# Consumer Services & Provider Organizations 1

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# Agenda

- **Objectives**
- **Topics**
- **Concepts**

# Objectives

- After completing this module, you will be able to :
  - Identify marketplace factors that have fueled the recent movement toward consumer choice
  - Describe the general philosophy behind the consumer choice approach
  - Discuss the evolution of CDHP models over time
  - State the characteristics of recent HSA plan enrollees
  - Describe the general features of FSAs/MSAs/HRAs/HSAs etc
  - Discuss the preventive care benefits of HSA health plans

# Topics

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|---|---|
| 1 | High Deductible Health Plan - HDHP |
| 2 | HDHP Advantages & Disadvantages |
| 3 | Factors that fueled the rise of Consumer Choice |
| 4 | Evolution of Consumer Choice Models - CDHPs |
| 5 | FSA & MSA |
| 6 | HRA & HSA |

# High Deductible Health Plan - HDHP

- *Often referred to as a "catastrophic" health insurance plan, the HDHP is an inexpensive health insurance plan that generally doesn't pay for the first several thousand dollars of healthcare expenses (i.e., your "deductible") but will generally cover costs over the deductible amount.*
- **In layman terms is a medical coverage plan that pays for preventative care and catastrophic coverage, with a very high up-front deductible you pay before the plan picks up the rest of the costs (ranging anywhere from $1000 to $5000).**
- **An HDHP is an individual or family health insurance plan that has a higher deductible than other traditional insurance products.**
- **HDHPs generally cost less than traditional insurance coverage, allowing money saved on premiums to be placed into a healthcare spending account.**

# HDHP Advantages - Continue

- HDHP require the insured to take on a larger burden of health care costs in exchange for lower monthly premiums.
- Advantages - Deductibles in HDHPs can range anywhere from $1000.00 to $10,000, depending on what the insured chooses. For many group plans, the deductibles may range from $1000 to $2500 but individuals may choose a much higher annual deductible. The higher the deductible, the lower the monthly premium.
- This type of arrangement can be beneficial for young people, who do not yet have chronic medical conditions and therefore may not ever need to utilize health insurance and may benefit from the low monthly premiums. In addition, some older people who are planning to receive Medicare insurance within a year or two might benefit from the lower premiums and are more likely to have money put aside to cover the deductible should it be needed.

# HDHP Disadvantages - Continue

- **When combined with a Health Savings Account, HDHPs can allow healthy individuals and families to put money aside with certain tax benefits. For those who can cover the deductible without causing financial hardship, HDHPs can help to reduce monthly bills by reducing the monthly premium.**
- **Disadvantages - Some people may get lured into the idea of lower monthly premiums, believing they can save money for the deductible as the year progresses. However, for those worried about saving money, having the money on hand to cover the deductible may not be possible. When medical care is needed early in the year, the insured may not have the ability to pay for health expenses.**
- **Many catastrophic health plans have a lifetime maximum benefit of either $1,000,000 or $5,000,000 or anywhere in between. Once the insurance company pays that amount for health care, no more benefits will be paid.**

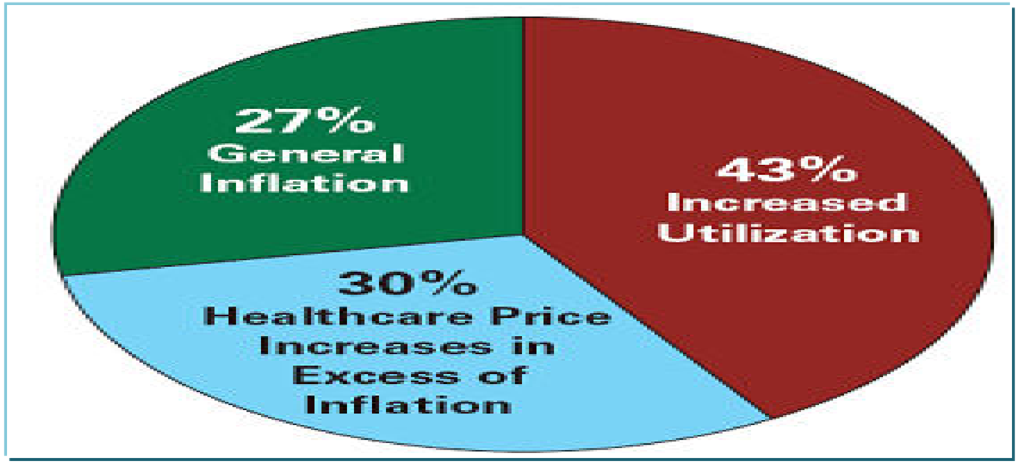
# HDHP Disadvantages - Continue

- For HDHPs that do not allow for preventive care, even taking a child to the doctor for immunizations can end up costing several hundred dollars. This would all need to be paid by the insured, until the annual deductible is met (and even then, depending on the policy provisions for preventive care, may be the insured's responsibility.)

- In addition to preventive care, prescription medication is extremely expensive and one prescription can run in the hundreds of dollars. If the plan does not cover prescriptions before the deductible is met, keep in mind, the insured will need to pay for all prescription costs until the annual deductible is met. (However, for plans that do allow for prescription costs prior to meeting the deductible, Health Savings Accounts are not qualified for tax purposes.)

