

Plan Design & Maintaining Benefit Affordability

Health & Dental Plan Design Features, their Pros and Cons and Cost Containment

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The following table is not meant to be exhaustive, but to serve as an introduction to some common plan design features that affect the cost of a plan. It is meant to give the reader a good sense of the possibilities and the pros and cons of using various methods of maintaining benefit affordability in a period of budget and funding cuts. If you are an OJTBF client and would like further information, please contact your Account Representative. If not currently an OJTBF client and you are interested in obtaining a quotation from the OJTBF, please contact Robert Miller, our Sales Representative, at extension 128.

Term	Description	Pros	Cons
Coinsurance	<ul style="list-style-type: none"> Coinsurance refers to the benefit plan characteristic of sharing the cost of each claim (Health, Drugs, Vision Care, Hospital and Dental) between the benefits plan (insurer) and the employee/member. Generally, a plan that pays for 80% of the cost of each claim is said to have "80% coinsurance", meaning the plan pays 80% and the employee/member pays the balance (20%) of all eligible plan expenses. Some plans have no cost sharing--100% of costs are borne by the plan and this creates some opportunity for reducing plan costs by introducing coinsurance. 	<ul style="list-style-type: none"> Near immediate reduction in plan costs. Further longer term reductions in cost (see below). Moving from no coinsurance (100% plan payment) to coinsurance (e.g. 80% plan payment), provides incentive for employees/members to share in managing plan costs because they bear part of the cost. 	<ul style="list-style-type: none"> If an employee is hit with unexpectedly high expenses, even 20% payment may be a burden and the ultimate objective of "insurance" is to protect against such burdens which can negatively impact a valuable employee's performance (see out-of-pocket maximum to counter this problem). There may be a negative reaction to a plan cut back.
Cost Sharing (Premium)	<ul style="list-style-type: none"> Generally refers to the plan characteristic that requires the employee to pay some portion of the monthly premium towards benefits. There are a number of ways to achieve this split, one of the most common being a percentage split: the employer pays 75% and the employee 25% (through payroll deduction). Such a split is usually applied to each benefit independently, and some benefits may have sharing, while others are either 100% employer paid or 100% employee paid (usually optional benefits). 	<ul style="list-style-type: none"> Immediate reduction in plan costs for the employer. Change and its impact is easily understood--the dollar impact is clearly and definitively quantifiable. All reasonable expenses remain covered (as opposed to containing costs by cutting eligible expenses) for services that are genuinely and appropriately insured services. Cutting eligible expenses can result in employee/member hardship when unexpected health problems occur. (See also out-of-pocket expenses below). 	<ul style="list-style-type: none"> No longer term reduction in plan cost: employees/members do not receive any incentive to share in plan cost management; in fact the opposite may be true: it can be argued there is incentive to "get your money's worth" out of your share of the premium cost. Total plan costs are likely to remain unchanged. There will likely be a negative reaction to increased payroll deductions.

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Deductible	<ul style="list-style-type: none"> • Generally refers to the plan characteristic where claims (Health, Drugs and Dental) are not paid until a certain dollar level of the claims has been paid by the member before the plan begins to pay expenses. • Most commonly the deductible applies to the particular benefit as a whole. For example, a \$100 drug deductible would mean that the first \$100 of total drug expense is not reimbursed by the plan (they are still submitted). After the \$100 is reached the plan reimburses eligible expenses at the coinsurance level of the plan. Often a plan will prescribe a \$100 deductible per claimant with a family maximum deductible of, for example, \$250. • One variation is a "per prescription" deductible for drugs. • Such deductibles can also be applied to various health or dental expenses and categories of expenses within these benefits. 	<ul style="list-style-type: none"> • Near immediate reduction in plan costs. • Deductibles, when added for cost containment, move the plan towards reimbursement for unbudgettable or unpredictable expenses. For example, a \$100 to \$150 deductible applicable to drugs will eliminate reimbursement of the typically low cost 1 or 2 prescriptions per year that can be expected for things like antibiotics or prescription pain medicine. • deductibles can reduce costs of the plan, while allowing a 100% reimbursement plan to ensure unexpected, unbudgettable and potentially burdensome health or dental expenses are covered--employees remain protected against catastrophic or near catastrophic expenses. • All reasonable expenses remain covered (as opposed to containing costs by cutting eligible expenses) for services that are genuinely and appropriately insured services. Cutting eligible expenses can result in employee/member hardship when unexpected health problems occur. (See also out-of-pocket expenses below). 	<ul style="list-style-type: none"> • No "Immediate Gratification" of having some expenses reimbursed at the start of a new year and some people may have no reimbursement for the year--may be perceived as devaluing the ;benefits plan. • The effectiveness of deductibles is eroded by inflation--future increases may be required. • There may be a negative reaction to reduced reimbursement, that disproportionately affects those with low expenses. • Total impact on cost is limited with small deductibles.

