



## EMPLOYEE BENEFIT SERVICE CENTER

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### EXPANDED HEALTH INSURANCE OPTIONS FOR AGC MEMBERS

For many years, employers are burdened with large increases in their group medical insurance premiums. Is managed care a failure? Will the increases never end? How did we get into this mess? While there is an extensive list of causes for the increases we are experiencing (i.e. the costs of high-tech equipment, life saving drugs, and high administrative costs), there is another cause regarding routine expenses that is often not discussed. This problem has come about over the years as our definition of Covered expenses has evolved.

Twenty-five years ago an insurable event was a large, unexpected medical expense. Over time, insurance plans have come to include many types of routine expenses, most of which employees now expect to be paid. These routine expenses are an important part of maintaining employee health, but they are a major factor in the high cost of healthcare.

The insurance market is responding to these changes with a new type of health coverage called a consumer-driven plan. It has two parts: a benefit plan created for routine expenses and an insurance plan with high deductibles and coinsurance for the larger, unexpected medical expenses. It separates the insurable event from the routine expenses. It is important to examine the distinctions between an insurance plan and a benefit plan.

<b>Insurance Plan</b>	<b>Benefit Plan</b>
Provides financial protection for unexpected events	Provides financial assistance for expected events
Covers less frequent, but high cost catastrophic events	Covers high frequency, low cost routine events
Cost Sharing - Carrier pays the greater portion of the expense	Cost Sharing – the individual will pay a higher percentage of the expense than under insurance plan.
Generally considered a necessity	Not considered a necessity

National health plan carriers have started to rollout plans similar to these. However, we do not know when they will be available in New Mexico and if they will be offered to the typical small New Mexico employer. This may be hard to imagine, but the IRS has provided an option that will give employers a new option for controlling insurance premium costs: it is called the Health Reimbursement Account (HRA).

An HRA is an employer-funded account that gives employees the ability to direct how the funds are used to pay for unreimbursed medical expenses. This HRA can be paired

with a high deductible health insurance plan (which covers high-cost insurable events) to help employees cover the routine expenses as well as the deductible and other out-of-pocket expenses. One big advantage to employees is that the unused funds from the current benefit year will rollover for use in future years.

In addition to the HRA, there are other plans employers can implement to fund routine medical expenses. Included are the following:

**Medical Reimbursement Plans:** This is an arrangement in which the employer self-funds a limited liability for each employee. For example, the employer can reimburse \$1,000 per employee per year for expenses that were not covered by the medical plan. The actual liability for this plan is not known, only the maximum liability.

**Flexible Spending Accounts:** These arrangements are funded by the employees with pre-tax dollars. Unused funds at the end of the year cannot be carried forward and are forfeited by the employees. FSA's can be used in conjunction with the employer funded HRA or Medical Reimbursement Plan.

**Medical Spending Accounts:** These accounts can be coupled with very specific high deductible plans. Unused funds may be carried over to the next benefit year. These plans are offered by a limited number of providers. The MSA is tied to the insurance company offering the high deductible plan.

With New Mexico managed care and preferred provider plans offering many more options that shift expenses to employees, these new funding arrangements offer employers the tools to both manage their increasing "insurance plan" premiums while providing employees a "benefit plan" to assist with routine expenses. At the same time it can give employees greater control over where and how they access medical care, which is another perceived disadvantage of managed care.

Here is how it works: The employer implements a managed care plan with a \$1000 deductible. The employer also contributes \$50 per month or \$600 per year to an HRA. Employees who have routine, predictable expenses can contribute \$400 or more to an FSA. During the benefit year, the FSA funds are used first, then the HRA funds. An employee, with careful use of unused HRA funds that are carried over, can build up enough funds to cover the deductible. At the same time, the employee can select the providers they want to use. They can use specialists without permission from their primary care physician, and purchase non-formulary drugs as needed.

Can we answer our original questions: Is the current type of managed care a failure? Will the increases never end? Each employee's experience will determine his or her own answer to the first question. If you had an \$80,000 hospital bill and had to pay only \$1,000, the plan is a big success. However, if you need a non-formulary drug that is not covered, the plan is a failure. So, each employee will have his or her own answer as to whether or not the current managed care system is a failure. Based on that answer, each employee will also have his or her own opinion about whether or not new alternatives such as HRA's and FSA's are necessary. As for the second question: Will the increases never end? Probably not, but these new tools give employers greater control over their costs and, and employees greater control over access to medical services.