Lowering your costs

How nontraditional plans can help the bottom line and still meet coverage needs **Interviewed by Meredyth McKenzie**

The cost of health care for employees and employers has been going up for the past few years and is expected to continue to rise. Total spending on health care in 2007 was $2.4 trillion, or $7,900 per person, and is expected to increase over the next decade to $4.3 trillion. Employer premiums also increased by 5 percent in 2008, with the annual premium for a family of four at nearly $12,700 and for singles at $4,700. These increasing costs can cause additional strains on employers and employees in an already tight economy.

"Alternative funding, such as a health reimbursement arrangement, is a way to lower your total health care spending," says Julie Salem, manager of new business sales at Priority Health.

Smart Business spoke with Salem about the types of alternative funding available, how you can implement those into your company and how they can improve your bottom line while still meeting employees' health care needs.

Julie Salem
Manager of new business sales
Priority Health

What types of alternative funding or nontraditional health care benefits are available for employers?

Priority Health offers an HRA, which is a flexible, fully integrated health plan solution. It adds a health reimbursement arrangement (HRA) to a Priority Health medical coverage plan. This can be used with either a PPO, POS or HMO plan design.

The employer controls the level of HRA funding it wants to provide for its employees. Employers can customize it to suit the needs of their company as well as their employees.

The base premium is lowered due to utilizing a high deductible plan design. For example, if an employer selects a deductible plan of $5,000/$10,000, it chose to set the employee's deductible at $250/$500, the employer is then 'self-funding' the balance of the deductible.

A new option for employers with at least 100 contracts enrolled, Shared Funding, could also be a money-saving option. Like other funding options, it's backed by cost-containment measures, extensive network and great customer service. Basically, how it works is instead of paying premiums that are calculated according to the health of an entire community, the premiums align with the group's claims history. The group pays for its actual experience. After 12 months, we compare the group's actual experience to the total premiums it has paid. If claims are less than projected, the group receives money back, a full refund of the amount it paid but didn't use.

If the claims are more than projected, the group owes the difference, but only up to a ceiling amount that is agreed upon in the beginning of the year. The Shared Funding alternative has reinsurance (stop-loss) protection built in.

How can employers implement an HRA and incorporate it with traditional benefits?

An employer will determine the amount to contribute to the HRA and their contributions are tax deductible. There is no need to prefund this HRA; we allow funding on a pay as you go basis. So if employees are not using benefits that go toward their deductible, there is no funding required. The administration is simplified and, because of our integrated system, we take care of all claims processing and the tracking of HRA balances.

We have a feature we can add to our benefit plans we refer to as co-pay alignment. For several benefits, rather than be subject to deductible and coinsurance, we apply a flat-dollar co-pay that is aligned based on cost of service. For example, an office visit, which is one of the lowest cost benefits, would have a flat-dollar co-pay of $10. A specialist visit would have a flat-dollar co-pay of $25, urgent care would be $40, etc. This option will remove these benefits from the deductible and, therefore, remove them from the liability of the employer if the employer is self-funding the deductible with an HRA plan design.

Does changing to an HRA affect employee benefits?

It allows employees to keep their benefits just as they are. For example, if they have a $250/$500 PPO plan, they can keep the same plan design, but the employer self-funds the higher deductibles down to the current level, therefore, allowing the employees to maintain the same benefit design. These plans are also referred to as 'wrap programs.'

What benefits will employers see from putting an HRA in place?

They're lowering their premium. And again, the contributions toward the HRA are tax deductible. The employer retains ownership of the HRA funds if the employee leaves the company. <<

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