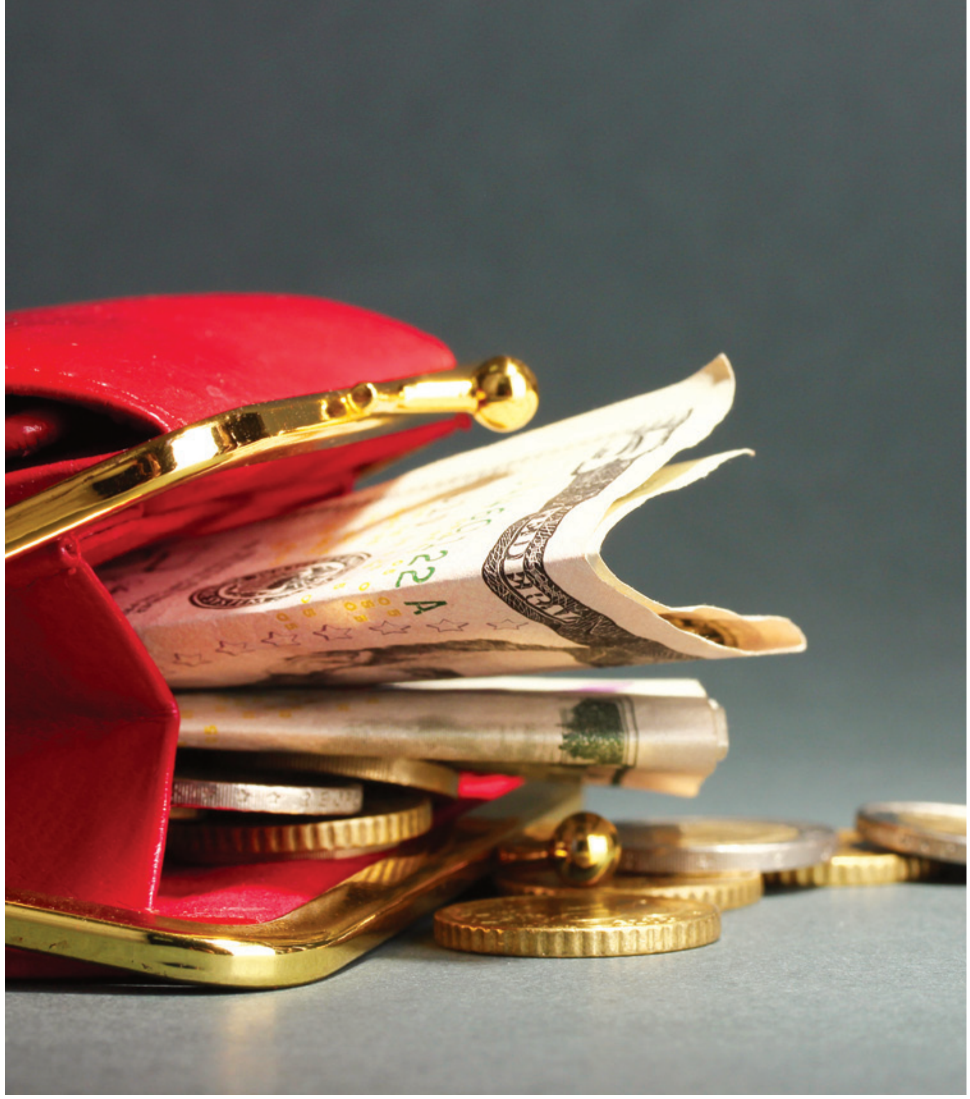

How to Leverage Health Benefits

Supplemental Plans, HSAs Fill Coverage Gaps, Incent Patients

Significant medical advances mean more Americans are surviving catastrophic illnesses or episodes such as cancer, heart disease, heart attack and stroke. But rising out-of-pocket costs are complicating recovery – and life – as more people enroll in high deductible health plans (HDHPs). Fortunately, there are solutions at hand for self-insured employers seeking to forge more of a partnership approach to health plan management with employees and their families.

A core buy-up approach involving supplemental healthcare benefits such as critical-illness and accident policies ensures that employees have a baseline financial protection moving forward. It also provides them with a vested interest in and better understanding of, self-insurance. Moreover, having access to nurses and claims staff associated with these plans can help employees make better decisions and therefore, potentially mitigate costs or claims.

"People need to make tradeoffs to cover their out-of-pocket expenses, whether it's putting off a vacation or a major purchase, such as a new roof on their house or a new car," observes Bryan Burke, director of product management and development at Sun Life Financial. Other unfortunate scenarios or outcomes include incurring debt, draining life savings, filing for personal bankruptcy, experiencing a foreclosure, or borrowing money from family or friends.

