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## Innovative Ways to Surf the Consumer-Directed Healthcare Plan Wave

**With healthcare costs soaring and a stark economy, employers are turning to high-deductible health plans (HDHPs) to help stem the rising tide of healthcare expenses.**

However, that's not the end of the story, it's just the beginning. Once an employer decides to move to an HDHP, there are lots of questions he or she needs to consider and then take action. As a trusted adviser you need to know which questions they should be asking and be able to supply workable solutions.

Studies show that by implementing an HDHP, employers can reduce healthcare costs. On the other side of the scale rests employee well-being. No employer wants to sacrifice employee health. So where's the balance?

This article is about how to find that balance. You can do that by keeping it simple and educating employers and employees.

First, let's break down the nature of medical expenses and then investigate what insurance might cover and the employee's responsibility. Then we'll talk about some options for how employees can pay for these expenses and how the employer can help.

### Medical Expenses

Typical medical expenses can be broken down into a few major categories:

- Prescriptions
- Medical expenses subject to the deductible of the health plan
- Over-the-counter medicines and supplies
- Other medical expenses like dental and vision fees – with their associated healthcare products

Keep in mind that these are broad descriptions of medical expenses, and certainly don't cover items like expenses associated with extensive illnesses. These are the expenses encountered most often by the majority of employees.

As with most insurance products there are employee out-of-pocket expenses associated with HDHPs. By using simple math the employer can see that employees are hard hit with the installation of a higher-deductible health plan.

So, how can the employer help with these expenses and where does the money come from?

### Simplify Choices for Employers

Many employers are turning to a consumer-directed healthcare plan (CDHP) model to

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reduce their growing healthcare costs. That's because higher-deductible health plans can mean lower premiums. But it also means higher out-of-pocket expenses for employees.

To take the sting out of higher deductibles, many employers are coupling their health plan with "side accounts" to help pay expenses that the health plan does not cover. These side accounts can be employer funded, employee funded, or a combination.

First, take the employer through the list of expenses we outlined previously. Determine which of those expenses, and to what extent, the employer is willing to pay. The employer decides how much to allocate for each expense and to each employee. Employers may choose the same amount for everyone or more for those with family coverage.

Use the "Consumer-Directed Healthcare Plan Design Worksheet" on page 3 to help the employer chart the direction of their CDHP.

### Simplify Choices for Employees

Once the employer determines the extent to which it will help employees with costs associated with meeting their health plan deductibles or other healthcare related expenses, it is important to communicate with employees. It must be made clear to employees which expenses they will be liable to pay, and which expenses and to what extent the insurance plan or employer will cover.

Really simplify things for employees by connecting them to their specific plan design with a targeted flex benefit debit card. These flex benefit cards know which expenses are eligible under their plan and if the employer or employee foots the bill.

### The Prescription Benefit Card

The Prescription Benefit Card is limited to purchasing only prescriptions and will not allow the purchase of



other items. Whether prescriptions count toward the health insurance deductible or the health plan calls for co-payments or co-insurance, the Prescription Benefit Card is a great solution.

### The Drug Store Benefit Card

The Drug Store Benefit Card takes the Prescription Benefit Card to the next level. With



the Drug Store Benefit Card participants can purchase prescriptions *and* over-the-counter medicines and supplies.

This card automatically knows which items are IRS qualified and will not pay for other items sold at drug stores, grocers and superstores that accept the Drug Store Benefit Card. Many popular prescription drugs are now sold over-the-counter. The Drug Store Benefit Card is a great solution for controlling costs.

By providing employees with the Drug Store Benefit Card, employers allow participants the convenience of a debit card with the security of knowing that all purchases will be qualified expenses.

### The Total Healthcare Card

This card enables the participant to purchase all "medically necessary" services and items.



This list of expenses includes prescriptions and over-the-counter medicines and supplies, doctor and hospital visits, plus qualifying vision and dental expenses. Of course, the employer will set a limit on how much it will contribute and leave the remainder up to the employee. The Total Healthcare Card is a complete solution.

### Medical Expenses Subject to the Deductible

The employee is responsible for the medical deductible expenses. This amount can be automatically paid – with employer or employee

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To set up a program that's right for your client, answer two simple questions: "Who pays which medical expenses?" and "How much funding will the employer make available?"

