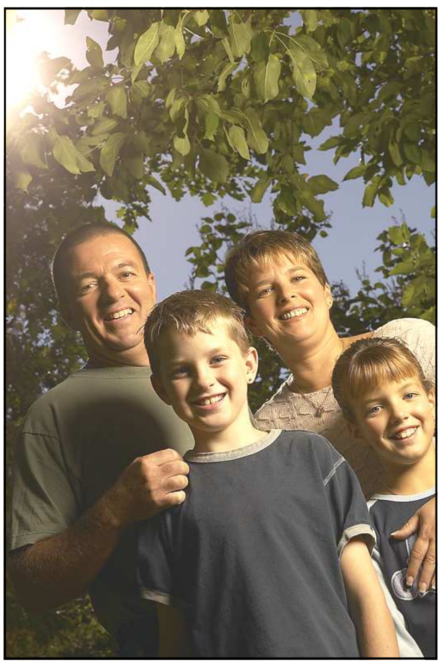
Understanding Consumer Directed Health Plans

Answers to your questions



SIHO INSURANCE SERVICES

Consumer Directed Health Plans

What is a Consumer-Directed Health Plan (CDHP)?

The concept of a CDHP is to return control of health care dollars to the person who uses them, the consumer. The consumer is given a financial incentive to control costs and as a result tend to become more directly involved in the selection and usage of health care services.

CDHP's consist of three parts:

- A health plan with a relatively high deductible level that provides financial security for more severe illnesses. Preventive care services are typically covered with only a small copayment.
- A health fund that the consumer controls. Employers can make contributions into the health fund of their employees. Funds in the account can be used to pay for expenses before the deductible is met. Any unused funds typically roll over from year to year and can accumulate into a significant balance.
- Information tools are provided to the consumer to help them make better health care decisions. These may include health and wellness information and information on providers and the cost of services.

How do these plans empower the consumer?

With a CDHP, the consumer is responsible for paying all of the medical bills up to their deductible. As a result they are motivated to consider:

- Is it really necessary for me to receive services?
- Where would I receive the most cost-effective care?
- Can I try a less costly treatment first?

What are the advantages of a CDHP?

CDHPs have advantages for both employees and employers.

For employees:

- Contributions to the health fund are tax exempt.
- The higher deductible health plan has a lower premium than a traditional plan so the employees premium contribution is reduced, saving money.
- If used judiciously, the health fund will be conserved and increase from year to year, even to the point of covering the entire out-of-pocket exposure.
- Most employers contribute to their employees health fund, so that the employees out-of-pocket exposure with the higher deductible plan may not be significantly higher than the traditional plan.
- Access to information tools to make better health care decisions and to improve health status.

For employers:

- Contributions to the health fund are tax exempt.
- The higher deductible health plan has a lower premium than a traditional plan. Employers may be able to offer a higher deductible health plan where before they could offer no health coverage.
- Lower renewal increases – studies have shown that HDHP utilization is less than traditional plans. Properly designed, they work!
- Healthier, more productive workforce.

What are the potential disadvantages of a CDHP?

CDHPs require consumers to become more involved with their health care. To maximize value consumers need to shop around and find the appropriate mix of usage, quality, and price for their health care dollar. CDHPs have higher out-of-pocket exposure than more traditional plans. This should be partially offset by employer contributions to the health fund.

Aren't CDHPs only appropriate for young and healthy people?

No. Industry experience thus far shows that the average age of CDHP participants is similar to more traditional plans. Even for families with chronic disease and taking maintenance medications, CDHPs may save money. Ever increasing co-payments for office visits, prescription drugs, and emergency room visits generally do not count towards the out-of-pocket maximums. Over the course of a year these co-payments, added to the deductible and the higher premium contribution, can cost more than the higher deductible plan where the employer contributes to the savings account. The vast majority of employers offer a HDHP AND a more traditional plan to their employees. The bottom line is that each person needs to do their homework and choose the plan that best meets their needs.

Answers to Your Questions

How does the health fund work?

The health fund is money that is set aside at the start of the year and is used towards medical expenses that the consumer is responsible for up to the deductible. For example, if a consumer has an annual deductible of $1,500 and a $750 health fund, the first $750 of medical expense can be paid out of the health fund. The consumer is then responsible for the next $750 up to the $1,500 deductible. Note that preventive care services, including physicals, immunizations, mammography's etc. are generally covered at 100% or with only a small copay. Health funds (CDHP's) come in two general varieties: **Health Savings Accounts (HSAs)** and **Health Reimbursement Arrangements (HRAs).**

What is a Health Savings Account (HSA)?

A health savings account is a physical account established at a bank or insurance company. In order to establish an HSA, the consumer must be covered by a federally qualified High Deductible Health Plan (HDHP). The structure of the HDHP is set by the U.S. Treasury with minimum deductibles and maximum out-of-pocket maximums. Every covered health service, even prescription drugs, is subject to the deductible and coinsurance with the exception of preventive care. Employees and/or employers can contribute to the HSA account, subject to an annual maximum. The accounts are portable and remain with the employee even if they change jobs. Withdrawals from the HSA can be made for any IRS qualified medical expense, the list of which is very broad including dental and vision care. The consumer does not need to submit claims or receipts to make a withdrawal; it is an honor system where the consumer needs to keep receipts should they be audited by the IRS.

What is a Health Reimbursement Arrangement (HRA)?

A health reimbursement arrangement starts out as a financial commitment from the employer to the employee; IE the employer will pay the first $750 of medical expense for the employee each year. If the employee incurs no claims, the employer does not make any payment. However, his obligation generally carries over to the next year and is added to another $750 commitment for year two. HRAs are generally paired with a higher deductible health plan whose structure is very flexible; it can have co-payments for office visits, prescription drugs etc. HRAs are not portable; any balances are forfeited if an employee leaves the organization. Although HRAs can be used to cover the very broad list of IRS qualified medical expenses, most employers limit their use to only services covered by the higher deductible health plan, IE subject to the deductible. Claims need to be submitted and substantiated to get paid from the HRA.

What information is available to help consumers?

SIHO Insurance Services website, www.siho.org has a wealth of information to help consumers make better health care decisions. Members can access their medical and pharmacy claim information to help estimate what their future cost might be and check the provider directory. The "My SIHO Health Zone" section has health and wellness content of unmatched depth, breadth, and quality. It includes numerous interactive tools including assessments and calculators as well as video presentations with audio explanations. Eighteen Health Zones offer in–depth information on today's most prevalent wellness and condition management topics.

Do CDHPs really work?

Yes. CDHP participants, when compared to participants in traditional plans, are:

- 50% more likely to ask their provider about cost
- 33% more likely to independently verify treatment alternatives
- 3 times more likely to choose less extensive or less expensive treatment
- 25% more likely to engage in healthy behaviors
- 20% more likely to participate in wellness programs
- 30% more likely to get an annual checkup
- 20% more likely to follow treatment regimens
- Twice as likely to inquire about drug cost

According to the Towers Perrin 2008 Health Care Cost Survey, HSA plans cost 20% less than traditional PPO plans while HRA plans cost 11% less.

If you think a CDHP might be right for you and your employees, contact your local Insurance agent or SIHO at the following locations:

Columbus	**Bloomington**	**Evansville**	**Indianapolis**	**Logansport**	**Seymour**	**Owensboro**
(812) 378-7070	(812) 245-5000	(812) 759-7446	(317) 848-1290	(574) 722-1776	(812) 524-2704	(270) 684-6496
(800) 443-2980	(866) 370-7446	(888) 843-1312	(800) 873-2022		(800) 443-2980	(866) 372-7446

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