Written by Bruce Shutan

Self-insured employers can help their employees avoid these pitfalls by offering supplemental or ancillary insurance products to offset these expenses and add a critical layer of financial protection. This strategy also can shield health savings account (HSA) balances from catastrophic events and enable employees to leverage the power of these accounts over time.

Eyeing Fixed Costs

Helping employees leverage their benefits portfolio to help plug medical coverage gaps is considered a recruitment and retention tool at Siddons-Martin Emergency Group, which sells ambulances, fire trucks, police cars and command vehicles across Texas, Louisiana and New Mexico where 14 service centers also do repairs on those vehicles.

"The majority of our customers are governmental entities – fire departments, police departments, cities and towns – so we end up recruiting mechanics and technicians" from those avenues, says Jeff Keiser, EVP of Siddons-Martin Emergency Group, which has grown over the years and is actively hiring. "One of the things we found was that we had to be a little more aggressive on what we did from a benefits standpoint."

To help boost participation in its HDHP, which is 45% compared to 55% in the PPO, Siddons-Martin pays 100% of the coverage once employees meet their annual deductible, whereas it's 90% for the PPO, whose total out-of-pocket costs exceed the HDHP. The company also kicks in more money on HDHP monthly premiums, which average just $45 per employee compared to about $120 for the PPO.

"I'm a personal proponent of the high deductible plan and an HSA because I feel like it gives a lot more finality to exactly what you are going to spend in health care dollars," Keiser says.

Plugging Holes

The Great Recession of 2008 and the Affordable Care Act have driven interest in supplemental insurance products, which Burke reports are trickling down market to smaller groups. While they're increasingly being offered on an employee-pay-all voluntary basis, he says employers can help boost plan participation by making a modest contribution toward critical-illness or accident insurance premiums as companies shift to HDHPs.

It's a worthy investment, Burke believes, considering premiums for these supplemental health products are only about $200 to $300 a year – at least in the case of critical illness. And with $10,000 or more of benefits, depending on the plan design, he says "it really gets employers a big bang for their buck."

Employees, of course, always have the option of buying up more supplemental benefits coverage as their needs change over time, which is relatively easy to do when premiums are so low. From a strategic business standpoint, any corporate willingness to subsidize part of these product premiums can foster goodwill and loyalty, raise morale and help recruit and retain top talent.

"In a lot of ways, going to a high deductible health plan can feel like they're taking something away," Burke explains. He believes offering supplemental insurance to offset rising medical expenses and communicating the importance of filling coverage gaps can help ease this transition as more employees shoulder greater health care costs.

At Siddons-Martin, 215 employees and an estimated 165 dependents can choose between a PPO and HDHP, while the company matches up to $750 of each employee's annual contribution to an HSA, whose account balances average about $1,280. Annual deductibles are $2,500 for employee-only coverage and $5,000 for family coverage. In addition, dental and vision plans are offered on a 100% voluntary basis and life insurance that's one times base salary, as well as short- and long-term disability policies.

When Keiser was hired, one of his first was to re-evaluate the fully insured health plan, which predated a 2011 merger between two separate companies. A decision was made to self-insure through a Cigna administrative services only arrangement featuring a fixed cap each month, regardless of the firm's claims history, which became a fully self-insured plan in 2012 with Sun Life as the reinsurer. "We were responsible in the first year for claims up to $25,000 and currently we have coverage up to $35,000," Keiser reports.

Sharing Responsibility

The number of workers in self-funded, high-deductible HDHPs climbed to 68% from 60% in the past year, according to the Kaiser Family Foundation. That tie-in is significant in explaining how self-insurance matches up well with HDHPs in an era of shared responsibility between employers and employees when it comes to paying medical bills and containing costs.

"The same employers that have stop-loss insurance that are self-funding are also the same employers that are introducing the high deductible health plans," notes Dan Sirois, director of stop-loss product development at Sun Life Financial. Moreover, he says the number of employees enrolling in HDHPs has generally increased over time.

Stop-loss is going to provide protection on many different levels against all types of conditions, particularly cancer, which he says have represented roughly 25% of all Sun Life reimbursements on a dollar

standpoint over a four-year span. Such activity is also "very high frequency," he adds, noting that more than half the carrier's stop-loss policyholders in any given year will experience a cancer claim.

Nurse involvement with supplemental insurance policies can be critical in terms of early detection and treatment options, which can lead to a better prognosis and save money. Sun Life builds support services into its critical-illness product, which Burke says helps policyholders "navigate the differences in health plans if they're thinking about making a change. And it can even help them if they're having a discrepancy with one of their bills."

An added benefit is that it helps grant peace of mind to people who are diagnosed with catastrophic illnesses, which he says can be not only physically draining, but also take a harsh emotional and financial toll.

