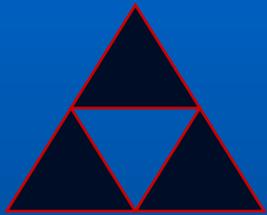


Defined Contribution Health Plans - A Continuum



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The American Academy of Actuaries

*Consumer Driven Health Benefits:
A Continuing Evolution*

An EBRI-ERF Policy Forum / May 2, 2002

Defined Contribution Health Plans

- *DC name from the retirement analogy*
- *AKA*
 - *“Consumer-driven”*
 - *“E-health”*
 - *“Self-directed”*
- *Not a particular Type of health plan*
- *A concept giving rise to alternative approaches to financing health care*

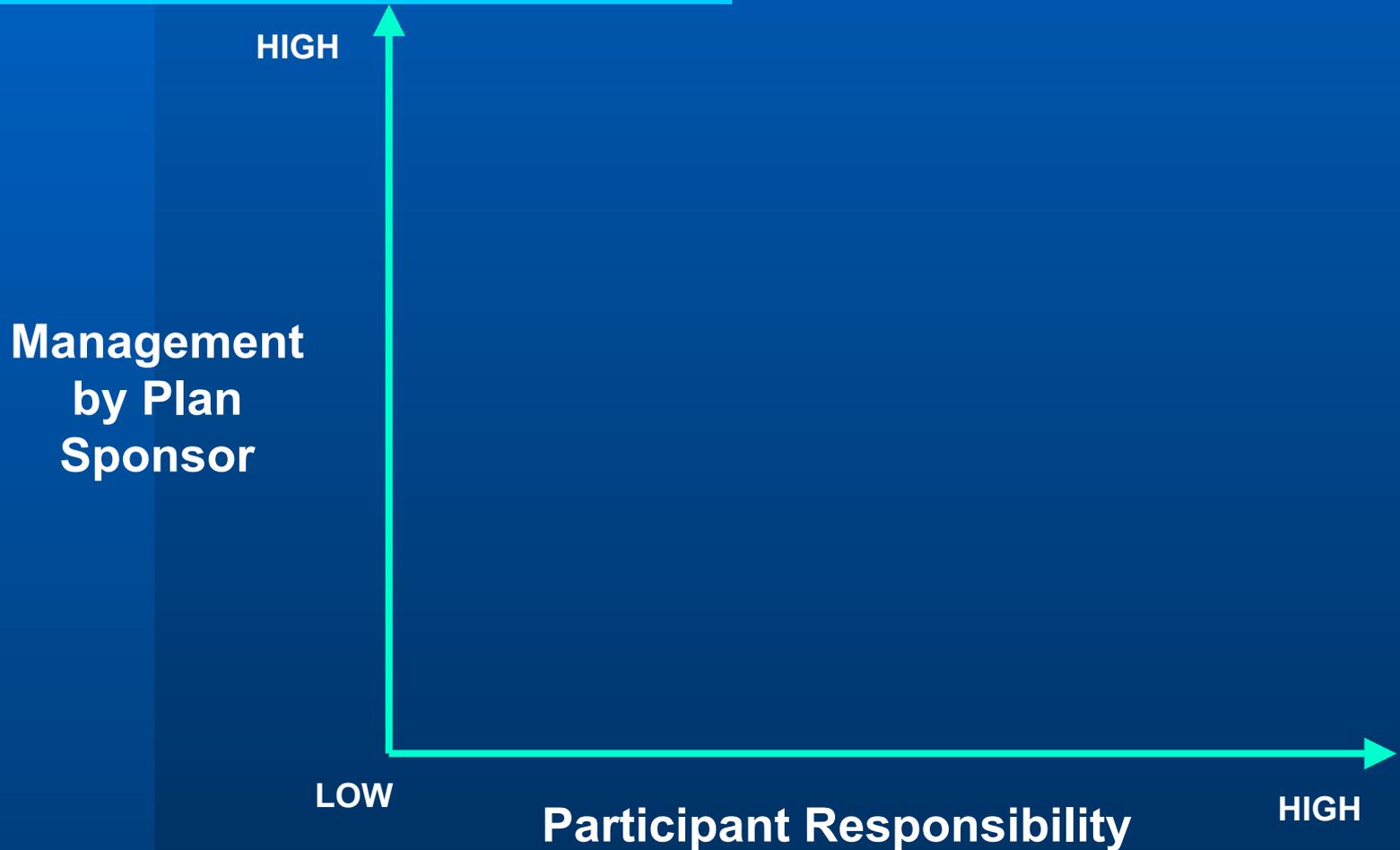
Common Characteristics

- *Employer sets/controls their cost*
- *Participant choice*
- *Increased participant cost-sharing*
- *Participant education*
- *Internet enabled systems capability*

