

The Power of One

What group coverage gets too expensive for small employers, brokers turn to individual policy options. BY MOLLY BUTLER HART

Good things come in small packages. That's the mantra now being chanted by a cadre of benefits consultants and brokers looking to add value in the employer health care arena as rising premiums and increasingly complex administrative requirements cause many businesses to shy away from offering health care benefits.

Rather than counsel employers to control costs by tweaking an existing group health care benefits package, some brokers are advocating changing the health benefit delivery model. The emphasis is moving from group to employer-engineered individual policies.

There are three models taking shape. One involves offering individual insurance policies through affinity groups and compensating employees for the premiums by paying a higher salary. Another involves using Health Reimbursement Accounts to fund premiums for individual insurance policies. And the third involves providing access to either individual or limited benefit plans on a national basis. All three models are particularly germane to small-business owners and employers with part-time workers, contractors or consultants.

"We are doing a significant amount of business in employer individual policies, especially in the small employer market," says Michael Paschke, executive vice president of Brown & Brown. "In a group plan, 10% of the

people typically use 90% of the health benefits. A group policy gets weighted down by the costs of that 10%. Take them out of the equation and costs come down considerably." Moreover, small employers in particular are not set up to deal with the administrative headache group health plans entail. Directing employees toward their own individual policies takes them out of that cycle. "The trend is toward saying, 'Secure your own. We will give you a raise to cover the costs,'" says Paschke.

This approach is particularly effective in the affinity market, where professional groups can offer policies to individual members at negotiated rates.

"We tell realtor groups, medical groups, alumni groups that we will hook them up with the affinity discount," Paschke says. "Their employees will get the bill at home taking the employer out of the administrative loop."

Brown & Brown has used its clout to negotiate with Blue Cross/Blue Shield for discount rates with various affinity groups, Paschke reports. Members compensate their employees for the policies with higher salaries.

How does this work for the broker? "We sell the individual policies and collect the commissions," he says. "And the commissions on individual policies are generally higher than group."

FAST FOCUS

- Individual policies may pay off for employees of small businesses.
- Higher salaries or contributions to HRAs may fund premiums.

RE-ENGINEERING

Utah-based Zane Benefits has taken this model one step further with ZaneHRA—a platform that uses health reimbursement accounts as a tool to

How Pervasive Are Consumer-Directed Health Plans?

An annual survey by Mercer Health & Benefits shows the percentage of employers offering a consumer-directed health plan (CDHP) based on either a health reimbursement account (HRA) or a health savings account (HSA) tripled in 2006—from 2% to 4%—as small employers began adapting the new plan types in significant numbers for the first time.

Employers are becoming more comfortable with consumer-driven health plans, says Aon Consulting and the International Society of Certified Employee Benefit Specialists. A recent survey of 470 employers shows that 37% offered a CDHP, up from 28% in 2006 and 22% in 2005. Among those with CDHPs, 42% provide health reimbursement arrangements, 48% offer health savings accounts, and 10% offer both.

allow employees to choose their own health insurance policies and pay for those policies with HRA dollars. An HRA is a defined-contribution plan vehicle created by the IRS to allow employers to reimburse their employees for qualified medical expenses that are typically not covered under most health insurance plans. HRAs are sometimes referred to as Section 105 plans after the section in the U.S. tax code that governs them.

These plans are akin to Health Savings Accounts (HSAs), but they are different in a key way. Both plans are sometimes used by large employers that offer comprehensive benefits and want to supplement them by giving employees tax-free dollars for non-covered medical costs. An HRA, however, is funded solely by the employer; it cannot be funded by employee dollars. Employers can write off the expense for tax purposes, similar to more traditional health benefits, while the money does not count as taxable income for employees. And HRAs can be designed as a standalone benefit or coupled with a health plan. HSAs, by contrast, are controlled by the employee rather than the employer. Both employees and employers can contribute to an HSA. They also differ in that employees can use the money in an HRA, but generally not an HSA, to buy health insurance.



"The amount of paperwork you generate is contributing to global warming. Don't worry. We bought carbon offsets so you can do more."

This is key to the Zane Benefits approach.

The ZaneHRA platform includes two distinct products: SimpleHRA and GroupHRA. SimpleHRA is designed for employers that do not offer group major medical coverage. GroupHRA is essentially a high-deductible, consumer-directed health plan.

Both platforms are broker-friendly. "The carrier is of no consequence to us. We do not sell the insurance; we provide the platform that enables the broker to provide this option to his or her clients," explains Paul Zane Pilzer, the company founder. Zane makes its money with a \$6 to \$12 fee per account. Employers that sign on can establish an HRA for each employee and make a fixed, monthly, tax-free contribution (e.g., \$200/month) to that account for each employee to purchase his or her own individual/family health insurance. Employers get online administration, real-time reimbursement and a plan document. Employees are given access to a Web site where they can review individual insurance options. That Web site can be linked to a benefit broker's Web site, or employees can get advice from Zane's 200-person call center of non-commissioned agents. Either way, the delivering broker gets the sales commissions.

