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STRATEGY SESSION

Health care reimbursement strategies will be key tool

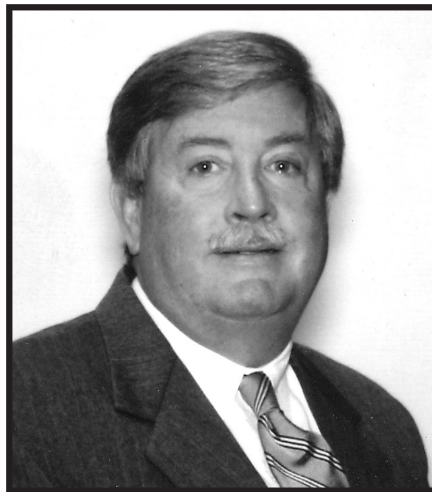
By Brian Lynch Sr.

Milliman USA in Windsor, our local source for health plan actuarial/pricing consulting services, has recently delivered some good news to us. The prescription drug component of all medical costs rose 8.5 percent in the first half of 2003, down from 13.4 percent in the prior six months. Hospital outpatient spending growth also eased to 12.9 percent in the first half of this year from 14.1 percent during the last six months of 2002.

On the heels of this encouraging news, Connecticut employers have a wide array of health-plan design options, including up-front deductible plans and high hospital services co-pay plans. Up-front deductibles or hospital services co-pays range from as little as $500 to as much as $5,000. Nearly all of the clients that have accessed these plans are utilizing Health Care Reimbursement strategies as defined by IRS Revenue Ruling 2002-41, IRS 2002-45, and sections of the Internal Revenue Code. These regulations allow employers to agree to reimburse plan members for expenses or exposures exceeding predetermined levels.

As an example, an employer may, at renewal, purchase from an HMO a fully insured contract increasing the hospital co-pay from $250 per confinement to $500 a day, not to exceed $2,000 per stay for in-network hospitalizations. This action, coupled with moving the office visit co-pay from $15 to $30, will typically reduce gross annual renewal premiums of $7,500 per enrolled employee to $6,600. This action will take an 18 percent fixed cost renewal increase down to approximately 6 percent.

Here's where the Health Care Reimbursement strategy comes into play. The employer, recognizing that a hospital co-pay arrangement as aggressive as $500 a day to a maximum of $2,000 per confinement is a bitter pill to swallow, agrees to share that exposure with the covered member.



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Accordingly, the employer agrees to reimburse the member for confinement co-pays exceeding $500 per hospitalization.

Assuming 100 enrolled employees at a gross annual premium savings of $90,000, the employer is able to establish a separate employer directed account to be used to fund Health Care Reimbursement on an as-needed basis.

With member confinements running at or below 10 percent, a 100-employee account with a normal distribution of dependent enrollments can expect to have between 20-25 confinements. If 25 confinements occurred and each of them required the employer to make a $1,500 reimbursement, the employer outlay for the year would be $37,500. This still leaves $52,500 to soften the impact of increases in required employee contributions, or simply improving the employer's bottom line.

The emerging generation of health care strategies linked to HRAs will entail plans whereby employers will make available to employees $2,500-$5,000 deductible plans. Importantly, routine preventative care and related diagnostic procedures, as well as pharmacy coverage, will not be subject to the up-front deductibles. Relating to other expenses subject to the deductible, employers typically give members $500 to $1,500 in first dollar benefits and after those dollars are exhausted, the next $1,000-$2,000 in benefits may require the member to pay 20 to 30 percent of these expenses out-of-pocket.

This model has been described by many as a "Consumer Driven Health Plan." The theory here is that if members have only a limited number of dollars allocated to them, they will actually be motivated to "shop" the market for the best value provider services.

This approach also gives the members a reason to stay healthy. Under this type of model, members can actually win through wellness.

Lastly, HRA regulations allow employers, at their discretion, to let members "roll over" unused funds into the following plan year. ■

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