

Bridging the 'GAP'

Changing Contracts and Benefit Structures Make Supplemental Products More Applicable to HDHP Plans

Introduction

Consumer driven health care, and HSA's in particular, are powerful tools for containing cost increases in medical insurance. However, in the worksite market, especially in the blue-collar segments of that market, HSA's are not always applicable. Over the last few years supplemental carriers have redesigned GAP, critical illness and accident products to address more effectively the out-of-pocket costs borne by employees with high deductible plans. Having supplemental products underneath a HDHP is now a viable alternative for some accounts. This article explains the evolution of those products, their application to HDHP's and finally their relevance to medical brokers in terms of marketing and evaluating alternative plans. It seems counter-intuitive, but some employers are realizing large annual savings by going to a HDHP and providing the underlying supplemental GAP, critical illness and accident coverage. The cost differential between the traditional medical plan and the HDHP is more than enough to pay for the supplemental products.

From Individual to Group Contracts

Perhaps the most important trend in worksite products recently has been the move from individual contracts to group contracts. Group contracts provide more flexibility for employers and lower costs for employees. Many traditional worksite producers are hesitant to use group products because of their lack of portability. I think this is of little relevance when using these products to complement HDHP's unless the underlying medical plan is portable. Both can be subject to COBRA and as medical plans become more portable (as stipulated in much pending legislation on both state and federal levels) the group voluntary contracts will also become more portable. In fact, some group voluntary carriers currently have a portability or conversion feature in their products.

GAP Plans and HSA's

Most GAP plans are not HSA compliant. There are some traditional hospital indemnity plans which can be sold alongside an HSA but the coverage is not as comprehensive as most employees would like because traditional hospital indemnity products provide no benefits for doctor office visits, diagnostic testing, outpatient surgery, etc. If these benefits are included in the hospital indemnity policy it is no longer HSA compliant.

This leaves the employer implementing a HDHP with 4 basic choices:

1. HDHP with employer funded HAS.
2. HDHP with employee funded HAS.
3. HDHP with employer funded supplemental products.
4. HDHP with employee funded supplemental products.

Of course, there may be some overlap amongst these options.

Plan Design Alternatives

Most of the GAP plans available from voluntary carriers with Best ratings of A- or higher are built on the hospital indemnity (\$500 to \$5,000 initial admission benefit) chassis with one or some of the benefits listed below added.

- Doctor's office visit (\$25 to \$50 per visit, annual limits)
- Diagnostic testing (\$250 to \$1,000 per test, annual limits)
- Outpatient surgery (\$250 to \$3,000 per surgery, annual limits)
- Wellness benefit (\$25 to \$125 per year)
- Rehabilitation unit benefit (\$50 to \$100 per day, annual limits)
- Emergency room benefit (\$150 to \$250 per visit, annual limits)
- Intensive care benefit (\$300 to \$800 per day, annual limits)

The internal limitations on these benefits definitely leave "gaps and holes" in coverage, but frequently these are not as great as the "gaps and holes" left by an HSA, depending upon plan structure.

Critical Illness and Accident Coverage

In addition to GAP plans, many employers also provide a low benefit (\$5,000 to \$10,000) critical illness policy and/or an accident policy. The critical illness policy pays a lump sum upon diagnosis of cancer, heart attack, stroke, Alzheimer's, etc. This provides the insured cash for expenses and treatments before the HDHP benefits begin. Accident coverage also provides first dollar benefits to the insured for medical expenses relating to accidents. With employer funding all these options should be economical and guaranteed issue, frequently with no pre-existing conditions clause.

Pitfalls

There are several pitfalls to this option which should be considered:

1. Gaps and holes will remain in the coverage, even though these may be less than in an employee-funded HSA.
2. Most supplemental carriers pay off of the major medical EOB. This may put the insured in a position of having to pay up front, then be reimbursed.

Advantages

Advantages to this approach which we have not discussed are:

1. The initial and obvious benefit of this option is greater employer and employee choice. It is no panacea for the cost problems facing the health insurance industry, but it does provide a different approach to be considered and analyzed.
2. If medical costs continue to rise and the employer needs to shift costs to employees, the supplemental products can be converted to voluntary products.

Computerized Comparisons of Alternatives

There are spreadsheet programs which are quite valuable in helping brokers and employers analyze alternatives. These display the current plan, the renewal quote and the new HDHP option and calculate the projected savings to both employer and employee. Then the supplemental costs and benefits are added to demonstrate which options are most cost efficient and which options provide the greater benefits.



If you would like a spreadsheet of the leading carriers' products, please send me an email.

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