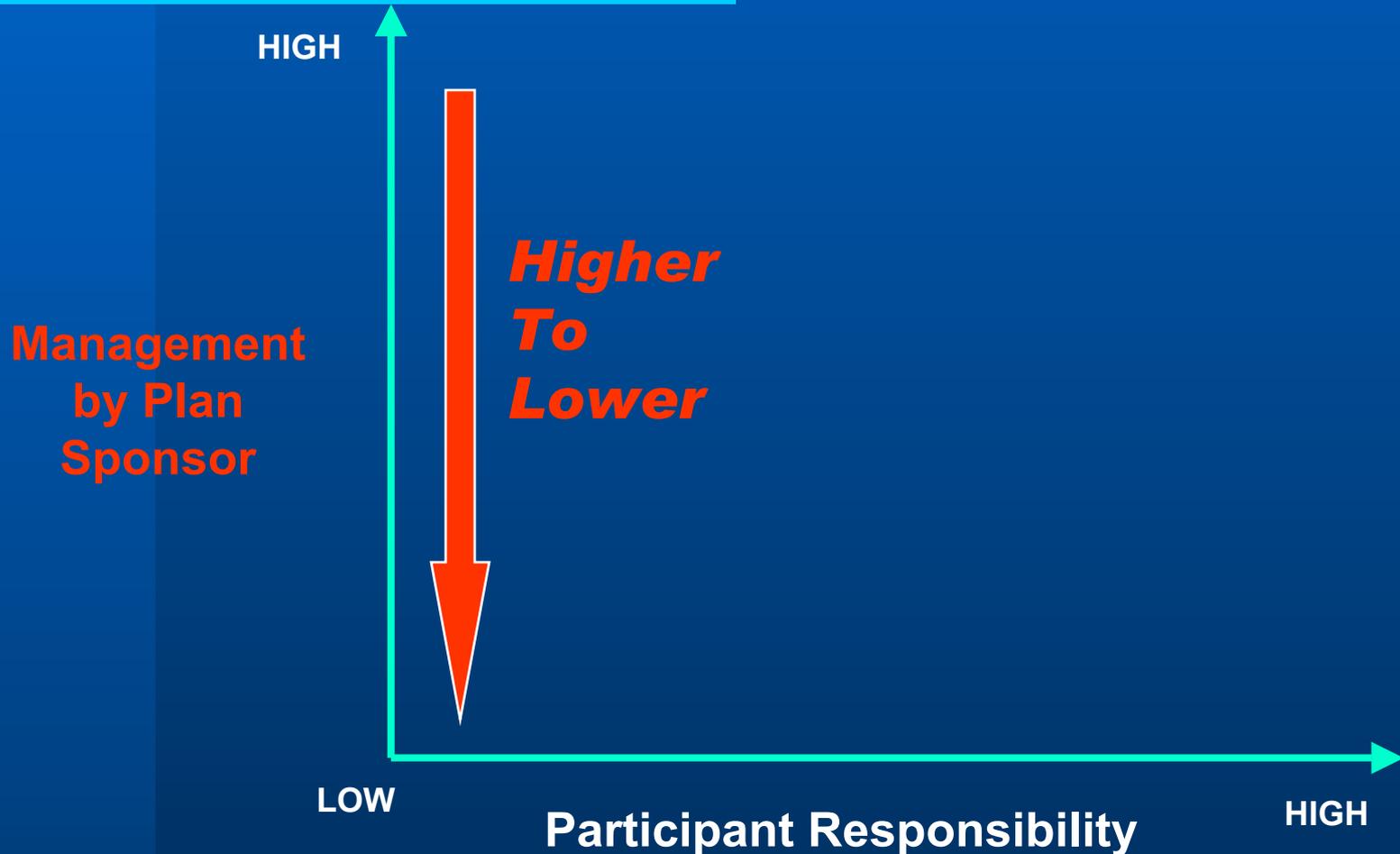
DC Health Plan Continuum

- *Several ways to array range of DC plans*
 - *Level of employer management*
 - *Market in which coverage is purchased*
 - *Degree of financial risk born by employer*
- *Our continuum reflects the level of employer/sponsor management*
 - *And reflects the level of employee responsibility as well*