The Zane Benefits' approach is controversial. Some experts question whether this approach violates a federal law requiring that employers offer coverage to everybody or nobody. The state

Just the (Scary) Facts

- In 2005 just over 16% of the gross national product was spent on health care in the U.S., up from 13.8% in 1993.
- Health care spending is expected to reach 20% of GDP by 2015 as baby boomers begin to retire en masse.
- Employer health care premiums have more than doubled since 1997. While employer-based premium increases are not as high as their peak in 2003, employers are still being hit by five consecutive years of increases averaging more than 9%. The increase in 2006 was 7.7%, which, although the lowest since 2000, is still twice the rate of inflation and twice the growth in workers' earnings.
- According to the Kaiser Family Foundation, 60% of businesses offered health benefits in 2005, down from 69% in 2000. Employer premiums for family coverage have risen 81% since 2000 to \$11,480 annually.

of Texas has thrown up some barriers that have caused Zane to stop marketing HRA reimbursement for health insurance there. Others question the ethics of promoting a solution that is centered on cutting less healthy people out of the pool. They argue that the concept violates the fundamental principle of health insurance: that the healthy help to pay for the coverage of the sick.

But Pilzer is undeterred. He reports that 45 states now allow carriers to sell individual and family policies to healthy people for one-third the price of a typical employer group plan—often from the same carrier—and that at least 34 states have a high-risk pool for people who can't get insurance because of illness. He also notes that so far there has been no IRS or federal government pushback.

"With individual plans, once accepted, premiums cannot generally be increased or coverage dropped for future illness. Under a group plan, workers who lose coverage when they are

Top Priority for Workers, Top Challenge for the Boss

The press is dotted with stories of how health care benefits have virtually sunk the American automobile industry. Small employers can be priced out of the market entirely. And employers with a seasonal or part-time workforce, whether large or small, can't make the numbers work either when it comes to providing health care for that segment of their regular employee population.

Some companies fear their health care costs will overtake profits in the years to come. Not surprisingly, many employers cite health care costs as the most important trend affecting them. Eighty-eight percent of human resource professionals responding to a 2005 LIMRA survey cited controlling health care costs as the top challenge for employers. A report from the Business Roundtable, a Washington-based association of American CEOs, shows that for the fourth consecutive year leaders of America's top companies identified health care costs at the top of the list of pressures facing businesses, with 51% of CEOs citing this as their greatest concern.

At the same time, employees make it clear in survey after survey that a company's health care benefits package is a key attraction to a job. A recent poll by the National Business Group on Health showed that employees value health care more than any other benefit they receive—and they're loath for employers to tinker with it. In a newly published study by Prudential, 83% of employees surveyed cited having appropriate health insurance as their top financial concern. Second to this is needing to save for retirement, which was cited by 76% of employees in the study, followed by having more flexible, paid-time-off policies, at 67%.

carriers are paying attention. Case in point? UnitedHealth has given the Zane approach its support by encouraging its agents to consider this tack.

REVOLUTION ENGINEERING

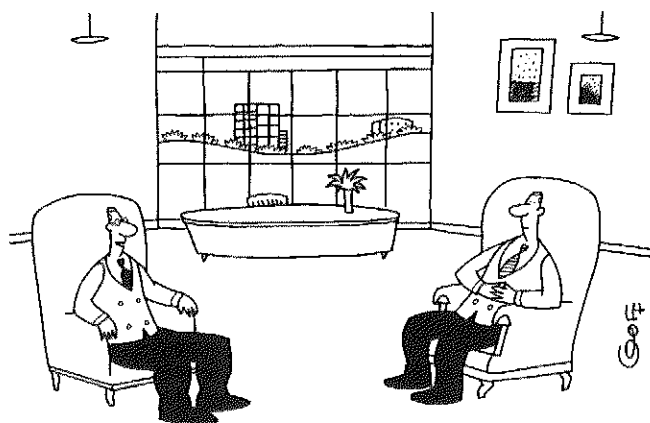
Extend Health is another innovator offering a turnkey approach to individual health insurance policies for employees. The company is partially owned by Revolution Health—the free consumer health and medical Web site founded by AOL co-founder Steve Case. Its market niche is delivering access to a nationwide marketplace of health plans through two programs: ExtendAccess and ExtendRetiree.

"These products allow employers of any size to offer health insurance options to their employees, particularly employers with populations of contract or part-time workers," says Brian

Tenner, senior vice president of Extend Health. The firm's roster of clients runs the gamut from small employers to FedEx, Avon, IBM, Walgreen and GE. The products are also offered to members of affinity groups, such as Sam's Club, adds Tenner.

ExtendAccess provides affordable medical plan options to employees and independent contractors who are ineligible for company-sponsored group health plans. It is for employers that would like to provide all or a portion of their active employees access to Extend Health's health care marketplace but will not be providing a financial contribution. Employees get access to hundreds of health plans offered by leading national insurance carriers. They can go online or speak to health plan advisors to choose the plan that best fits their needs and budget. In addition, ExtendAccess provides communications materials for employers to distribute to employees about purchasing a health plan. "What is key here is that we provide service on a national basis. So companies with multi-state locations can offer their employees advice and access tailored to their locations," adds Tenner. And if an employer is looking at a limited-benefit plan strategy, ExtendAccess also provides negotiated rates. Typically, Extend Health sells directly to the employer without the involvement of a broker. "But, if a broker has a relatively sizeable affinity group, we'd like to talk to him," says Tenner.

ExtendRetiree allows employers to replace legacy group retirement plans for those 65 and older with a defined-contribution alternative. "Retirees may use these funds to pay for medical expenses. In certain states, they may use the funds to pay for individual Medigap, Medicare Advantage and Medicare Part D plans," says Tenner. ExtendRetiree also allows corporations, union and government entities to comply with recent accounting directives regarding retiree health care obligations. Tenner reports they have built a team of 180 insurance agents to serve retirees at Fortune 500 companies with individual health accounts. "We expect to have about six large clients, including Ford and Chrysler, offering retiree health accounts next year," he says. "Then we aim to triple that number in 2008." ■



"The good news is that we were very close to succeeding when we failed."