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Health Care Costs Make Limited Medical Benefit Plans More Attractive

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Have you considered limited medical as a health care solution? If you haven't—the time is now. Health care costs continue to rise, and despite rampant speculation, there is no solution in sight. Employers are looking to their brokers and benefits consultants for answers because they are hurting more than ever when it comes to providing health care benefits for their employees.

So how are benefits professionals and the employers they serve handling this situation? Look at the speakers at industry conferences and seminars, and you will see a focus on consumer-directed health care (CDHC) and high-deductible health plans (HDHP). Some insurance brokers are taking a different tact and moving employers toward individual plans. They are encouraging companies to provide employees with a fixed stipend or budget amount and then rating and insuring each employee on individual merit.

Innovative Programs Changing Marketplace

Insurance brokers are pushing more and more employees from major medical to limited medical benefit plans. This is a significant transition that cannot be taken lightly. More brokers are recommending a limited medical plan in certain situations outside of the traditional industries where limited medical plans have been well-received.

The limited medical benefit industry has matured greatly, and, as a result, many of the available products are robust and flexible. There are some innovative limited medical benefit

programs that can greatly assist employers struggling with rising health care costs. For example:

- Layer an HDHP with a limited medical plan.
- Combine critical illness insurance with the limited medical offering.
- Indemnity-based plans now have \$2,000 per day hospital inpatient benefits and non-scheduled \$5,000 surgical benefits.

Having limited medical as a replacement for major medical is working because of the cost factors facing employers. For the past decade we have encouraged benefits professionals

Difference Between Limited Medical Plans

There are basically two types of limited medical benefits: co-insurance and indemnity-based insurance. In some cases, people are mixing the two, but all limited medical plans are made up of these types of benefits. This is quite interesting because we begin to enter into an area in which people have strong biases.

Approximate weekly rates for an indemnity-based plan:

- Employee \$25.23
- Employee + Child \$45.31
- Employee + Spouse \$62.93
- Family \$68.47

Overall, people like several things about indemnity-based limited medical plans:

1. **Small Group Availability** – Many indemnity-based plans will write down to five lives (and some plans will even write fewer than five).
2. **Flexibility** – Several ways to create a plan
 - a. Pricing and commission
 - b. Plan design – Lots of options to meet client needs and price points, lowest-cost plans in the marketplace today are indemnity based.
 - c. No steerage – Benefits pay the same whether in or out of network, allowing employers with disparate populations to provide a similar benefit to all employees. Employees are free to choose any provider.
3. **Simplicity** – Benefits are easy to understand.
4. **Stability** – Indemnity-based plans are much less affected by trend costs, both medical and inflationary.

What are some of the cons of indemnity-based limited medical plans?

1. Some brokers/consultants/HR managers won't look at them because they believe if it does not have a copay, then it won't work in their population.

Sample Indemnity-Based Plan

Life/AD&D Insurance	\$10,000 employee only
Hospital Indemnity	\$500 per day
Doctor's Office Visit	\$60 per visit / \$360 max
Outpatient DXL	\$60 per visit / \$300 max
Preventive Care	\$150 per visit / \$150 max
Accident Coverage	\$500 max per occurrence
Emergency Room Sickness	\$75 per visit / \$300 max
Advanced Studies	\$100 per test; \$300 cal year max
Anesthesia	\$300
Surgical Lump Sum	\$1000/\$500/\$100
Outpatient Surgical Facility	\$250
Health Savings Program	Included
First Health Network	Included

2. They pay a specified sum, regardless of the actual cost of the good or service.
3. It is difficult to analyze when compared with co-insurance based plans. Even though the benefits in an indemnity plan may be greater, comparing the two on a spreadsheet is problematic.

to run away from employers who wanted to replace a major medical plan with a limited medical plan.

Employers and employees alike are making different buying decisions today that suggest they are experiencing less utility in purchasing major medical insurance. As a result of these market shifts, be ready for limited medical to simply become “medical” insurance.

There is already a movement away from the industry term “mini-meds” as companies try to differentiate their products in the marketplace. Plans are being marketed as “limited medical,” “medium medical,” and “defined benefit plans.” No

Many employers are good candidates for a limited medical plan. Those with a high number of hourly workers are great prospects, and those that have done management carve-outs are candidates.