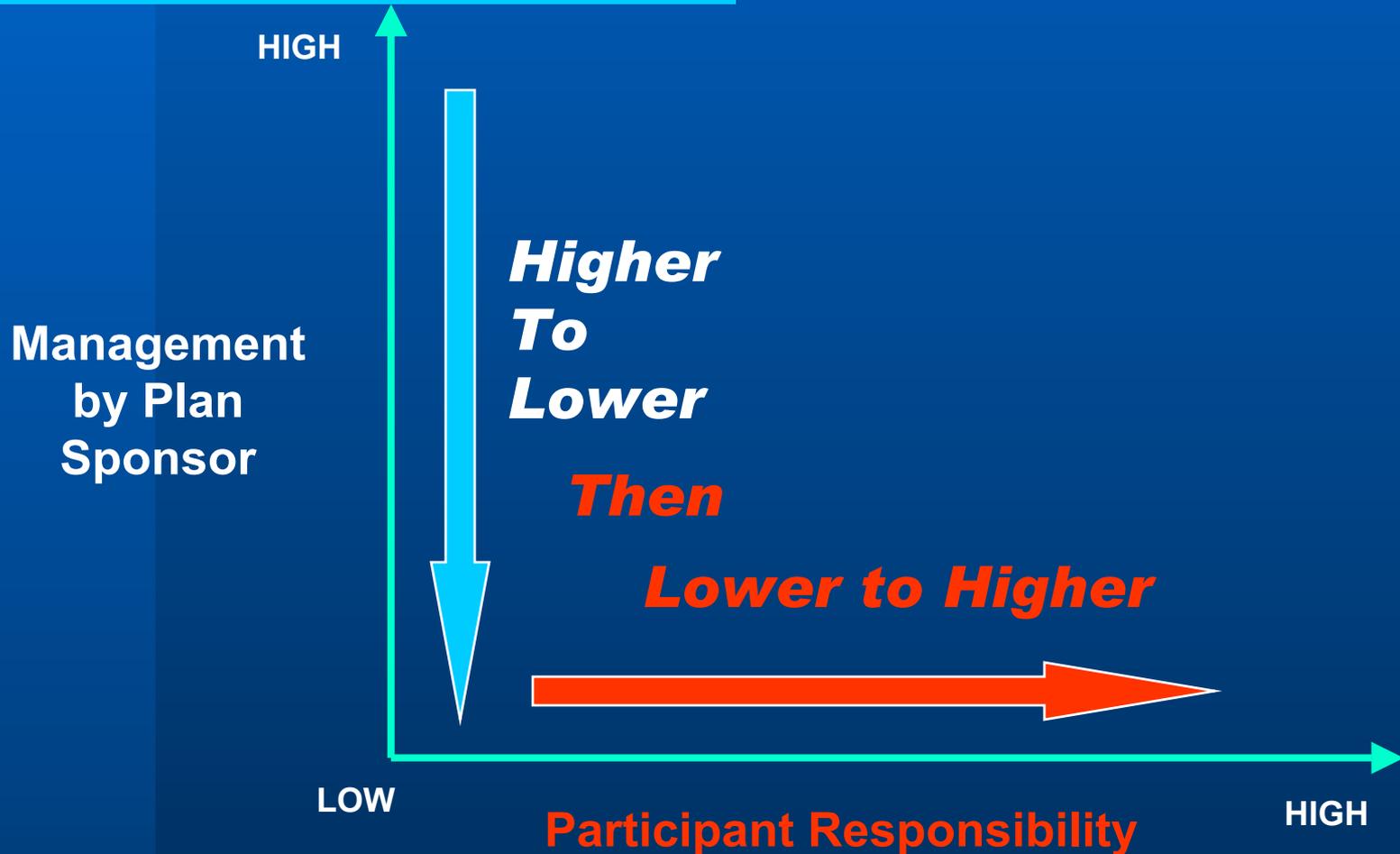
DC Health Plan Continuum



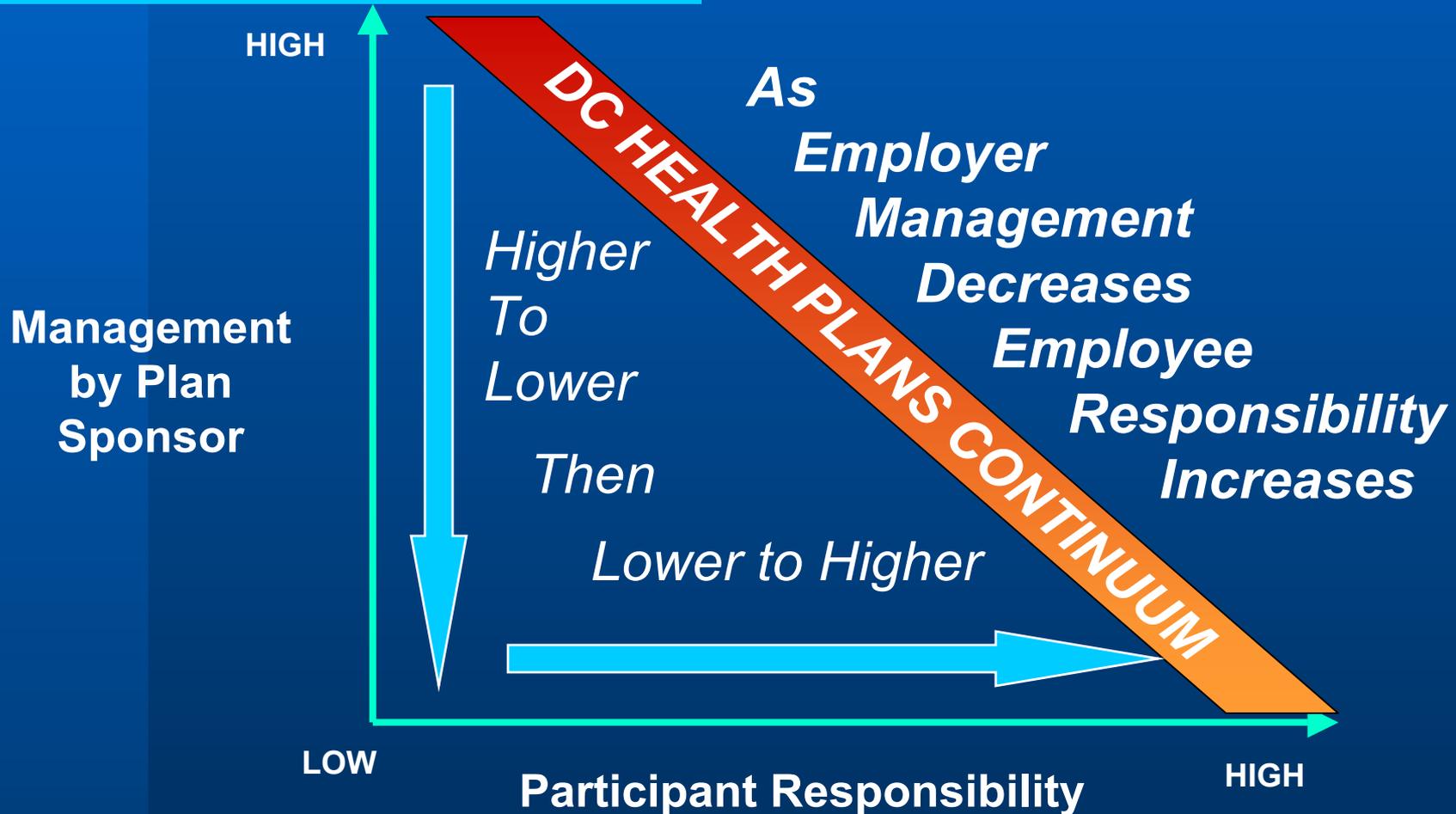
DC Health Plan Continuum



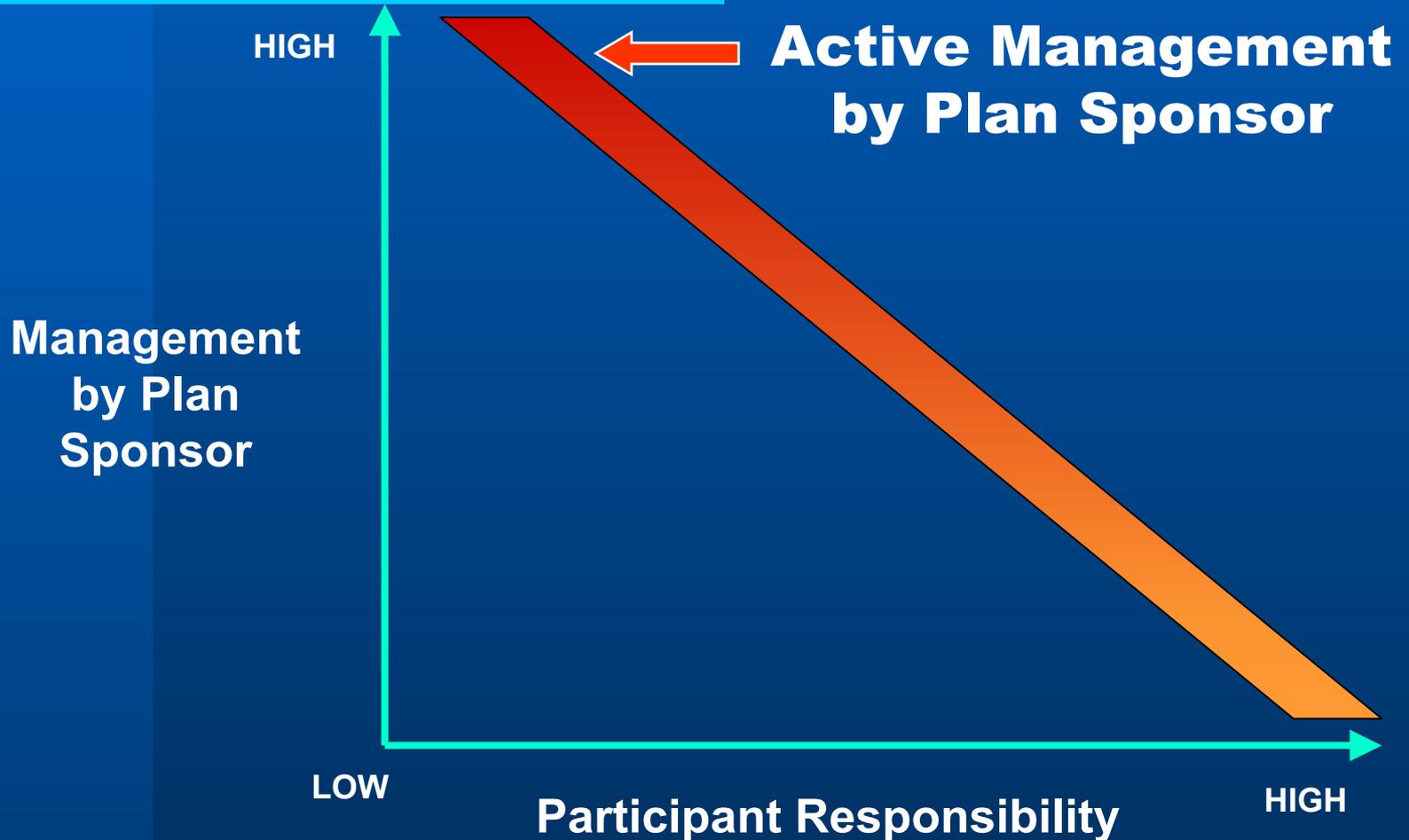
DC Health Plan Continuum



DC Health Plan Continuum



DC Health Plan Continuum



Active Management by Plan Sponsor

