healthy, with younger employees, it is an ideal time to consider setting up an HSA plan and helping the employees fund their account. Not to mention the tax-free growth that can compound and build real savings for the future.

   Implementation Strategy Ex. 2: These plans can also be set up as a 2nd plan type for members in the group who may rather contribute to an HSA for future preparation than enrolling in a lower out-of-pocket plan now.

   One negative to an HSA over an HRA or the Premium Saver would be that funds contributed to an employee's HSA account stay in their account if they leave the company. This means, if you contribute to your employee's HSA for several years, and they leave, it does not stay in your account like the HRA. This is a positive for the employee and a negative for the employer.

Strategies with a HDHP Continued...

3. Premium Saver Plan

The Premium Saver Plan is a supplemental medical policy which is referred to by some as a gap plan. The reason we are evaluating the Premium Saver specifically, over other gap plans in the market, is because this plan is considered the "Cadillac of Gap Plans". Like the HRA/HSA, the Premium Saver does not exclude common procedures which can be excluded among other gap plans. The Premium Saver plan only excludes the professional fee of a physician and outpatient prescription drugs. However, an additional rider can be added for these two exclusions. Often, the major medical plan will cover these services with a copay.

Typical Gap Plan Exclusions: complications after childbirth, physical therapy, speech therapy, chemotherapy, lab work, ambulance transportation, outpatient therapy, EKG, EEG, ECG, substance abuse, nursing home, hospice, skilled nursing facility, outpatient immunotherapy (rheumatoid arthritis or Chron's disease), and many other procedures.

The goal of providing health insurance is to give employees a security in knowing that catastrophic health events will not put them in a situation of financial unrest. The main reason this plan is chosen is due to the larger benefit provided, compared to the contribution amount with the HRA/HSA. Although this plan is not a savings account for the employee or employer, it provides the greatest benefit of all three options.

How the Premium Saver Works

As the employer, if you choose to go from a $1,000 deductible plan to a $5,000 deductible plan, you could expect an average 30% reduction on your major medical premium. Therefore, "ballpark pricing" may bring your premiums from $600 PEPM to $400 PEPM. This leaves you with $200 per employee per month to replace the $4,000 difference in benefit. Here is a quick summary of these three plans and how each may work.

Current Plan: $1,000 Deductible/100% plan; Current Rate: $600 PEPM

Alternate Plan: $5,000 Deductible/100% Plan; Alternate Rate: $400 PEPM ($200 Less Per Month)

Premium Saver Plan: $1,000 Deductible/100% plan with $4000 benefit

$200 Monthly Benefit	**HRA**	**HSA**	**Premium Saver**
Employee Benefit from Savings	$2,400 Annual Benefit	$2,400 Annual Benefit	$4,000 Annual Benefit
Employer Savings per Employee	NA	NA	$100 PEPM Employer Savings

Challenges and Solutions with HDHPs

If you are wondering what your next steps should be as an employer, let us give you a few more situations to consider followed by a real-life example.

Health Savings Accounts
Here are several scenarios where HSA plans are valued and/or cautioned among employer groups.

- HSA plans are valued by highly compensated employees
- HSA plans are valued by younger employees that are typically healthy; it can be a great long term financial tool for a couple
- HSA plans are used in groups as an additional plan option (*not always valued by the group as a whole, but valued nonetheless by a few.*)
- A member can keep the funds contributed by an employer once the member leaves, quits, or is fired. This is not the case with an HRA or the Premium Saver since the employer owns the account or group contract.
- Even if the employer contributes $100 a month to an HSA, the employee still has a large out-of-pocket if the deductible is $5,000

Health Reimbursement Accounts
Here are several scenarios where HRA plans are valued and/or cautioned among employer groups.

- The employer can contribute whatever they want to the HRA and the funds can be used for 213d expenses such as sunglasses, dental, vision and other items. *The draw back to setting up an HRA, without strict limitations, could be that they spend their HRA money on non-medical expenses, dependents and family members not on the plan, and if something does happen to the employee, there is no money left to cover the expenses.*
- HRA plans can carry over benefit dollars not used. An example would be an employee uses $0 of the $1,000 annual limit in Plan Year 1. Starting Plan Year 2, the employee would see a $2,000 limit in their HRA.
- HRA's can be used in conjunction to other health plans like the Premium Saver.
- If an employee leaves the company, the funds stay in the employers account. However, if COBRA eligible participants stay on the plan they are still able to access these funds while on COBRA.
- HRA administration has improved over the years and now you can even submit claims through your iPhone for reimbursement. Most providers use a debit card for their employees.
- The benefit is equal to the amount stated in the contract and funded by the employer.

Premium Saver Plan (Gap/Supplemental Plans)
Here are a few scenarios where the Premium Saver Plan is valued and or cautioned among employer groups.

- The best feature of this plan is that the Premium Saver provides four to five times the benefit of the money contributed. Ex: $1,200 paid in premium could produce $5,000 – $6,000 in benefits.
- The Premium Saver pays off the major medical EOB and does not have the exclusions or network holes that other plans may have. Ex: If the major medical plan is BCBS, then the Premium Saver will pay off the BCBS EOB. This means, Premium Saver will pay off the BCBS contracted rate and pay the provider directly.
- Many people ask how can the Premium Saver insure these benefits cheaper than the major medical plan? The answer is they don't have provider fees like the major medical. The first $5,000 is the most expensive to insure for the major medical, and this plan, in a worst-case scenario, only pays $9,500 in benefits for a member. The major medical plan could have millions, so they must price that into their plan.
- The Premium Saver does not provide tax benefits like the HSA for the employee.

Side by Side Comparison

Benefits	HRA	HSA	GAP Plan (Premium Saver Specific)
Minimum Enrollment	2	1	5
HDHP Deductible Minimums	No Minimum	$1,350 *(As of 2018)*	No Minimum
Employee Contribution	No	Yes	Yes
Debit Card Available	Yes	Yes	No
Owner of the Account/Plan	Employer	Employee	Employer
Contributions	Employer	Employee/Employer	Employee/Employer
Benefit/Contribution Amount	Dollar for Dollar	Dollar for Dollar	4x – 5x contribution amount
Contribution Limits	None	$3,450 – Single $6,900 – Family *(As of 2018)*	$9,500
You can use money in account before fully funded	Yes	Yes, only available balance	Yes
Benefit Access	Full balance available day 1	Available Balance	Full balance available day 1
MM Plan Design	HDHP Common	Must use QHDHP	HDHP Common
Tax Benefit	Tax Deductible	Tax Deductible Grows Tax Free	Tax Deductible
Corporate Requirements/Limitation	Coverage for Sole Proprietors, Partners and 2% or More S-Corp Owners (cannot be covered)	Coverage for Sole Proprietors, Partners and 2% or More S-Corp Owners (Yes, but not eligible to participate in cafeteria plan used to fund HSA in the workplace)	No Limitations if everyone on the Major Medical plan is on the Premium Saver Plan

Conclusion & Analysis

In conclusion, we hope you have found value in this HDHP analysis. These plans are just another tool we can use to create health plans that work for our employees and budget. If you haven't evaluated your options, renewal is a great time to do so. Most of these options only take a day or two from a quote perspective, and raising your deductible will also prevent frequency claims on the major medical side which could lower your overall rate increases for years to come.

If your company is interested in maximizing your plan dollars with a high deductible concept, call an advisor at MWG Broker Services at 1-877-759-5728. We have advisors across the country to assist and help you explore your options.

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