Know Before You Go
Defined Contribution in Health Care

Balancing Physical & Financial Wellness
You Can’t Have One Without the Other
Defined contribution concepts are commonplace in retirement plan circles. The model is familiar: employers and employees contribute definite amounts of money to the retirement plan, and at retirement, employees are entitled to receive their account balance, either in a lump sum or paid out over time. Responsibility for investing the account, and for saving enough to meet income needs in retirement, belongs to the employee.

Defined contribution concepts have been migrating to the world of health and welfare benefits for a number of years. The advent of the “private exchange” and related press coverage has accelerated the public conversation about defined contribution health benefits, as the private exchange is being touted as a new way to reduce the increasing cost of health insurance. A private exchange is an online benefits marketplace where individuals purchase insurance products, including health, dental, vision, and life insurance, along with other ancillary coverage. Aon Hewitt claims that consumers on its private exchange will benefit from competition between carriers, which will in turn reduce “top line cost” of health care. Some commentators have noted, however, that the primary function of a private exchange is to shift the risk of premium increases away from employers to employees without addressing the underlying cost drivers of health care.

When reviewing these issues, employers must constantly keep in mind their own company objectives in offering health and welfare benefits, and how a private exchange may or may not help them meet those objectives.

Employers offering both health and retirement benefits should keep in mind how those benefits work together to meet objectives. What’s your priority? If you are in a high-turnover industry and your main objective is cost control, your concerns will be very different from an employer who prioritizes employee satisfaction.

Is Defined Contribution Right for My Workplace?
A company that sponsors a cafeteria plan under Section 125 is probably already familiar with the defined contribution concept. The difference can be in how the benefit is communicated. Do employees see employer contributions on their pay stubs? Are they aware of all the different benefits available to them, and what is included in each one? For that matter, are you aware of all the features of all the benefits your company offers? Are those features communicated? Frequently, vendors include some communication tools in the package of services they deliver. It’s worthwhile to make sure you are getting everything you are paying for, and telling your employees about it, often. Clear and comprehensive information about the benefits options can enhance employee satisfaction.
More Options, but What do They All Mean?
A defined contribution plan can provide employees with more options than a traditional health plan. At the same time, employees may not be equipped to evaluate the options. Employers who provide employees with new options should give them the means to make smart choices. Cost comparison tools and calculators should be available so that employees can map their own best path and maximize their benefit dollars. Keep in mind that employees will be required to evaluate and select their health care options within the confines of the employer contribution and their own budget. Consider offering a financial wellness program to help them stay on track.

Self-Administered or Private Exchange?
More and more employers are investigating the private exchange option for employer-sponsored health plans. Under this model, employers no longer manage plan design and insurer relationships. The exchange provides the technology platform and contracts with carriers and vendors, who provide insurance coverage to employees through an online exchange system. Some private exchanges are operated by insurance carriers who carry only their own products. Other exchanges offer an array of products from several different companies. Most commonly, plans offered through private exchanges are fully insured.

Legal Issues
Coverage offered through a private exchange can be an employer-sponsored plan for purposes of ERISA, the Internal Revenue Code, and the Affordable Care Act. Coverage offered by an employer through a private exchange will be considered employer-sponsored insurance for purposes of the Affordable Care Act if it meets the affordability and minimum value tests and otherwise complies with the ACA. Note that the premium tax credits (subsidies) available to employees as individuals on the public health insurance exchanges are not available through private exchanges. Employers who offer Health Reimbursement Arrangements can “integrate” those plans with private exchange coverage as long as the employees are purchasing policies under the employer’s plan. HRAs cannot be integrated with individual policies purchased on public or private exchanges.

Private Exchange Questions for Your Provider

- Does the exchange offer health benefits exclusively, or does it offer voluntary/ancillary benefits as well?
- How are administrative responsibilities allocated among the exchange, the carriers, and the employer?
- How is the exchange compensated?
- What is the fee and commission structure and how are savings passed on to employers and participants?
- Can the exchange support a self-insured model and how would the exchange help a self-insured employer save on costs?
- What is the exchange technology platform and will it integrate with our payroll and HRIS systems?
- Who is primarily responsible for participant communications and support and what decision tools and support are available?

Don’t Know Your Objectives? Ask Your Manning & Napier Advisor About the Prioritizer!
www.manning-napier.com/TakeControl
Balancing Physical & Financial Wellness
By Angela Obuhanych, Health Plan Consultant

As health care spending has grown to represent a larger portion of the overall economy, and in turn a larger portion of employers’ and employees’ budgets, the financial impacts of out-of-control health spending have become clear.

- Health care premiums for a family have increased 80% in the last decade.
- The share of GDP devoted to health care increased from about 7% in 1970 to nearly 18% in 2010.
- A married couple retiring today can expect health care expenditures in retirement ranging from $151,000 on the low end to a high of $360,000.

Clearly, health care costs can have a tremendous effect on an employer’s, and an individual’s, financial situation. On the flip side, financial health also affects physical and mental health, and the economic difficulties faced by many in recent years have taken their toll on our health.

- Eight in ten Americans in a recent study reported money and the economy as significant sources of stress.
- Financial distress has been noted as one of the strongest predictors of workplace absence.
- The 2008 Associated Press-AOL Health Poll reported that employees suffering from financial stress are more prone to a variety of health risks.

The Convergence of Health and Wealth is the New Reality
Employers should be aware of this connection and its ramifications when making plan design and budget decisions. A holistic plan design approach that incorporates both health and wealth components, and recognizes the impact each can have on the other, can help mitigate the effect on both plan costs and employee productivity. Employers, along with their benefit plan advisors, can also help to educate employees on this health/wealth convergence, and how addressing both their physical and financial wellness can improve their health and wealth outcomes. To the extent that steps can be taken to contain rising health care costs, more benefit dollars can be allocated toward retirement savings, by both employers and employees.

Sources: The Henry J. Kaiser Family Foundation, Employee Benefit Research Institute, American Psychological Association.