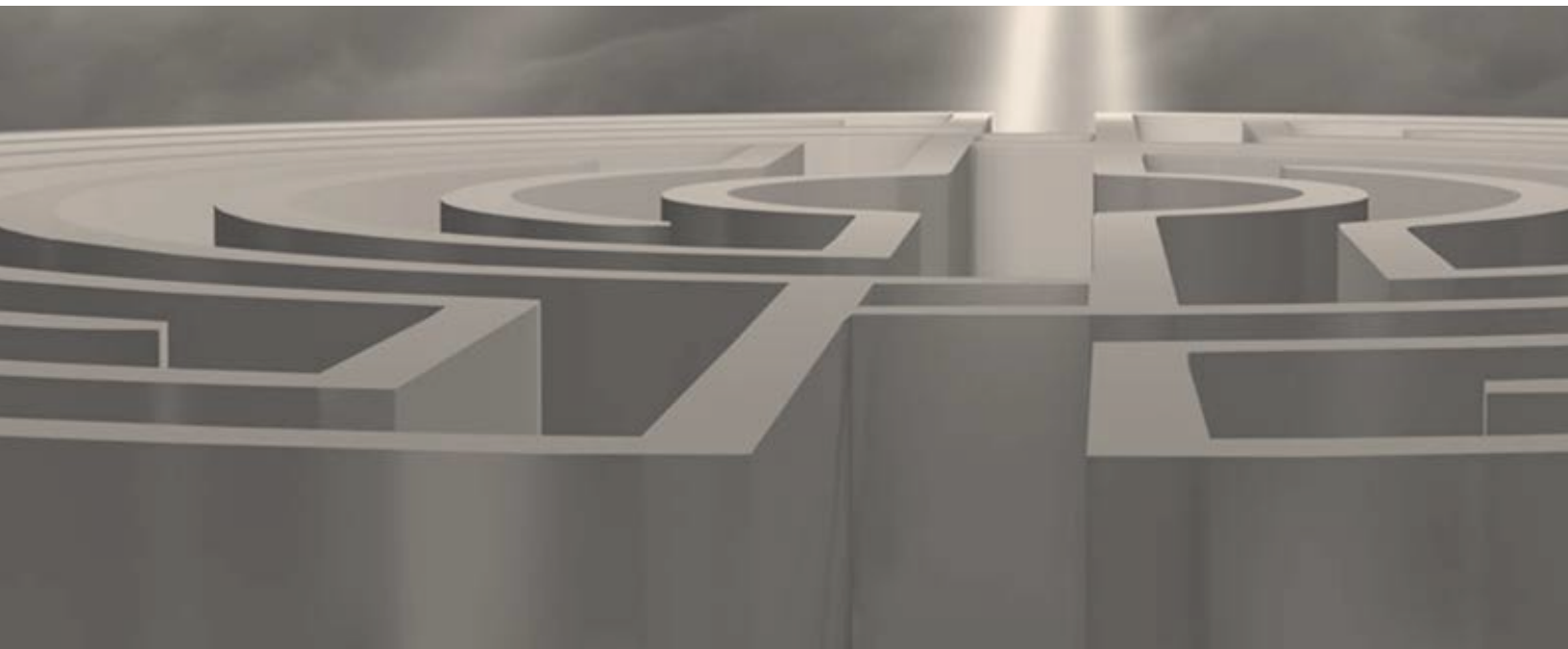




Defined Contribution Health Plans



What They Are, How They Work,
Pros and Cons, and What is New?



THE
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Defined Contribution Health Plans

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WHAT THEY ARE, HOW THEY WORK, PROS AND CONS, AND WHAT IS NEW?

Many people think the concept of defined contribution health plans is brand new, however it's actually been around for over 20 years. These days we're finding there are a lot of things that are driving the conversation to defined contribution plans. Let's look at why this is happening.

The Affordable Care Act- ACA

It's amazing how the ACA touches everything. SHOP is the small employer health option, and it is one of the health exchange options that hasn't been launched successfully yet, neither on a national basis nor in the states of Oregon or Washington. SHOP is being touted as the choice for employees. For example small employers could send their people to the SHOP exchange and they would choose from seven different carriers and four different plans, providing them with 28 options to choose from. This level of choice is becoming a bigger and bigger conversation.

