Defined Contribution Health Plans - A Continuum

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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
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

Management by Plan Sponsor

Participant Responsibility

LOW

HIGH
**DC Health Plan Continuum**

- **HIGH**
- **LOW**

*Management by Plan Sponsor*

*Higher To Lower*

*Participant Responsibility*
DC Health Plan Continuum

Management by Plan Sponsor

Higher
To
Lower

Then

Lower to Higher

Participant Responsibility
**DC Health Plan Continuum**

As Employer Management Decreases Employee Responsibility Increases

Higher To Lower Then Lower to Higher

Management by Plan Sponsor

Participant Responsibility
DC Health Plan Continuum

Management by Plan Sponsor

Active Management by Plan Sponsor

Participant Responsibility

LOW

HIGH
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
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

Management by Plan Sponsor

Active Management by Plan Sponsor

MSA/Savings/Spending Account

Participant Responsibility
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
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.
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

Management by Plan Sponsor

HIGH

Active Management by Plan Sponsor

MSA/Savings/ Spending Account

LOW

Participant Responsibility

HIGH
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

- **HIGH**
  - Active Management by Plan Sponsor
  - MSA/Savings/Spending Account
  - Intermediary Approach
  - Vouchers

- **LOW**
  - Participant Responsibility

Management by Plan Sponsor

- HIGH
- LOW
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

Management by Plan Sponsor

- No Active Management by Plan Sponsor
- Vouchers
- Intermediary Approach
- MSA/Savings/ Spending Account
- Active Management by Plan Sponsor

Participant Responsibility
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