

'Defined Contribution' Insurance Option Gains Popularity



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There are many directions health insurance may take in 2013 and 2014 due to health care reform and market changes. This is true whether the Affordable Care Act of 2010 is fully implemented, repealed or anything in between. The competitive nature of industry is to find and implement better solutions.

On the employee-benefits side of the industry, Defined Contribution health insurance plans have garnered a market share in several states. Some benefits experts advocate a shift to this kind of insurance as a viable solution in all states.

Follows Pension Example

Defined Benefit Pension plans were the industry standard earlier in our lifetime. Nearly the entire pension industry converted to Defined Contribution plans, mostly of the 401k variety, in the last decades. This change helps employees who switch employment more frequently than prior generations. Today's employees easily qualify for and then take their 401k funds with them. Employers were helped because significantly increased life expectancies challenged the solvency of Defined Benefit Pension plans.

For employer-sponsored health insurance a similar significant shift from Defined Benefit to Defined Contribution is expected by some. Similar to the pension shift, there will be benefits to both employees and employers with Defined Contribution.

Concept

Your employers don't choose your home, your car or your lifestyle, so why should they choose your health insurance company, doctor network, deductible or coinsurance? Why should you lose your health insurance if you terminate employment? In Defined Contribution insurance, employers don't buy a group policy. Instead they fund an account for each employee. The employee then purchases individual or family health insurance premium or other designated health-related expenses. This can be done through a tax-advantaged "health reimbursement account," or HRA.

The advantage to employers is they will have known predictable costs. They will not be responsible for bidding, implementing,

administering and renewing health insurance. They also will not be penalized as a business—and neither will all the employees—when there are serious medical conditions in their group, like cancers and transplants.

One method of doing this is for the employer to fund a tax-deductible HRA for each employee. The employee can choose how to spend their dollars, again tax free. Some might want a high-deductible plan. One employee might like Aetna, and other employees might like BlueCross or UnitedHealthcare. Perhaps a spouse has medical coverage, and the employee doesn't want health insurance at all but prefers to buy disability or long-term care insurance.

According to Chip Shank, president and founder of the payroll company Compass-I, there is a better method to implement Defined Contribution health. "It is called a Health Care Premium Reimbursement plan or HCPR," says Shank. "This payroll-based solution eliminates the need to form a Section 125 Cafeteria plan and fund an account. HCPR is streamlined and cost effective for all parties."

Shank adds that you may need to search diligently to explore this option, as HCPR isn't marketed by many agents, payroll companies and third-party administrators.

Insurance Exchanges

As of 2014, health insurance will be required of everyone, and exchanges will be set up as options to purchase policies. Arizona will have a state-sponsored exchange expected to operate concurrently with private exchanges and health insurance agents. No one will be declined for health insurance based on the underwriting of their medical conditions. This may allow the Defined Contribution insurance to succeed in Arizona, which now has competitive individual health markets but not for those with medical conditions.

Action Required

Defined Contribution health will work today in many circumstances. HRAs and HCPRs can also be used with group high-deductible plans as a transition. One example is the Chamber Benefit Administrators plan sponsored by the Scottsdale Area Chamber of Commerce. Continue working with your current health insurance agent to explore all options. If they are unfamiliar with Defined Contribution health, find agents or other providers who can offer a second opinion. ■

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