

CURRENT TRENDS IN BENEFITS

Consumer Driven Health Care



Many employers and self-employed individuals are investigating Consumer Driven Health Care (CDHC) with individual health benefit accounts due to the convergence of three powerful trends: rapidly increasing premiums for traditional health insurance; a backlash by employees and providers against managed care with provider-side cost constraints; and a rise in health care consumerism fueled by the internet and direct-to-consumer advertising for health products and services. Employers and self-employed individuals are exploring whether CDHC can contain health care costs and increase consumer choice and satisfaction concerning health care.

Defined narrowly, consumer driven health care (CDHC) refers to health insurance plans that allow members to use personal Health Savings Accounts (HSAs), Health Reimbursement Arrangements (HRAs), or similar medical payment products to pay routine health care expenses directly, while a high-deductible health insurance policy (HDHP) protects them from catastrophic medical expenses. This system of health care is referred to as "consumer driven health care" because routine claims are paid using a consumer-controlled account versus a fixed health insurance benefit. That gives patients greater control over their own health budgets. High-deductible policies cost less, but the user pays routine medical claims out of pocket or by using a pre-funded spending account, often with a special debit card provided by a bank or insurance plan. If the balance in this account runs out, the user then pays claims just like under a regular deductible. Users keep any unused balance or "rollover" at the end of the year to increase future balances, or to invest for future expenses.

HSAs were created with tax incentives to encourage adoption of high-deductible health plans. Banks were empowered to create HSAs, which deliver tax-free interest to the holders, who can then withdraw money tax free to pay for qualified health care expenditures. To qualify for an HSA, the purchaser must also have a qualifying high-deductible health insurance plan. Participants are allowed to contribute more to the savings account than would be required to fulfill their annual deductible, and any unused portions of the account accrue without tax penalty so long as the funds are used only for qualified medical expenses. Many employers have made the decision to also contribute a portion of the allowed amount to their employees HSAs to ease the burden of high out of pocket expenses before the deductible is realized.

Another model of consumer driven health care includes Health Reimbursement Arrangements (HRAs), which are employer-funded, and in which employers receive the tax benefits. The money is available to the employees for out of pocket expenses before they reach their high deductible but may not cover the total amount of the deductible depending on the employer's contribution decision. These arrangements also require a qualifying high-deductible health insurance plan as the underlying employee benefit.

Contact your agent to learn how this new trend could benefit your company.