# Consumer-Directed Healthcare Plan Design Worksheet

- How much would you like to allocate to an HRA for each employee during the year?  
Employee only \$  Family \$  Other \$
- Would you like to make the entire annual employer HRA allocation available on the first day of the year, or monthly?  
 First day of the year  Monthly, pro-rata  Other
- Some employees may need to budget more in a healthcare account than you choose to allocate from employer funds. What annual dollar limit do you want to set for employees that wish to make voluntary pre-tax payroll deductions to an FSA account? \$
- Funds allocated by employers to an HRA account will be accounted for separately from voluntary employee FSA contributions. You can also restrict employer allocations to pay certain types of expenses. For example, you can set up the employer allocation so it will only pay for prescriptions, co-pays, and the health plan's deductible expenses, while items like over-the-counter medicines and supplies, contact lenses, eyeglasses, laser surgery, orthodontics or prescribed health-improvement programs would be paid from the dollars employees elect through voluntary pre-tax payroll deductions.

You can also choose which account will be first to pay certain types of expenses. For example, you may want employee FSA funds to start paying pharmacy expenses only after employer HRA allocations are completely used.

Healthcare Expenses (check <input checked="" type="checkbox"/> your choices)	Pay from employer HRA dollars	If employees contribute to an FSA, which account pays this expense first?
Prescriptions	Yes <input type="checkbox"/> No <input type="checkbox"/>	<input type="checkbox"/> Employer HRA <input type="checkbox"/> Employee FSA
Medical expenses subject to the deductible of your health plan	Yes <input type="checkbox"/> No <input type="checkbox"/>	<input type="checkbox"/> Employer HRA <input type="checkbox"/> Employee FSA
Over-the-counter medicines and supplies	Yes <input type="checkbox"/> No <input type="checkbox"/>	<input type="checkbox"/> Employer HRA <input type="checkbox"/> Employee FSA
Other IRS qualified medical, dental, vision fees, and healthcare products	Yes <input type="checkbox"/> No <input type="checkbox"/>	<input type="checkbox"/> Employer HRA <input type="checkbox"/> Employee FSA

- Unused *employer* HRA allocations will expire at the end of the plan year unless you choose to roll them forward. For example, to encourage employees to plan ahead and budget wisely, you might designate that a portion of the unused employer allocation (say 50%) roll forward to the next year. However, there is no IRS requirement to roll forward any portion of the employer contribution that is not used.  
Will unused employer contributions be carried over to the next year and be available for expenses incurred in the following year?  
 Yes  No If yes, what percent?  % up to a maximum amount of \$  or  unlimited?
- Unused *employee* FSA contributions can be used for expenses incurred within 75 days after the plan year end. This is an IRS option that you select and one that employees will appreciate.  
Will unused employee contributions be carried over to the next year and be available for expenses incurred within 75 days after the plan year end?  Yes  No

To download additional FREE copies of this Worksheet, go to [mhmResources.com](http://mhmResources.com), click on the "Agent & Brokers" tab, and then click on the "Plan Design Worksheet" link.

Point your Web browser to [mhmResources.com](http://mhmResources.com) to stay up to date on the quickly evolving world of flexible benefits and CDH:

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funds – based on the explanation of benefits (EOB) submitted electronically by the insurance carrier to the Plan Service Provider (PSP).

Why make the employee turn in a paper claim for something the insurance carrier already knows about? Request that insurance carriers send EOB information to PSPs for automatic participant reimbursements.

This outlines a comprehensive card program that makes this benefit easy for employers and employees to use. Simple rules with predictable results.

### Who Pays and How Much?

To set up a program that's right for your client, answer two simple questions: "Who pays which medical expenses?" and "How much funding will the employer make available?" (Employer allocations fall under rules pertaining to IRC §105 Health Reimbursement Arrangements (HRAs). Employee contributions fall under rules pertaining to IRC §125 Flexible Spending Accounts (FSAs).) Position yourself as the "go-

to" person. You have the answers. With the "Consumer-Directed Healthcare Plan Design Worksheet" (on page 3 of this newsletter), now you have the questions to ask that will help guide your clients to a successful outcome.

### It's Never Too Late

Maybe the employer moved to a high-deductible healthcare plan this year. Employees were a little startled and now the employer is hearing some grumbling. It's never too late to give them a little help with those extra out-of-pocket expenses. Set up a CDHP to reimburse employees for their prescriptions, co-payments and healthcare expenses that go toward their deductible. ○



*Did you know Congress is considering elimination of account-based plans, including flexible spending accounts (FSAs)? We invite you to learn more and make your voice heard. Visit [SaveMyFlexPlan.org](http://SaveMyFlexPlan.org)*

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