With rising health care costs, employers continue to search for new ways to manage employee health care coverage. At HealthPartners, we’ve seen a renewed interest in defined contribution plans. With defined contribution, a company pays a fixed amount for employee health care expenses. The employee uses this money to pay for coverage they select themselves.

Defined contribution shifts choice and responsibility from the employer to the employee — it’s the employee who determines where and how to spend the funds. Because of this, employees are more accountable for the decisions they make, which encourages them to be more informed health care consumers.

Market and competitive influences have made it hard to tell fact from fiction when it comes to defined contribution. By dispelling the following myths, you’ll be able to see the big picture of what defined contribution can — and can’t — do for your business.

Myth #1
**Defined contribution is a new idea.**

Defined contribution is not a new idea. It’s been used in retirement plans for decades, and in health benefit offerings since at least the 1990s.
To manage increases in health care costs, employers have reduced benefits, and increased employee premium share, as well as costs at the point of service. This chart reflects the percentage of firms that have used these cost sharing tactics:

<table>
<thead>
<tr>
<th>Firm size - # of employees</th>
<th>Reduced health benefits or increased cost sharing</th>
<th>Increased the employee’s share of premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>All small firms (3-199 workers)</td>
<td>22%*</td>
<td>19%*</td>
</tr>
<tr>
<td>200-999</td>
<td>30%*</td>
<td>43%*</td>
</tr>
<tr>
<td>1,000-4,999</td>
<td>43%*</td>
<td>57%*</td>
</tr>
<tr>
<td>5,000+</td>
<td>45%*</td>
<td>59%*</td>
</tr>
<tr>
<td>All large firms (200+ workers)</td>
<td>33%*</td>
<td>46%*</td>
</tr>
</tbody>
</table>

*Estimate is statistically different from estimate for all other firms not in the indicated size or region (p<.05).


Myth #2

**Defined contribution is a product.**

Defined contribution is not a unique product. Instead, it’s a concept or approach — one that’s used to facilitate the funding and selection of a health care benefit plan. At HealthPartners we offer plans that are packaged and funded based on the defined contribution concept.

Products in the marketplace today are primarily packaged around two defined contribution models: group or individual coverage.

**Group coverage:** The employer typically picks multiple plan options for the employee to select from. The contribution amount is then determined by a base plan (i.e. the least expensive one). If the employee wishes to enroll in a plan other than the base, they assume responsibility for any buy-up coverage. One of the trendy terms for this model is “private exchange,” in contrast to the state and federal “public exchanges” developing under federal health care reform.

**Individual coverage:** The employer offers a standalone health reimbursement account (HRA) with a set amount of money. Employees could use the HRA funds for any 213(d) allowed expense, including an individual plan premium. However, based on HRA plan design, the employer can limit the use of funds to only the plan premium. This model allows employers to reduce their role in benefit administration, while continuing to provide something of value to employees. One issue to keep in mind is that until 2014, employees must pass underwriting to get individual coverage, which is not guaranteed.

Defined contribution plans can be useful for employers who need to manage health care expenses, while maintaining employee benefits and choice. Here’s how it typically works:

1. **STEP 1: DEFINE $ AMOUNT**
   Employer defines how much they want to contribute toward an employee’s health care coverage.

2. **STEP 2: SELECT A PACKAGE**
   Employer determines what health plans, networks or incentives they’ll offer for employees to choose from.

3. **STEP 3: PICK A PLAN**
   Employees review the available options and pick the plan that best fits their health care needs.
Myth #3
There’s only one way to do defined contribution.

 Defined contribution lends itself to many options, for the employer and the employee. The basis for the contribution can be tied to benefit plan, health incentive or provider network, just to name a few. Think of defined contribution as an opportunity to not only cap your costs, but to engage employees in their health care coverage and choices.

Many employers start with an approach that’s relatively simple to implement and easy for employees to understand. Employers should evaluate their health care business goals on a regular basis and consider different strategies that align with their organization’s goals and engagement level of their employees.

Defined contribution strategies

There are multiple defined contribution options that can be tailored to fit your unique needs. Below we’ve outlined the most prevalent strategies available in the marketplace:

1. **Benefit plans.**
   Employers can reduce claims cost by offering more than one plan design. This is often achieved through a base/buy-up contribution strategy. The employer determines how much they’re going to contribute and if employees wish to enroll in a plan other than the base plan, they’re responsible for any additional cost.

2. **Health incentives.**
   To create healthy and productive workforces, organizations are expanding benefits to offer programs that incent employees to participate in well-being (i.e. physical, emotional, spiritual and financial). To drive engagement, incentives are often tied to program participation. For example, if an employee completes a health assessment and activity, they could get a reduced premium, lower cost sharing at point of service or money deposited into an HRA or HSA.

3. **Networks and providers.**
   Typically, employers and plans have tried to manage high health care cost by restricting provider networks by carving out high cost providers. However, this approach limits employee options and can lead to dissatisfaction. Through a defined contribution that is based on provider network or care system, the employer doesn’t limit the available providers. Rather, if an employee chooses to use a less efficient provider network or care system, they’ll pay more.

When examining business goals, it’s important to consider the different perspectives within your organization.

**Financial**: This view centers on dollars and cents. Health care is seen as a cost of doing business and critical to competitive position.

**Human**: This is focused on attracting and retaining skilled talent; and making that talent as productive as possible. Health care is valuable in supporting an employer’s workforce.

**Industry**: This view weighs current trends that need to be considered or addressed before making a decision. What are the trends in your industry or among your competitors that impact the organization’s overall health care strategy?
Myth #4
**Defined contribution is a silver bullet.**

While we’d all like to find a silver bullet solution to manage health care costs, defined contribution isn’t it. It doesn’t provide the answer to all the challenges we face, and doesn’t allow employers to disengage from health care benefits entirely.

An employer needs to determine what the contribution is going to be and what it will be based on each year. They select what plan packages are going to be offered and the type of platform they will use. Employers must also oversee accounting functions, such as providing contribution dollars and processing payroll deductions.

In addition, employers are expected to provide some level of employee support. Employees value guidance during the benefit selection process, regardless of the financial contribution.

**Plan selection tools**

Part of that employee support may include an online plan selection tool. A plan selection tool allows an employee to review and compare the different options available, helping to determine the plan that best suits their individual needs. Here’s some of the information a plan tool should provide:

- **Networks** — Is my provider included?
- **Plan premiums** — How much is my share of the premium under each plan option?
- **Account contributions** — Does my employer contribute to an HRA or HSA to help offset my out-of-pocket expenses?
- **Out-of-pocket maximums** — What’s the worst case scenario under each plan option?

Online tools can help during the selection process, but they aren’t ideal for everyone. Online tools should be considered one of many decision support tools you can offer. Not everyone is computer savvy, or even has access to a computer. In these instances, employees are likely to prefer paper materials and/or face-to-face interaction.

Employees are going to have questions, which should be welcomed and encouraged. Your health plan, consultant or broker can help you determine the right mix of tools and resources to support your employee population.