

FINANCIAL FITNE\$\$

Alternative Health Plans are Becoming a Necessity

By Michael Jackway, CFC

One of the biggest misconceptions when talking about group health insurance today is that employers are required to offer a competitive benefits program. This simply is not the case.

Most employers, however, do offer benefits as a tool to attract and retain employees. As the cost for health insurance rises, small businesses continue to struggle with offering employee benefits. Most of the time, employers are forced to pass the excessive cost of health insurance onto their employees, as well as to their clients or customers.

The entire scope of the healthcare system is changing and evolving before our very eyes. The introduction of account-based healthcare plans (routinely called consumer-driven plans) placing more fiduciary responsibility on the consumer is becoming inevitable.

Initially, the healthcare system was never designed to pay for the minor claim expenditures; it was designed to pay for those outrageous claims that we cannot afford. Consumers have become accustomed to \$20 co-pays, and \$15/\$25/\$40 prescription drug card benefits. These first dollar benefits have led to excess utilization and increased costs to both the employer and employee.

To restore order in today's healthcare system, consumers and employees need to be more cognizant of the true cost of healthcare. They need to change the way they think about and pay for their healthcare. The concept of account-based healthcare plans, like Health Reimbursement Accounts (HRAs) and Health Savings Accounts (HSAs), can help to do exactly that.

The HRA and HSA account-based healthcare plans are becoming increasingly popular among employers and employees. However, the concept of offering alternative plan designs and account-based healthcare plans within a typically traditional benefits package can be intimidating. More importantly, trying to understand how it all works can be overwhelming, but it is much simpler to understand than you would first think-so let's break it down.

High-Deductible Health Plans and Health Reimbursement Accounts

The combination of a High-Deductible Health Plan (HDHP) and a Health Reimbursement Account (HRA) allows the employer to save significantly on health insurance premiums, while providing a comprehensive health insurance plan with minimal extra cost to employees.

What is an HDHP?

An HDHP usually features \$1,500 single deductibles and \$4,500 family deductibles, but also includes additional out-of-pocket exposure or co-insurance. Carriers in the Chicago market offer plans with various deductibles and co-insurance options; these plans typically carry physician, emergency room, and Rx co-payments. An HDHP is similar to traditional group health insurance plans, except that the deductibles and out-of-pocket costs are increased.

What is an HRA?

HRA accounts, enabled through the IRS Tax Code Section 105, are employer-sponsored accounts used to reimburse employees for medical expenses not reimbursed. An HRA is generally offered in conjunction with a high-deductible health insurance policy.

Employees can use the allocated money in the account--tax-free--to pay for eligible healthcare expenses determined by the employer. An example of eligible medical expenses that are reimbursable to the employee may include: doctor office visits, prescription drugs, routine physical exams, vision and dental expenses.

How does an HDHP and an HRA work together?

Switching from a traditional group health insurance plan to an HDHP saves the employer significantly on insurance premiums. The savings to the employer means increased exposure to the employee, and that's why HRAs are becoming so popular among employers. The money that the employer saves can now be allocated to each employee's HRA, and those funds can be used to pay for qualified medical expenses.

EXAMPLE: ABC Company has 16 employees and currently pays \$100,000 in annual health insurance premium to the health insurance carrier. By switching to an HDHP, the company now pays \$65,000 in annual health insurance premium and allocates the \$35,000 in premium savings through the HRA. That \$35,000 is the employer's money to keep, and will only be utilized by employees participating in the plan. In most cases, an average of only 20% of the HRA funds will be utilized by employees thus enabling the employer to retain any unused funds.

Qualified High-Deductible Health Plans and Health Savings Accounts

An affordable Qualified HDHP combined with a tax-favored HSA, results in savings to the employee or individual through lowered healthcare premiums and a reduction in taxable income.

What is a Qualified HDHP?

A Qualified HDHP features a minimum single deductible of \$1,050 and \$2,100 deductibles for a family, with no 'first-dollar' benefits (i.e. co-pays and drug card). 'Qualified' HDHP guidelines are determined and set forth by the IRS each year.

How does an HSA work?

The HSA grows tax-free, and if the funds are used for eligible medical expenses, then the account holder never pays taxes on those funds. Before an HSA can be established, a qualified HDHP must be in place to cover the individual or family. The individual/employee is able to use this HSA as long as their HDHP meets the IRS qualified requirements.

To summarize, HRAs and HSAs will become more mainstream as employers look for alternatives to the traditional group health insurance plan. It is important to know that these account-based healthcare plans do not have to fully-replace the traditional group plan, although they can be used as an alternative. Often times, these programs are utilized in conjunction with traditional group plans. Account-based healthcare plans are gaining the notoriety they deserve which will help make the transition much more seamless for employers and employees.

The time has come and gone, where we as consumers must rely on the third-party payer system. Proof is in the double-digit rate increases that employers are faced with at each and every

renewal. As the cost of health insurance escalates each year, employers are struggling to continue offering employee benefits. There is a need, now more than ever, to come up with a solution to the problem. Take advantage of the programs that have been designed to address these issues before it is too late.

Michael Jackway, CFC is Vice President of Robert Jackway & Associates Inc. located in Rosemont, IL. Robert Jackway & Associates, Inc. is a full service insurance brokerage firm offering a variety of services and products to meet your needs. Our extensive scope of products offer employers, employees, and individuals the ability to choose a program that meets their goals & expectations. Robert Jackway & Associates, Inc. is at the forefront of the latest trends and key options in healthcare. If you are in need of help with account based and/or traditional group healthcare plans, please feel free to contact Michael Jackway at 847-268-1500.