

HRA: An Innovative Approach to the Financing of Health Care

By

**Cheri Gillfillan
President
One Source Advisors, Inc.**

You know better than anyone the obstacles and challenges that must be overcome in regard to financing health care for employees. Profit margins are down, budgets are difficult to control and the cost of healthcare just keeps rising. You are continually faced with the dilemma of offering a quality health care package that everyone can afford – both you *and* your employees. In addition, trying to implement health coverage that promotes healthy lifestyles and motivates healthy behaviors has become nearly impossible. Initiatives of this sort cost money and money is the one item that is scarce.

Improved health of all covered employees and dependents has become a critical component in the quest to slow the escalating cost of health care. Healthy choices, behaviors and lifestyles will benefit all concerned – the quality of life for employees and their dependents as well as increased productivity in the workplace. If you improve the health of your employees, you can improve the financial health of your organization both now and over the long term.

Choices can no longer be ignored as having a substantial impact on claims and health insurance cost. A June 2005 article in Health Affairs stated that 62% of the rise in private insurance costs from 1987-2002 was due to population risk factors and their treatment. The article went on to state that on average 10% of total claims costs are attributable to obesity and another 10% to tobacco. 60% of Americans exceed the ideal BMI (body mass index) and perform no substantial activity or exercise. In fact, obesity is predicted to soon become the leading cause of death. 25% of Americans still smoke with those related illnesses still the leading cause of death.

You want to break the cycle of escalating health costs and unhealthy choices but often ask yourself how to accomplish this and take back some control. Short-term fixes such as cost shifting to employees via higher co-pays, deductibles, out of pocket amounts and premium contributions have helped but can only go so far. Many are asking themselves if this is really the answer to the future of health care programs for employees.

An answer to this dilemma that seems to be paying off for employers across the country is one that engages the employee in health care purchasing. Employees as consumers are very adept at researching, comparing and deciding the best purchases for them. Why can't health care be looked at on the same level? Can consumers manage their health care purchases as they do for other items by having more control over their health care dollars? Can health insurance be considered more of a commodity to be bought and sold rather than an intrinsic right? Is this the right approach?

The idea of consumer-driven health care has been around for many years. The basic concept is to put the consumer of health care (the employee) in the driver's seat with regard to the purchase of health care services. However, it can mean many different things to many different people. Some think of consumer-driven health care as simply purchasing a high deductible health plan, which would force the employee to fund more of

the cost of their care before the health policy would pay. Others think that consumer-driven health care is a method to provide dollars to the employee for purchasing their own health plan. The actual consumer-driven health plan that seems to work is a combination of all of these ideas.

A recent survey by Chapterhouse/NAHU shows that as much as two-thirds of all employers are considering some type of consumer-driven option. One-third of all employers are planning to offer some form of consumer-driven health care as part of their benefits package to employees.

Consumer-driven health plans manage costs by giving consumers more control over their health care dollars. Consumer-driven health care is a philosophy and a strategy – not just another product. The theory supporting all of this is that an engaged consumer is a wise consumer and therefore over time a healthier consumer. Consumer-driven health plans can:

Empower employees to be more informed about their health and health care options.

Help employees save money for future health expenses.

Give the employee incentives and the support they need to make healthy lifestyle changes.

There are several different approaches in the design of a health plan that fit into the parameters of consumer-driven health care.

Health Reimbursement Account (HRA) provides employees with an account in which the employer allocates funds for use in their medical care coupled with a high deductible health policy purchased from a carrier or via self-funding. Only the employer makes contributions to this account.

Health Savings Account (HSA) provides employees the ability to establish a tax-advantaged savings account for use in their medical care coupled with a high deductible health policy. Contributions to this account may be made by the employer, employee or a combination of both.

Health Incentive Account (HIA) provides employees the ability to earn health care dollars for taking steps that can help them achieve their health potential. The employer and/or the health plan would allocate earned incentive dollars in an account for use against future health expenses.

Health Reimbursement Accounts (HRA) have been available for several years. They are part of the consumer-driven revolution that is rapidly gaining steam throughout the country. HRAs combine the flexibility of a medical plan with an employer-funded account. This provides employees a chance to gain personal control of their own health care finances by playing a larger role in determining the best approach and purchase through informed choices.

HRAs appeal to the employer because a high deductible health plan is purchased thereby lowering the fixed monthly premium cost. Further, the HRA for each employee is not funded until an expense against the account has been incurred. This means that what was a fixed expense via premium has now become a variable expense payable only if the expense is incurred. In fact, statistics show that 74% of the insured population

spends less than \$1,000 annually on health care expenses. Employers and employees can take advantage of this low utilization and couple it with a program to identify and help high utilizers and those with chronic diseases.