- *Similar in many ways to a DB plan or perhaps a cafeteria plan*
 - *The sponsor*
 - *Determines and offers a limited number of benefit plan options*
 - *Sets maximum contribution*
 - *The participant*
 - *Chooses a plan option*
 - *Pays the difference between cost and sponsor contribution*

Active Management by Plan Sponsor

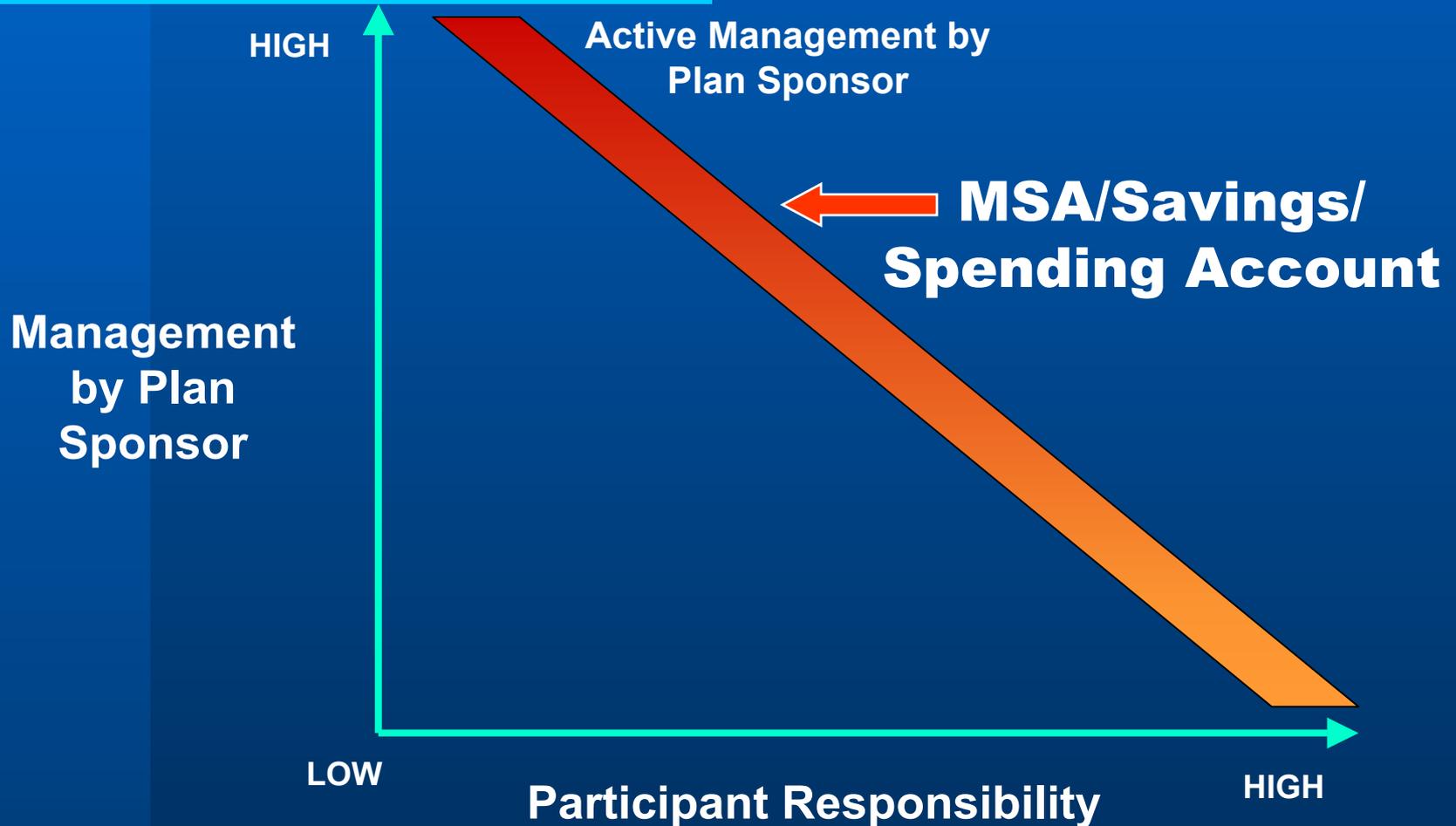
- *Sponsors plan contributions can be...*
 - *Pre-determined budget*
 - *The cost of the lowest-cost plan*
 - *Vary contributions based on tenure, family status, or salary*
 - *To encourage the selection of certain plans*

