

Non-Profit lowers healthcare costs with Health Reimbursement Arrangement (HRA)

BACKGROUND

A high profile non-profit client of ours had been facing double digit health insurance rate increases for four continuous years. They have always been extremely concerned with offering a very high level of medical benefits because the average salary of their employees is much below that of for-profit organizations. In the previous years, this client had made several benefit changes to reduce their costs each time resulting in high higher co-payments, higher deductibles and higher payroll deductions. Our client had always paid seventy five percent of the premium for all employees regardless of whether they are covering themselves or their families. They had always expressed concern for paying seventy five percent of premiums for employees with dependents however never wanted to implement a change to that policy because it would substantially increase costs for employees with dependents. They were currently offering three plans with different levels of coverage and different levels of payroll deductions. It turned out that most employees were opting for the higher two options and paying a higher payroll deduction. We had expected Aetna to propose a premium increase of around fifteen percent which turned out to be correct.

KEY FINDINGS

BCG Advisors began meeting with senior staff at the non-profit organization five months prior to their renewal to gather as much information as possible. Our extensive due diligence provided us with valuable information about how the employees used the plan and how they valued the medical benefits their employer was offering. One of the key findings was that many employees only used the plan a couple of times per year for exams, check-ups and the occasional prescription but were ultimately concerned about the “what-ifs”. Additionally, it was determined that employees, facing a challenging economy, were very uneasy about lowered compensation and job security. Any drastic changes needed to be communicated in a way that employees did not feel that their employer was in jeopardy of closing. This client was currently using Aetna and had been for many years and the employees were very comfortable with Aetna and their providers. Finally, their renewal date with Aetna was December 1st which turned out to play a major role in our recommendation.

RECOMMENDATION

After all of our due diligence had been completed, we started to draft our recommendation. Based on a multitude of factors such as employee average salary, employee usage, current carrier used and renewal date, we made the following recommendation:

Extend the policy through December and implement a High Deductible Health Plan (HDHP) through Aetna effective January 1st with a Health Reimbursement Arrangement (HRA) along side to self-insure the deductible for employees only. Aetna has the most competitive pricing when it comes to HDHP's and employees will not have to change any of their providers. Additionally, we structured the payroll deductions based on their current “base plan” which meant most employees will have a significant decrease in their deduction because most employees were on the higher two options. We ran several scenarios, all of which showed our client that the worst case scenario – all employees use their entire \$1,500 allocated, would save then about 20% verses what they were currently paying (not including the proposed increase).

A HDHP plan works like this: A deductible must be paid before a health insurance carrier will pay their share for all services except for preventive care. There are two deductibles in the policy; one for employee only coverage and one if an employee is covering a dependent. Additionally, deductibles “run” on a calendar year basis which is why we had to start this policy January 1st.

The deductible for this plan is \$1,500 for employee only coverage and \$3,000, if the employee covers dependents. My client, through a Section 105 Plan, would self insure the first \$1,500 of charges regardless if the employee was covering dependents. This was a perfect way to ease concerns about contributing more to employees who are covering dependents. Employees would have a “debit card” which was managed by a Third Party Administrator (TPA). When the employee uses the plan, they pay for services with their credit card up the \$1,500 paid for by the employer. If the

employee has single coverage, they would pay co-payments for services after the \$1,500 is reached. If the employee had coverage with dependents, they would be responsible for the second \$1,500 up to the \$3,000 deductible for dependents.

The final and most important aspect to guarantee success with this new plan is the communication to employees. BCG Advisors customized enrollment materials which explain in detail how the plan works and the advantages to employees. We also held three informational seminars at which we explained the new program to make sure that all employees completely understood how it worked.

SUMMARY

The program that BCG Advisors recommended is an extreme success. Our client is experiencing a cost reduction of around thirty-five percent. Additionally, most employees are having much less deducted from their paychecks. Finally, employees realized that they do not have to pay anything out-of-pocket for services that fall within the first \$1,500. In the past, every office visit, test and prescription cost the employee a co-payment. Overall, the employees have also experienced a drastic reduction in their out-of-pocket expenses for their healthcare costs.