# Factors that fueled the rise of Consumer Choice

- **Increasing healthcare expenditures have increased the demand for lower-cost health coverage options that empower consumers and provide incentives for cost-conscious decision-making giving rise to the consumer choice movement.**
- **As health plans came to dominate the market, consumers began to bristle at practices they believed limited their choice of and access to providers. In turn, employers began offering less restrictive types of plans - preferred provider organizations (PPOs), point-of-service (POS) plans and open-access arrangements**



# Evolution of Consumer Choice Models - CDHPs

- **Consumer directed health plan (CDHP) - A health plan design that combines financial incentives with information about cost and quality to help consumers make better informed decisions about their healthcare.**

- **There are four consumer choice models they are:**
- **1. FSAs – Flexible Spending Arrangements**
- **2. MSAs – Archer Medical Savings Account**
- **3. HRAs – Health Reimbursement Arrangements**
- **4. HSAs – Health Savings Accounts**

- **All CDHP products provide federal tax advantages while allowing consumers to save money for their healthcare.**

# FSAs - Flexible spending arrangements

- FSAs are established by employers to cover healthcare and dependent care expenses (including health insurance premiums) of their employees.
- Employers, employees, or both may contribute to an FSA.
- Employees designate their pre-tax contribution amount prior to the start of the plan year, which is then withheld in equal amounts from each paycheck throughout the year. However, employers must make the full annual amount available to the employee at the start of the plan year.
- E.g, if an employee chooses to contribute $1,200 annually, and has $50 deducted from each semi-monthly paycheck (24 deductions total), he or she will still have access to the full $1,200 at the start of the plan year.

# MSAs – Archer Medical Savings Account

- These are tax-exempt trust or custodial accounts authorized as a HIPAA demonstration project in 1996.
- MSAs are designed to help self-employed individuals and employees of small businesses (those with 50 or fewer workers) meet the medical care costs of the account holder, the account holder's spouse, or the account holder's dependents.
- They must be paired with an HDHP. Either an employer or an employee may contribute to an MSA, although they cannot both make contributions in the same year. Contributions are limited to 65% of the amount of the HDHP deductible for self-only coverage and 75% for family coverage.
- E.g., if an employee has individual coverage through an HDHP with a $2,000 annual deductible, he or she may contribute up to $1,300 per year to the MSA. If the employee's family is also covered and the HDHP deductible is $4,000, he or she may contribute up to $3,000 annually to the MSA.

# Health reimbursement arrangements (HRAs)

- Were first introduced in 2000. The establishment and funding of HRAs is exclusively limited to employers; self-employed individuals are not eligible for this type of account and employees cannot make their own contributions.
- HRA funds may be rolled over from year to year tax free, increasing their appeal.
- Portability is not guaranteed, however. Employer contributions to HRAs are not treated as taxable income to the employee, and employees can spend the funds tax-free.
- There is no limit to the amount of money an employer may contribute to the HRA. Although employees like the rollover feature and tax-free growth opportunity of HRAs, they dislike that the account is employer-owned and might not be portable if they change companies.

# Health savings account (HSA)

- The HSA is designed to address several of the limitations of previous personal savings account products. It allows funding by both employees and employers, employee account ownership, account portability, year-to-year rollover, and investment opportunities.
- To set up and contribute to an HSA (Eligibility Requirements),

1. An individual must be covered by a HDHP that meets federal requirements,
2. Not have other health insurance (Individuals with certain limited benefit policies such as accident-only, dental, vision, workers' compensation, disability, or long-term care coverage may still be eligible for an HSA.)
3. Not be enrolled in Medicare (They may, however, spend money contributed to an HSA prior to their enrollment in Medicare) and
4. Not be claimed as a dependent on someone else's tax return.

# Health savings account (HSA) - Continue

- Types of health coverage an individual use their HSA to pay for

• COBRA continuation coverage.

• Health coverage purchased while an individual is receiving unemployment compensation.

• Qualified long-term care insurance.

Individuals can withdraw HSA funds tax-free to pay qualified medical expenses, as defined by the IRS(Internal Revenue Service). These include, but are not limited to:

• Doctor's office visits • Hospital care • Dental care • Vision care

• Prescription drugs • Over-the-counter medications

• Copayments • Deductibles • Coinsurance

# HSA – Preventive Care Benefits

- The Internal Revenue Service has ruled that an HDHP coupled with an HSA may cover certain types of preventive care without a deductible or with a lower amount than the annual deductible applicable to all other services. These includes :

- Routine prenatal and well-child care.

• Immunizations for children and adults.

• Periodic health evaluations, including tests and diagnostic procedures ordered with routine examinations such as annual physicals.

• Smoking cessation programs.

• Obesity weight-loss programs.

• Screening services (e.g., mammography, screening for glaucoma, tuberculosis).

# HSA – Preventive Care Benefits

- Limited categories of medications also are considered preventive care in HDHPs coupled with an HSA. These categories include:

  • Medications used as part of procedures to provide any of the preventive services listed above.

  • Medications to prevent a disease or condition when a person has risk factors but no symptoms of the disease or condition (e.g., cholesterol-lowering medication to help prevent heart disease for people with high cholesterol).

  • Medication to prevent recurrence of a disease from which a person has recovered (e.g., ACE inhibitors by individuals who previously had a heart attack or stroke).

  • Treatment that is incidental or ancillary to a preventive care service or screening, where it would be unreasonable or impractical to perform another procedure to treat the condition (e.g., removal of polyps during a diagnostic colonoscopy).

# Questions?

# Thank You!