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<p>Out-of-pocket Maximum</p>	<ul style="list-style-type: none"> An out-of-pocket maximum is not a cost containment feature on its own. Its biggest value is as a compliment to deductibles and, in particular, coinsurance. One purpose of a group plan is to insure employees against unexpected, unbudgettable, medically necessary and high expenses (relative to the ability to pay). Applying coinsurance without an out-of-pocket maximum can leave employees/members unprotected because very high expenses (even when insured at 80%) can be catastrophic to a family budget and cause hardship and stress for valuable employees (leaving the very real possibility of sub par on the job performance or even disability claims----avoiding these outcomes is one of the benefits to employers of providing a well designed Group plan). Out-of pocket maximums protect against this possibility, while still providing cost reduction and shared incentives to reduce plan costs. In effect the out-of pocket maximum says to employees: we do require you to share the cost of medical (dental);expenses, but if your share becomes large, the insurance will kick in and cover 100% of expenses above a certain level, for example \$2,000. With coinsurance at 80% and an out-of-pocket maximum set at at \$2,000, the first 10,000 of expenses would be covered \$8,000 by the plan and \$2,000 by the employee/member; after that, the plan pays 100% of expenses. 	<ul style="list-style-type: none"> When combine with coinsurance, has all the advantages of coinsurance (and if a deductible is added, all the advantages of deductibles) while still preserving ultimate insurance protection against necessary and high expenses due to health problems. Reduces the negative impact on employees in a severe medical crisis. Cushions against the negative reaction to adding coinsurance or increasing coinsurance. 	<ul style="list-style-type: none"> Reduces the savings from coinsurance, but if properly implemented, minimally.

Term	Description	Pros	Cons
Restrict Eligible Expenses	<ul style="list-style-type: none"> As the term describes, this is reducing cost by removing eligible expenses from the plan. 	<ul style="list-style-type: none"> Can reduce expenses. Coverage can be removed for expenses that are considered non-essential or that people can budget for, thus making the plan affordable while preserving quality core insurance against unforeseeable and large expenses. Impact may be "hidden" because the reduction may not have an obvious or immediate impact on employee/members (this is also a disadvantage). 	<ul style="list-style-type: none"> Must be implemented very carefully so as not to erode essential and necessary protection. Even implemented with care, may be perceived negatively. May have unexpected future consequences (i.e. an expense or a category of expenses is eliminated because it does not seem essential today, but may become so in the future). Impact may be "hidden" because the reduction may not have an obvious or immediate impact on employees/members.
Introduce Maximums or reduce maximums	<ul style="list-style-type: none"> As the term describes, this is reducing cost by specifying that the plan only covers some or all expenses to a maximum amount. 	<ul style="list-style-type: none"> May reduce expenses. Introduction of limits for some categories of expense can stop excessive use of "non-essential" expenses. Impact may be "hidden" because the reduction may not have obvious or immediate impact on employees/members (this is also a disadvantage). 	<ul style="list-style-type: none"> Must be implemented very carefully so as not to erode essential and necessary protection. Even implemented with care may be perceived negatively. May have unexpected future consequences (i.e. an expense or a category of expenses is eliminated because it does not seem essential today, but may become so in the future). Impact may be "hidden" because the reduction may not have an obvious or immediate impact on employees/members. Depending on the category of expense, it can restrict coverage when it is really needed and be catastrophic to a family budget and cause hardship and stress for valuable employees (leaving the very real possibility of sub-par on the job performance or even disability claims--avoiding these outcomes is one of the benefits to employers of providing a well designed Group plan).