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Designing A Successful High-Deductible Plan

Since Congress made health savings accounts (HSAs) available to individuals with a qualified high-deductible health plan on January 1, 2004, many employers have considered switching to one of these “consumer-driven” health plans.

High-deductible health plans (HDHPs) backed by HSAs can have some real benefits for employers. HDHPs give employers lower premiums and greater control over their health benefit costs. In addition, the employer can choose the amount they contribute, if any, into employees’ HSAs each year.

Some employees also like the idea of having more control over their health care expenditures. Employees have complete control over the funds in their HSA and can use them to pay for deductibles, office visits, and other qualified expenses not covered by the HDHP. HSA/HDHPs encourage better communication with the doctor and wiser expenditures of healthcare dollars. And since funds carry over from year to year, the accounts are employee-owned, and they can keep their account when they leave your employ, it becomes an added value benefit.

Critics of high-deductible plans say their high deductibles discourage wellness and prevention, especially among lower-income employees. These plans could also make it more difficult for non-English speaking or less educated workers to obtain the care they need because they lack the skills to find the information to make informed healthcare decisions. Some employers also dislike the fact that they lack control over employees’ HSA funds.

At this time, it’s too early to tell whether giving employees more control of their healthcare expenditures through high-deductible plans will slow healthcare inflation over the long term. But certain plan designs can increase your risk of adverse selection—something you want to avoid. Adverse selection occurs when healthier employees or those less likely to use their coverage leave a plan. The less-healthy employees left in the plan cost more to insure, driving your per-employee costs up.

HDHPs appeal more to healthier employees and to higher-income employees who can afford to pay the out-of-pocket costs. The tax advantages of an HSA also benefit higher-income workers more. For this reason, simply adding an HDHP to your other health insurance offerings could backfire as a cost-cutting strategy.

If you’re planning on offering an HDHP, here are some things you can do to maximize its chances of success:

- Avoid adverse selection. Either do not offer a traditional plan in addition to an HDHP, or create a Medical Reimbursement Expense Plan (MERP) for employees who want a traditional type plan. Also make sure employees who choose traditional plans or MERP pays the additional costs associated with this type of plan. This could mean increasing the employee share of premiums in a contributory plan.
- Check the preventive services covered by the HDHP. You want to encourage all workers, even healthy ones, to maintain their health through preventive care.
- Back your HDHP with a health savings account. By using some of the premium savings to fund employees’ HSAs, you give them financial incentive to manage their healthcare costs.
- Plan on spending some of your initial savings—and maybe more—on benefit communications and healthcare education. Employees who understand how the HDHP/HSA combination works are more likely to select these plans. They also need information on managing their health. Some health plans provide online access to health information, which can be a valuable tool in controlling healthcare costs.

For more information on setting up and successfully introducing an HDHP, please contact us.