

CASE STUDY

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COST SAVINGS CASE STUDY

How **Universal Benefit Plans** saved a Boston non-profit over \$144,000 in premium costs by switching to a Deductible Health Insurance Plan.

Client: **Boston Senior Home Care (BSHC)** is a non-profit organization that helps seniors stay in their homes and communities for as long as possible. Its primary source of funding is the state government.

Problem: Due to the drastic drop in state revenues, **BSHC** experienced a 3% reduction in funding and fears deeper reductions are on the way. The goal of management regarding employee benefit plans was to reduce expenses without sacrificing the levels of coverage offered to employees.

Their health plan, Blue Cross Blue Shield Value Plan, charged co-payments for doctor visits and three-tier prescription drug costs were \$20/\$30/\$50. It covered typical medical services and had no deductible, except for hospitalization and Day Surgery.

Solution: Edan Barshan, President of Universal Benefit Plans, met with **Ms. Anna Cole**; the Fiscal/HR Director of **BSHC** and proposed a new high Deductible Health Insurance Plan accompanied by an **HRA** (Healthcare Reimbursement Account)

Below are 3 key points that the two parties considered when choosing a different Health Plan:

1. BSHC had 2 significant subgroups of employees:
 - a) Younger employees who were relatively healthy but were also in prime child bearing years; many of these employees already had children in need of regular medical care
 - b) Employees over 40 who were developing chronic health problems due to aging or injuries

2. Non-profit employees are generally not highly-paid and have little disposable income available for unexpected medical expenses and/or deductibles.
3. A significant number of BSHC's workers were unionized. The bargaining unit contract calls for providing "substantially the same" health insurance benefits to unionized employees, even though management has the right to choose the benefits provider and plan.

2008 Plan Renewal Options:

1. Keep the same plan design with a 7.75% premium increase.
2. Keep essentially the same plan with a 4.75% increase by changing to a \$75 radiology co-pay and higher Rx co-pays.

Old Rx: \$10/\$25/\$45 with 90-day prescriptions at \$20/\$50/\$90
 New Rx: \$15/\$30/\$50 with 90-day prescriptions at \$30/\$60/\$150

3. Change to a deductible plan with a 12.46% premium cost reduction and ultimately save over \$144,000.

Proposed Plan Design with an HRA

HMO Blue \$1000 (individual)/\$2500 (family) Deductible Plan

The rationale for taking a deductible plan is that the employer and employee both save money from reduced premium costs. Many employees will not incur any deductible expenses and those who do can partly pay for them with money saved through premium cost reductions throughout the plan year. Here are BSHC's savings with a deductible plan.

SAVINGS

	# of Enrollees	Current Plan	Proposed Plan	Savings
Single	(47)	\$ 557.71	\$454.21	= \$103.50/mo.
Dual	(10)	\$1115.46	\$908.45	= \$207.01/mo.
Family	(15)	\$1567.12	\$1276.28	= \$290.84/mo.
Total # of Enrollees				= 72
Total Yearly Savings				= \$135,566
		<u>Employer savings (75% of premium)</u>		<u>\$101,675</u>
		<u>Employee savings (25% of premium)</u>		<u>\$ 33,892</u>

Proposed HRA Plan (Health Reimbursement Account):

If 100% of BSHC's employees used their entire deductible amount, the total deductible cost for the plan would be:

Single (47)	47 x \$1000	=	\$47,000
Dual (10)	10 x \$2000	=	\$20,000
Family (15)	15 x \$2500	=	\$37,500

Maximum Total Deductible Expenses = \$104,500

The minimum amount that would be saved by changing to the proposed deductible plan is almost \$31,000. In the most likely scenario, overall savings would be higher because not all employees will use their entire deductible amounts.

BSHC had two other considerations in creating an HRA Plan:

1. What percentage of the deductible amount should the employer pay and what percentage should employees pay?
2. Who should pay their percentage first, the employee or the employer?

The Final HRA Plan:

After taking into account the above-mentioned considerations with advice from Edan Barshan, BSHC chose their HRA plan's features. In the final plan:

1. Employees pay 25% of their deductible expenses and BSHC pays 75% of deductible costs incurred.
2. Employees pay their 25% first and BSHC pays the rest.

Bottom line, BSHC saves a minimum of \$31,000 from switching to a deductible plan:

Changing to a deductible plan saved Boston Senior Home Care over \$135,000 in annual premiums and at a minimum, almost \$31,000 after paying the maximum in deductible expenses.