Active Management by Plan Sponsor

An alternative:

- *Sponsor offers a list of recommended plans*
 - *The sponsor may have arranged for discounted premium rates*
 - *Recommendations may reflect plans' service, premium rates, or some quality measures*

DC Health Plan Continuum



MSA/Savings/Spending Account

- *The participant has an “account” to use to purchase health care*
 - *High-incidence, low-severity health services*
 - *Year end balance usually can carry forward*
- *The plan includes an insurance component*
 - *High-severity, low-incidence health services*
- *Provide participants incentive to more actively participate in health care process*
 - *thereby leading to more efficient decisions*

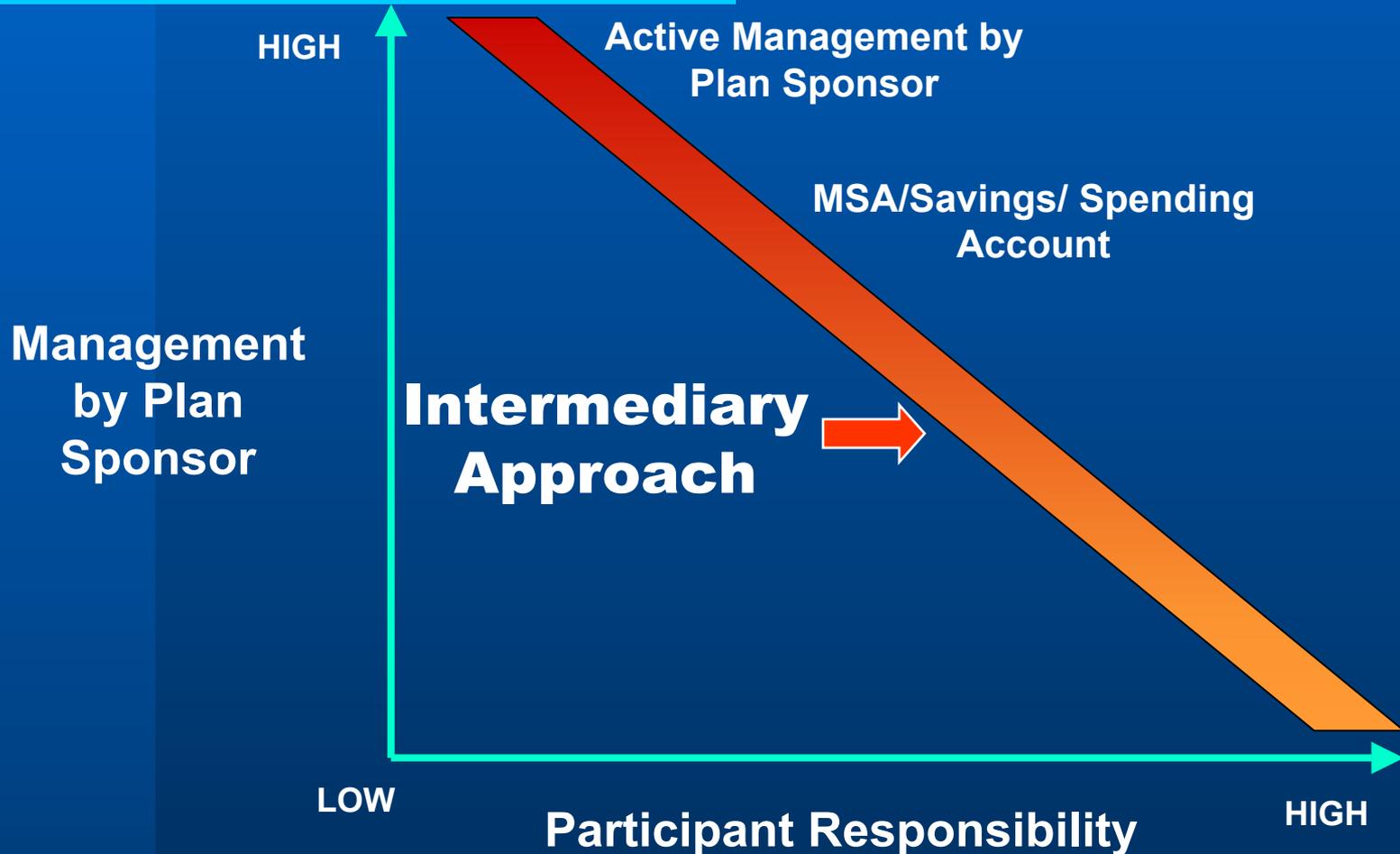
MSA/Savings/Spending Account

- *The three types of accounts vary by whether cash or notional dollars are used, and whether they are tax advantaged:*
 - *MSA accounts use cash dollars and are tax advantaged*
 - *Savings accounts use cash dollars but currently are not tax advantaged*
 - *Spending accounts use notional dollars instead of cash dollars and their use may be tax advantaged*