Technology



There are brand new health plan enrollment options out there that are making these choice options, or defined contribution plans, much more do-able. We're also seeing payroll vendors creating their own systems as well for enrollment of benefits. Additionally in the future carriers will be offering three or four plan designs with online enrollment systems that you can tap into. As a result it will be easier for employees to make choices. Ultimately, what we're seeing out there is a very diverse workforce – from 25-35 age range to the 55+ range. These are very diverse populations with very different needs. One medical plan may fit the needs of one population segment, but it may not be a good fit for your other groups. Creating choices for these employees helps to meet the various population needs.

WHAT IS DEFINED CONTRIBUTION?

You've probably heard the term "Cafeteria Plan". This has been around for a long time, but basically employers provide their employees with a set dollar amount each month to spend as they see fit in a cafeteria or menu of items.

Pros – It's very easy for an employer to budget with some basic math, for example you might have 100 employees and you give them \$500 to spend each month. Employers really like that their rate increase is now decoupled from medical inflation. Consequently, if you're giving a \$500 month contribution, and you budget let's say a 5% increase to that \$500, that will be your increase on your medical plan or your benefits package. If the health plan increases by 12%, the employees will need to make some additional choices but they will at least have multiple options to choose from in order to control their total out of pocket premium spend.

Cons – You must offer a cash-out option. This means if you offer that \$500 contribution, and an employee wants to waive off their benefits and the carrier allows them to do it, you must offer a cash out of that option. However you don't have to give a 100% of that. You can offer 25 cents on the dollar. For example you might have a \$500 contribution and you want to offer a 25% opt-out option. That equates to \$125 in cash which your employees would have to pay taxes on, and it would be netted to their take-home pay.

Depending on how your current contribution is set up, it can be a big challenge to move to a defined contribution plan. For example a lot of employers we work with contribute let's say 70-100% of the employee premium, but they don't contribute anything to the dependant premium. In those situations it's easier to transition to a defined contribution, because in essence you are already giving everyone the same amount. It becomes a challenge when you have a larger contribution towards employees with dependents, such as \$400 for an employee only, and \$800 for an employee with a family. In a defined contribution plan, everyone receives the same amount, so the employee only sees their contribution go up. However, the family contribution probably will go down, creating some unsatisfied individuals.

The last thing to think about if you are looking at using a private exchange and/or a defined contribution plan is any time you offer more choices to employees, it does add to the complexity. You'll want to think about your current scenario... How well do your employees understand the health plans and the benefits that you offer right now? Also consider how they struggle with different deductibles and different co-pays, etc. It might be that you are only offering one plan and they have challenges. Consequently as you move forward, having all the options sounds great, but can your typical employee handle it?

WHAT ELSE IS NEW WITH DEFINED CONTRIBUTIONS?

Voluntary Options – You will also see a multitude of voluntary options, both traditional and in new products. We're seeing a lot more gap plans as well, to back fill for a portion of the deductible or

a portion of the co-insurance. It's something the individual employee can make a selection on.

Enrollment Platforms – This is probably the key evolution. There are now systems out there in the market place, whether through a stand-alone company, a payroll, or HRIS vendor, that allow you to offer multiple plans and again still be able to administer. Just think about the complexity and how you would keep track of what employees are enrolling in if you had multiple plan designs and carriers. There are more than 120 different stand-alone enrollment options in the marketplace. Basically these platforms are going to be carrier agnostic, and they will be there for you to plug and play carriers into your plans. The other positive development we are starting to see is the affordability of these plans coming down into the mid-marketplace, making it more affordable for employers with under 1,000 employees.

There are going to be two avenues here, one of which is self-serve where employees log on to manage their enrollment, make changes such as to their beneficiary forms, their eligibility, and do everything online. Again this may or may not be a great fit for your workforce. We're also seeing some HR departments who want to keep some control by starting out with the traditional paperwork, managing the data entry once in-house, and then streamlining it by having the platform system send out the enrollment data to all the different carriers.

Educational tools- There is a lot of education that still needs to occur in the marketplace. Obviously as you add more options, you are going to need more decision support, and more education. Fortunately there are some pretty amazing tools evolving to help employees and their families navigate the multitude of choices.

At the end of the day, you still need to make sure you have the best options for you and your employee group. In other words, you still need to have a market survey and the full benefit consulting to make sure you are finding the best carriers that fit.



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