The employer need not set aside funds in a separate account for each employee at a fully funded amount for the entire year. The monies used to fund the employee's account can reside in the general assets of the employer until an amount has been used. At that point funds can be transferred to pay for the expense. The employer monies used to fund the HRA are deductible as an eligible business expense just like the insurance premium. *Note: HRA contributions made by the employer to the account of a more than 2% shareholder in a Sub-S Corporation, a partner in a partnership and the owner in a sole proprietorship could be treated as health insurance premium and may not be deductible as a business expense. Please check with your accountant on the deductibility parameters in these situations.*

HRAs are more than just a traditional high deductible health plan with a lower premium cost. HRA options are being positioned as a way to incent healthy choices through plan design and special features. In most instances, the employee is gaining benefits with well care paid at 100%, the ability to access the employer funds to help offset health care expenses and the ability to earn additional HRA dollars by completing certain health assessments and programs. Employees begin to view payment for their health care in a more global manner therefore the focus centers on empowering them to manage their overall health rather than what co-pay will apply to a particular office visit.

A recently released Aetna, Inc. study done over the last four years has shown that large employers who launched a full replacement HRA on January 1, 2003, have seen a savings of \$1 million per 1,000 members during a three-year period. By contrast, employers that did not offer an account based consumer-driven health plan saw medical costs rise nearly 27% during the same three-year period. The same study has also shown that medical trends continue to drop each year the full-replacement HRA was in place.

HRAs can be very flexible in their plan design, which allows employers to create a plan to meet the needs of their employee population. This is the key reason why so many employers are looking into HRA as a solution for them – employer choice and employer control of the funds. Some of the areas that can vary by employer are:

Deductible level

Co-insurance level after the deductible

HRA contribution levels

HRA funding medical expenses only

HRA funding integrates medical and pharmacy expenses

HRA funding only for covered health plan expenses

HRA funding for all Section 213(d) eligible expenses

Balance carryover to future years – whether to permit and in what amount

Upon employee termination when access to the HRA will cease

HRAs can be funded in a variety of ways.

Employer Pay First is when the amount the employer will contribute to the HRA is used first to pay any eligible claims then the employee would pay the balance of the health plan deductible and out of pocket.

Employee Pay First is when the amount the employee will be responsible for of the health plan deductible and out of pocket will be applied first to pay any eligible claims then the employer-funded HRA would pay the balance of the health plan deductible and out of pocket.

Split-Fund Deductible is when the employee would be responsible for a small amount of the health plan deductible first then the employer-funded HRA would pay for eligible expenses then the employee would pay the balance of the health plan deductible and out of pocket.

Note: The carrier or third party administrator (TPA) that is administering the payment of funds from the actual HRA may have guidelines or restrictions in what they will allow. Please check with your carrier or TPA to determine what the options may be.

An HRA can be a win-win solution for employers ready to embrace change and invest in their employees' future health care.

Employer Advantages

Decides when and how the employee uses HRA funds.

Lower fixed cost via the purchase of a high deductible health plan.

HRA funds stay in general assets until they are used.

Only fund the employee's HRA *if* an expense is incurred.

Begin work toward healthier employees and dependents through plan features and incentives.

Extend the corridor of time before the carrier begins to pay claims thereby reducing the overall claim expense and improving future premium increases.

Employee Advantages

Lower fixed cost (premium contribution) via the selection of a high deductible health plan.

Typically 100% wellness benefits.

Access to employer-funded HRA accounts to help offset the higher deductible and out of pocket expense.

More control of the utilization of their health care dollars.

Ability to earn additional funds for their HRA via rewards and incentives for completing certain health assessments and programs.

Begin work toward healthier choices.

Over time, the healthier the insured population of the employer becomes, the lower the claim expense that should result in lower future premium increases. A healthier population is a more productive population and a more satisfied population. HRAs can be an innovative way to approach and accomplish these goals and reduce the financing of health care over time.

Cheri Gillfillan is a health insurance expert with more than 20 years in the field in various capacities. Cheri and the rest of the staff at One Source Advisors, Inc. are available to discuss strategies, ideas and new approaches to health care. Please give One Source a call prior to your next renewal to see if their approaches to healthcare solutions are able to help. The One Source Advisors, Inc. staff is available toll-free at 866-270-2441.

PAGE

PAGE 1