MSA/Savings/Spending Account

- ***Some issues to be addressed***
 - ***Funded or notional account? If funded, who funds the account / Investment options?***
 - ***Tax implications to the sponsor or participants***
 - ***deposits, distributions or interest earned to and from the account?***
 - ***Are any tax advantages portable beyond the year of coverage, and do they carry into new employment situations or into retirement?***
 - ***What expenses are eligible for reimbursement from the account?***

DC Health Plan Continuum



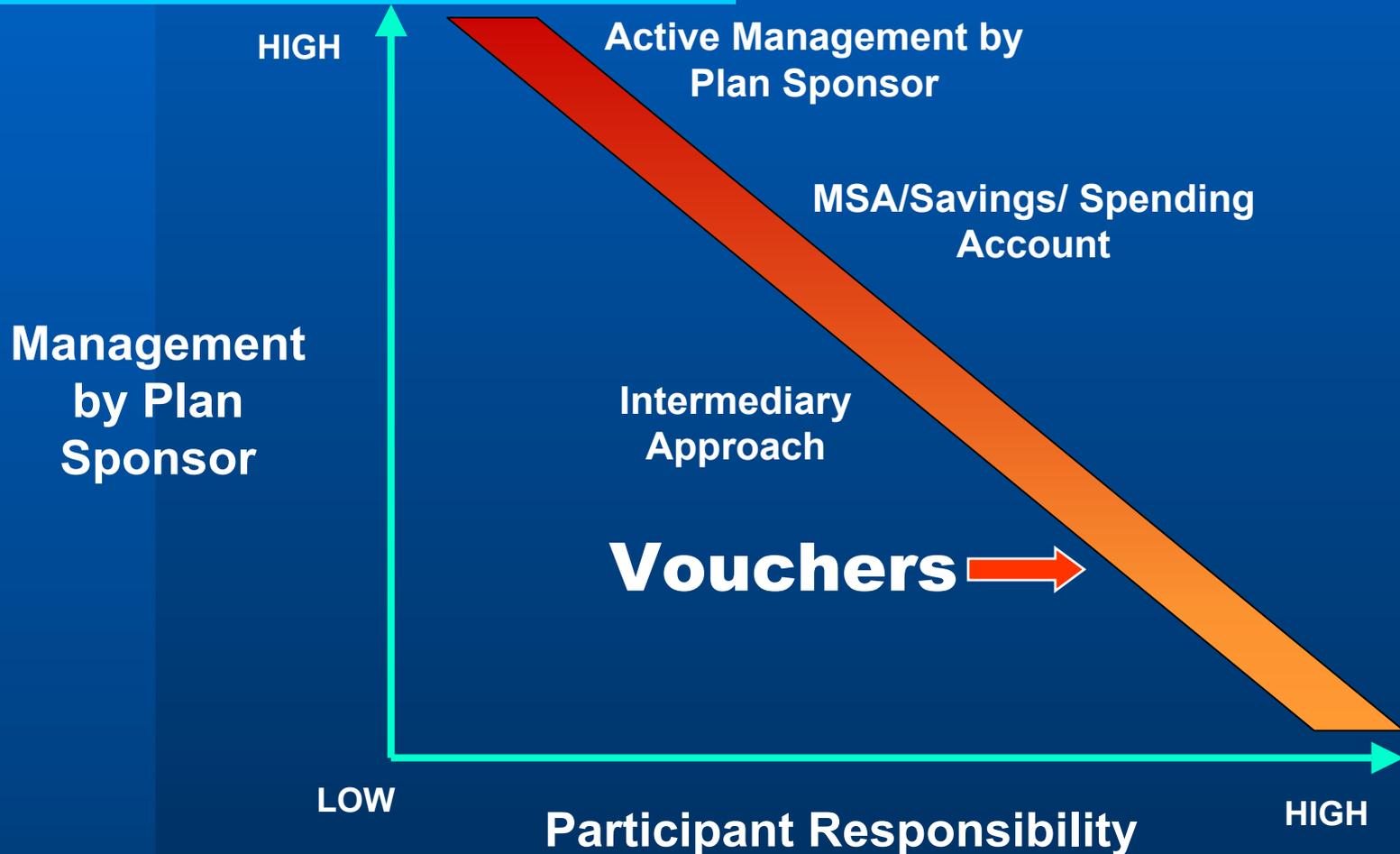
Intermediary Approach

- *Sponsor transfers its management role to an intermediary*
 - *Insurance carrier, employer coalition or independent organization*
 - *One or multiple sponsors may use same intermediary*
 - *Intermediary sets rules and offers choices*

