Consumer-Driven Healthcare

One system, one provider, one solution.

Employers are looking to consumer-driven health plans to help control their health care costs and provide the best choices for their employees. The term "consumer-driven healthcare" (or CDH) describes more than just a type of insurance plan.

Today's consumer-driven plans often consist of a high-deductible health plan (HDHP) coupled with an employer-funded medical payment account. The payment account attached to the HDHP is meant to pay for out-of-pocket expenses that are incurred before the insurance plan's deductible is met. That payment account can be in the form of a Health Reimbursement Arrangement (HRA) or a Health Savings Account (HSA) .

But employers are confused about the differences between the various consumer-driven plans and which payment account would be best for their group. BASIC NEO has prepared this summary in an effort to help you make informed choices.

> Partner with BASIC NEO to provide a neatly packaged plan that pairs an HDHP with an HRA. BASIC NEO works with the broker to create a seamless setup and administration system.
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> - Switching to a high-deductible health plan can significantly reduce premium costs.
> - Use the premium savings to fund an HRA that pays employees back for some or all of the expenses applied to the deductible - the employer gets to decide how much.

High-Deductible Health Plan (HDHP)

With most HDHPs, you don't have copayments for most services. Instead, you pay all medical expenses out of pocket until you meet your deductible. This is a profound and unwelcome change for many individuals. That's why it's a good idea to have an HRA or HSA to cover deductible expenses.

Health Reimbursement Arrangement (HRA)

A Health Reimbursement Arrangement (HRA) is an employer-funded reimbursement account that repays participants for qualified medical expenses. HRAs can be paired with any kind of insured health plan (no restrictions like HSAs), and qualified expenses can be defined by the employer. The funds are owned by the employer, not by the employee, and they may not be withdrawn for nonmedical expenditures.

The employer can choose whether unspent HRA balances will roll over from year to year, and whether to allow departing employees to spend down balances after they have left the company. Typical HRA plan designs connected to the HDHP allow reimbursement of some or any combination of the following:

- Medical services applied to the insured plan's deductible, up to a specified limit
- Prescription drugs
- Reimbursement for co-pays or coinsurance
- Specified categories of expenses, like dental or vision care

Health Savings Account (HSA)

An HSA is a bank account owned by an individual where contributions to the account are used to pay for current and future medical expenses. Contributions to HSAs are tax-free, interest accumulates tax-free, and distributions are tax-free when used to pay for qualified medical expenses.

HSAs have strict eligibility and contribution rules, and care must be taken to educate employees about these rules.

Eligibility: In order to be eligible to make or receive tax-free contributions to an HSA, an individual *must* be covered under a "qualified" HDHP, must be below Medicare eligibility age, and cannot be covered under any other health plan. A qualified HDHP must have minimum deductibles, which are indexed by the IRS annually for inflation. The HDHP cannot have prescription drug or office visit co-pays. Instead, the full discounted expense is applied to the deductible of the insurance plan and paid by the employee.

Contributions: Deposits to an HSA can be made by the employee, employer, or any other person, up to the maximum cap determined by the IRS each year. An additional catch-up contribution, also determined by the IRS, can be made annually for individuals age 55 or older.

Withdrawals: The account holder (employee) has full control over funds and free access for withdrawals. Amounts distributed for qualified medical expenses are tax free. HSA funds withdrawn for purposes other than health care expenses are subject to income taxes plus a 20 percent penalty.

HSAs roll over from year to year, and because the HSA account belongs to the individual, the account is portable if the individual changes jobs.

So, Which Account Is Right For My Company?

You've made the decision to move to a CDH plan and will offer your employees an HDHP. So which payment plan do you pair with the insured plan – the HRA or HSA? Both types of accounts have distinct advantages and disadvantages.

We believe the best decision is what works for your group, and should be based on your objectives. It is unlikely that one plan will meet *all* of your needs, but you might find that more elements of an HRA or HSA fit your needs, and that should help you with your decision.

HRAs let employers have more control over cost and use of the benefit.

HSAs are especially attractive to executives and older workers.

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Partnering with your insurance broker or consultant, BASIC NEO can offer some creative ideas that will help you find the best solution for your group.