Sample Co-Insurance-Based Plan

OUTPATIENT MEDICAL EXPENSE BENEFIT

Doctors’ Office Visits

Per visit copay or base deductible	\$15 copay subject to outpatient limits
Co-insurance	100% in network; 50% out

Diagnostic & Surgical Services

Per service copay or base deductible	80% in network/60% out; subject to outpatient limits
Member co-insurance	80% in network/60% out; subject to outpatient limits
Annual max	80% in network/60% out; subject to outpatient limits

EMERGENCY ROOM VISITS

Maximum Annual Benefit	80% in network/ 60% out; subject to outpatient limits
Annual deductible	
Co-insurance	
Prescription Coverage Benefit	80% in network/ 60% out; included in outpatient limits

INPATIENT MEDICAL EXPENSE BENEFIT

Deductible	\$100 in network; \$200 out
Co-insurance	80% in network; 60% out
Annual Max	\$10,000 in or out of network; Subject to inner limits/maximums

SUPPLEMENTAL MEDICAL

Maximum Benefit	n/a
Prescription Discount Program	Yes
Informed Health Line	Available
Vision Discount Program	Yes
Additional Wellness Care Benefit	Available
Employee Assistance Program (EAP)	Available
Supplemental Coverages: Dental, Hospital Indemnity, Short Term Disability, Life & Accidental Health, Vision	Optional

Approximate weekly costs for co-insurance-based plan:

- Employee \$20.92
- Employee plus one \$53.13
- Employee plus family \$75.59

People like several things about co-insurance-based limited medical plan styles.

1. First and foremost, it looks and feels like a plan they are accustomed to utilizing. People feel comfortable explaining the benefits, and many HR professionals like the look and feel of a co-insurance plan.
2. Several co-insurance based plans are tied to or owned by large health insurance carriers.
3. In catastrophic claims scenarios, co-insurance-based plans can provide more coverage. The perception sometimes is that they always do.
4. Certificates of creditable coverage.
5. Wider acceptance in state departments of insurance.

There are also several reasons brokers and benefits professionals do not like co-insurance based limited medical plans.

1. Plans can be confusing for employees to understand.
2. Outside of network coverage gets less benefit.
3. Carriers are tied to or owned by large health insurance carriers.
4. Inflationary pressure and medical trends affect plans.
5. Underwriting can be more complex.

Regardless of where your preferences may lie, the current economic situation combined with the rising cost of health care (and therefore health insurance) that we have experienced over the last 10 years provide ripe opportunity for executives and benefits professionals to better understand the entire limited medical landscape.

matter what you call them, limited medical benefit plans will be a benefit component that covers employees at the lowest cost to employers.

According to the *2007 Employer Health Benefits Annual Survey*, compiled by the Kaiser Family Foundation and Health Research and Educational Trust, 20.8 percent of all medical claims are inpatient. It's not a stretch to say that inpatient claims are where the real dollars trade hands.

These are also the claim events that made health insurance a popular solution for people. Big, scary, high-dollar claims. According to the National Coalition on Health Care, only 33 percent of insured people spend more than \$1,000 out of pocket on health care annually.

The lowest cost limited medical plans that are being sold to \$10/hour employees on a voluntary basis are here to stay. This is where limited medical got its start. Lots of employees across the nation are covered by those plans, and they help people who may have never had health insurance before. They assist with an employee's day-to-day health care needs and provide important access to the nation's health care system. Any employer with an hourly-based workforce is a candidate for limited medical plans. Industries that are historically productive are food and beverage, home health care, construction, convenience store, and retail.

Limited Medical Risks

The largest risk that limited medical plans face is that of enrollment risk. It is possible to win a client with an eligible population of 20,000 people, spend \$40,000 enrolling the group and get 3% participation. The keys to successful enrollment strategy are:

1. Clear printed communication to employees.
2. Live telephone enrollment by people who understand the plan being offered.
3. Practice and experience. If you have not had practice with limited medical plans, find someone who has and work with him or her; this isn't for novices. We've seen companies enter the limited medical space, advertise and market their capabilities, and then quietly exit the market a couple of years later. The administration of limited medical is complex because we're talking (usually) about hourly employees—lots of turnover and hours to track. There are companies that have been in limited medical for a long time and do it well. If you work with someone who knows what they are doing, your chances of success are much higher.

The Future of Limited Medical





Limited medical plans will continue to expand in benefit and price while the current major medical carriers adapt and reduce benefits and cost until the plans begin to meet in benefit level. The convergence is already happening. More of the traditional major medical carriers are paring down benefits, limiting annual maximums, and capping outpatient benefits in order to gain or retain business. Limited medical carriers are modifying their offerings in an attempt to model

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major medical products and coverages for the same reason. Benefits professionals have an opportunity to lead the way as the market continues to transition.

Many employers are good candidates for a limited medical plan. Those with a high number of hourly workers are great prospects, and those that have done management carve-outs are candidates. It is now possible to insure a management group of employees with a major medical plan and carve out the rest of the employees, offering them the more affordable limited medical benefit plan.

Employers who offer an HDHP may be interested in a limited medical benefit plan because it gives members the ability to defray those out-of-pocket costs covered by the limited medical insurance plan while they grow the available fund balance inside their health savings account (HSA) toward payment of the deductible of their HDHP. There are limited medical plans specifically designed to layer under an HSA-qualified HDHP and alleviate some of the member's financial concerns.

Finally, there are those employers who have given up on insurance after deciding it was too expensive, too complicated, and too frustrating. Limited medical benefit plans might be the flexible, affordable solution that their employees want and need.    

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