



THE FINANCIAL PLANNING ASSOCIATION

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PLANNER RESOURCES

## TEST DRIVING CONSUMER-DRIVEN HEALTH CARE PLANS

There's a new health care plan in town you should get acquainted with because it's likely to be coming to an employer near you—perhaps your own.

Dubbed “consumer-driven plans,” or less commonly, “defined contribution” plans, this new health care plan will be increasingly common in the coming years, believe experts. According to a recent survey by Mercer Human Resources, one in three large companies, by the end of 2003, will offer a form of these plans alongside traditional health care options such as health maintenance organizations (HMOs) and preferred provider organizations (PPOs).

Consumer-driven plans (CDPs) come in several varieties, but in general here's how they work. The plan starts with a high deductible medical insurance policy. Let's say the deductible is \$1,600 for the employee or \$3,200 for the employee and family (the deductible amount will vary depending on which premium level the employee chooses). As with traditional medical plans, the employer will likely pay the bulk of the premium, with the employee paying the remainder.

In conjunction with the high deductible policy, the employer pays a set amount annually into a medical spending account for the employee—say \$1,000 for the employee or \$2,000 for the employee and the employee's family. As medical expenses occur, the employee draws on the funds in the account to pay expenses.

Under this type of plan, employees can spend their account's funds for any medical expenses they see fit, as long as the expenses are considered qualified by the Internal Revenue Service. That means they can choose their own doctor or a specialist who may be outside the plan's system (though the office charge will likely be more), or choose a generic drug over a brand-name drug.

If the employee exhausts the spending account, the employee must pay the remainder of the plan's deductible out of pocket. In the above example, that would be \$600 for the employee or \$1,200 for the employee and family. Once the deductible is met, the policy kicks in, typically paying 80 percent of future medical expenses (using the network's providers), with the employee paying the remaining 20 percent, similar to what the employee would under traditional systems.

What if the insured doesn't spend all the employer's contribution in a given year? The IRS says they are allowed to roll the surplus over into the next year and bank it along with the employer's new full contribution—a distinct advantage over employee-funded flexible spending accounts that require employees to “use it or lose it” by year end. Consequently, if medical expenses are low in a given year,

the employee will have a bigger pool to draw on in a later year should expenses increase.

If this type of plan is offered as an option at work, should you take it? This is where the plan becomes controversial. Proponents argue that the concept will benefit consumers in the long run because it encourages consumers to comparison “shop,” which will in turn slow the rise in future medical costs and encourage health providers to package their services more efficiently.

For example, consumers will less likely rush off to the doctor at the first sign of a sniffle because instead of a \$15 co-pay, they’ll have to spend \$80 from either the employer’s contribution or from their own pocket. Consumers also should have more choice of doctors and fewer restrictions than with managed care. Employers like the plan because they believe it will more effectively reduce and manage their costs than HMOs have in recent years.

Critics worry that consumers will skip or delay needed medical care because they’ll hesitate to spend the money, and that it’s difficult for consumers to get good comparative medical information on which to base their “shopping.” Critics say these plans are a bad choice for people with chronic health problems and families with young, often sick, children because they’ll end up spending more out of pocket compared with traditional plans. Ultimately, they contend, less healthy workers will stick with HMOs and PPOs, eventually paying more for those plans because healthier workers will gravitate to the consumer-driven version.

Whether a consumer-driven plan is the right option for you will depend in part on your health and on the details of the plan offered by your employer. Review it carefully with your financial planner before making a decision.

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