Preserving HSA Balances

Another conduit to this peaceful path is undoubtedly through HSAs. Whereas most HSA accountholders take advantage of the pretax contributions and tax-free withdrawals on qualified medical expenses, Burke explains that savers also benefit from tax-free investment gains. This will help them grow their account balance to pay for out-of-pocket medical expenses for themselves or a family member during their working years or even into retirement.

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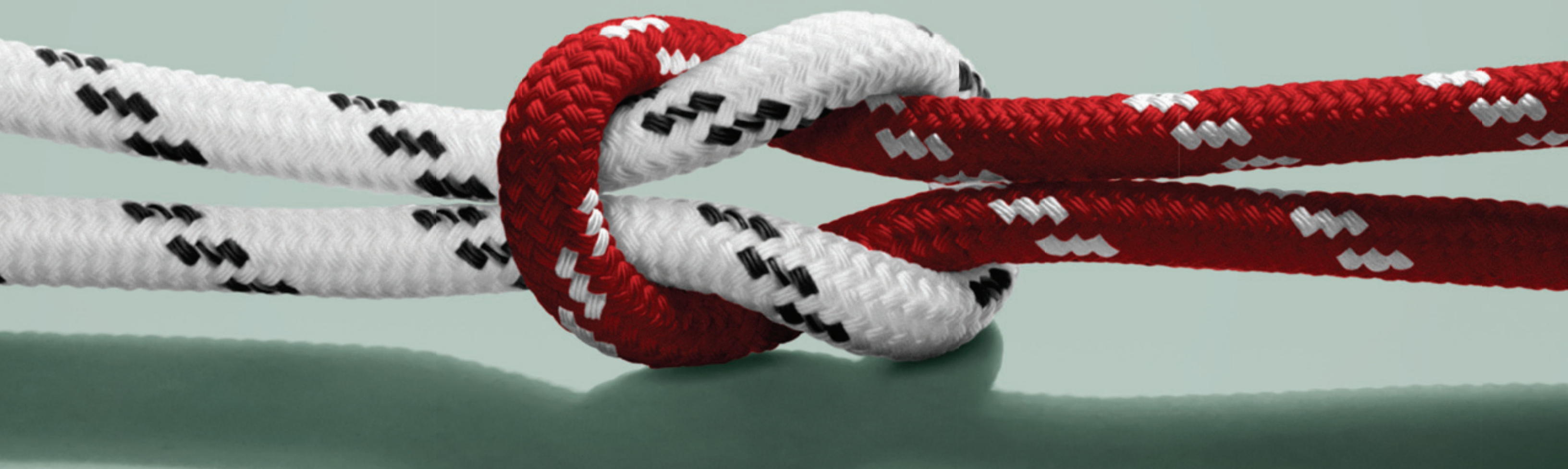

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"For them," he says, "it's not about using the HSA to cover routine office visits. But with that said, HSA balances, on average, remain around $2,000 and there are certainly a number of factors contributing to that."

Four out of five HSAs have been open since 2011, he reports, which means accounts haven't had much time to grow. "But considering the annual maximum contribution is north of $6,000 for a family, we would expect to see the average account balance to be a lot higher than that at this point" Burke says. "It's possible the 17 million Americans who are enrolled in an HSA eligible health plan simply don't understand that HSA is not use-it-or-lose-it like an FSA and that it's fully portable. Or people simply don't have enough money to fund their HSA."

These statistics elevate the case for having a safety net in place to finance critical illnesses or accidents, according to Burke. That level of protection will prevent HSA account holders from depleting their savings, which can be leveraged over time to pay for unanticipated expenses.

One interesting comparison is that there are roughly the same number of HSAs and Section 529 college-saving plans – roughly 14 million accounts apiece, he explains. However, he says "the average account balance for an HSA is nearly 10 times less than that for a 529 plan."

The cost of education is obviously significant and 529 plan participants expect the children they enroll will attend college. But working Americans "aren't doing that same kind of diligence when it comes to retirement other than maybe a 401(k)," Burke observes. So while there's more of a focus on paying for a college education, he says there's no such planning for a catastrophic health event, which can deplete retirement savings.

"There's such a strong correlation between HSAs and supplemental health all the way through disability and certainly self-funded insurance," he says.

In a post-health care reform climate, Burke thinks "it's only a matter of time before consumers become very well educated on these products. That's probably not too far down the road. All it's going to take is a couple people who have used the benefit and then word of mouth is going to spread pretty quickly across the employer and they're going to realize the real value of it because these products are intended to really help when people need it most." ■

Bruce Shutan is a Los Angeles freelance writer who has closely covered the employee benefits industry for 28 years.