Intermediary Approach

- *Intermediary models*
 - *One carrier offering multiple benefit choices*
 - *An intermediary offering of a number of health plan options*
 - *An intermediary that contracts with or facilitates access to individual providers*
- *These intermediaries may provide tools to compare costs, quality of care, and the benefits offered under various options*

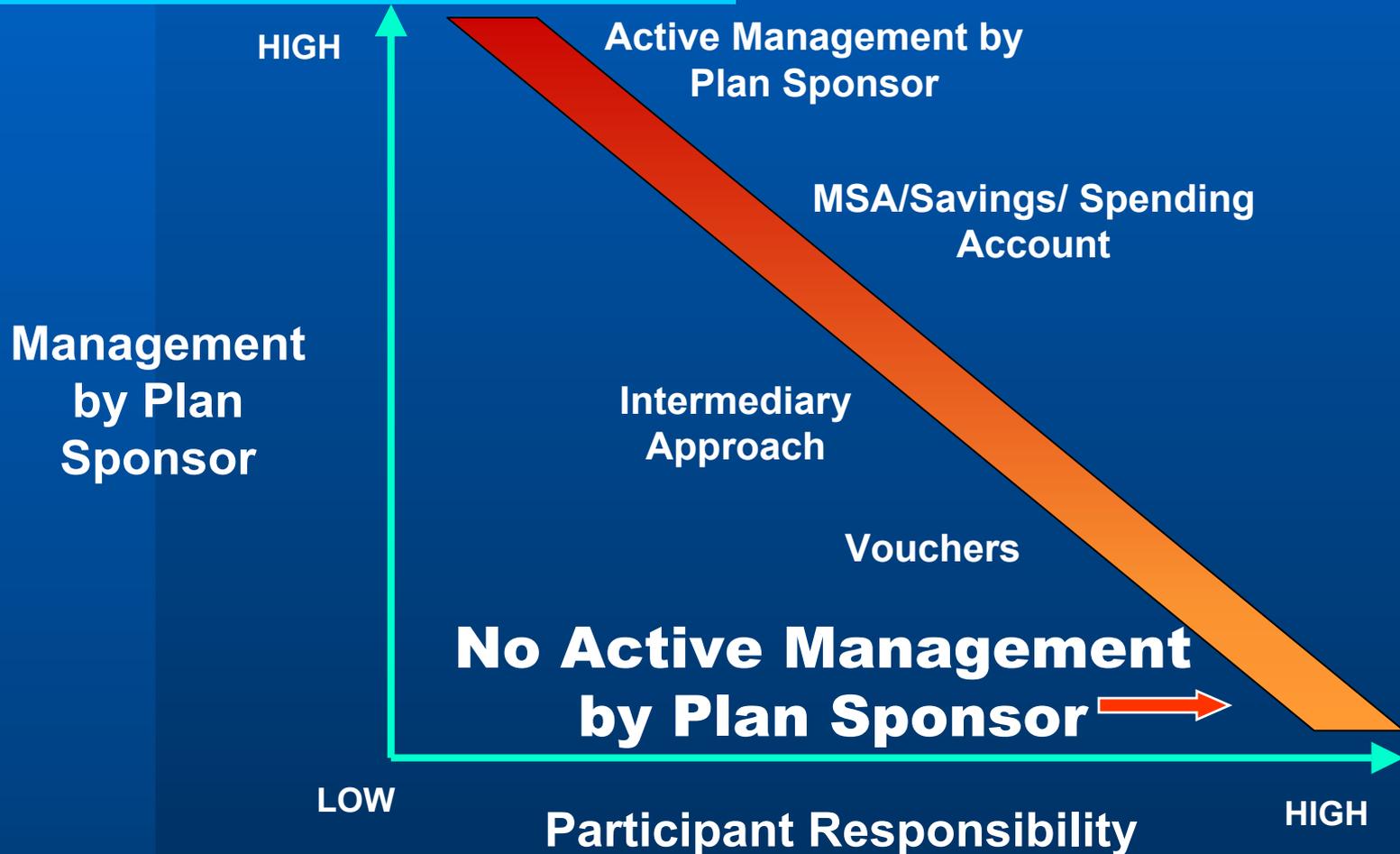
DC Health Plan Continuum



Vouchers

- *The sponsor grants vouchers to participants for purchase of health care*
 - *Choice from among a pre-defined selection of participating benefits/plans (group or non-group)*
 - *The selections may be from within one health plan or from among more than one health plan*
 - *The participant pays the difference between the plan cost and the voucher amount*
 - *Unused voucher balances are forfeited*

DC Health Plan Continuum



No Active Management

- *The sponsor pays a pre-determined dollar amount to the participant intended to be used for health benefits*
- *It is then up to the participant to purchase individual health insurance in the local marketplace*

DC Health Plan Continuum

