

Consumer-driven Health Plans (CDHP)

White Paper



Growth in consumer-driven health plans (CDHPs) has been fueled by employers facing double-digit premium increases who believe employees should take greater responsibility for how healthcare dollars are spent. These sentiments were echoed by the U.S. government as budget projections remain dim for financing the vast number of citizens that will soon be eligible for Medicare. Thus, the economic dam for healthcare access is breaking, necessitating greater savings acumen across all constituents.

In an effort to thwart rising medical expenditures, the U.S. government authorized two new financing mechanisms designed to provide tax advantages to employers and employees. Health Reimbursement Arrangements (HRAs) were authorized by the IRS in 2003. Then, the Medicare Modernization Act of 2003 granted provisions for establishing Health Savings Accounts (HSAs). Both CDHP products are intended to perpetuate heightened health cost-consciousness among enrollees relative to their 'purchasing', if not their savings decisions.

Growth in CDHPs is robust. Mercer estimates that CDHP adoption will reach 20% in 2006 among the nation's largest employer groups (those with 20,000+ employees), increasing to 31% in 2007.¹ Yet, it is not merely the tax benefits that are attracting employers. A 2006 Deloitte survey revealed lower premium increases, yielding as much as 5+% savings between CDHPs and traditional point of service and managed care plans.²

The adoption of CDHPs is expected to be even more dramatic in a longer-term. Recent research by DiamondCluster suggests that by 2013, the lion's share of employers will migrate from the traditional defined health benefit plans to these newer, defined contribution products.³ Similarly, McKinsey & Company, an industry analyst, recently projected that healthcare-oriented financial services products will represent a \$10 billion market by 2010.

The advent of CDHPs has spawned complex requirements for greater agility in processing claims across multiple accounts with varying plan and government provisions. These capabilities must account for tracking eligible medical expenses and member-level accumulators as well as facilitate the appropriate financial reimbursement and reporting among all stakeholders. Clearly, the market is undergoing a swift transformation, one that requires astute coordination and administrative systems expertise.

For more than four years, Mphasis' HEALTHpac system has been the system of choice for one of the nation's largest administrators of CDHP, serving more than 600,000 enrollees nationwide. Today, we continue to evolve to this technology to address this new paradigm in health plan design, fund management and service delivery.

Transformation in Healthcare Financing

Historically, health plan members could elect to have pre-tax dollars allocated for medical and dependent care expenses with flex accounts, yet risked forfeiting any unused funds within the plan year. Additionally, some plan designs provided Limited Flexible Spending Accounts (LFSA) that imposed restrictions as to how eligible expenses may be paid. Although these models offered enrollees some tax advantages, independently, flex plans provided limited incentives for medical budgeting, let alone savings.

Today, modern funding models have emerged, enabling employees to fully manage the financial assets used to pay for medical care over time. More importantly, these mechanisms encourage employees to more actively manage their health as well as their service consumption.

Health Reimbursement Arrangements (HRAs) and Health Savings Accounts (HSAs) are employer-funded, high deductible plans designed to increase an enrollee's financial ownership in medical expenses and savings.

Employers offering HRAs fund the employees' accounts based upon their coverage levels.

HRA Provisions

- ❖ HRAs are exclusively funded by the employer and reimbursements to the employee are considered tax-free income.

- ❖ Employees will be reimbursed for those annual healthcare expenses deemed as 'qualified' by the employer up to a maximum annual benefit amount.
- ❖ The employer may provide a rollover option, enabling employees to build the reimbursement funding account for future years.
- ❖ Unused 'credits' are not portable if the employee terminates.
- ❖ Employees are restricted from contributing to the account.

In contrast, HSAs are akin to an investment account to be specifically used for medical services.

HSA Provisions

- ❖ HSAs are only offered with a High Deductible Health Plan with the following minimum annual deductibles:
 - \$1,100 for Employee with a maximum out-of-pocket limit of \$5,000
 - \$2,200 for Employee and Family with a maximum out-of-pocket limit of \$10,000
- ❖ The employee 'owns' the HSA and it is portable, allowing them to move the funds as they change employers.
- ❖ Employees can contribute to the HSA up to the amount of the plan deductible.
- ❖ Interest can accrue on the HSA or may be offered with other investment options that are non-taxable.
- ❖ Account funds can be used to cover medical deductibles and co-pays as well as COBRA premiums, should the employee become unemployed.
- ❖ Employees can use funds to pay for non-medical services, subject to taxation as well as a 10% penalty.

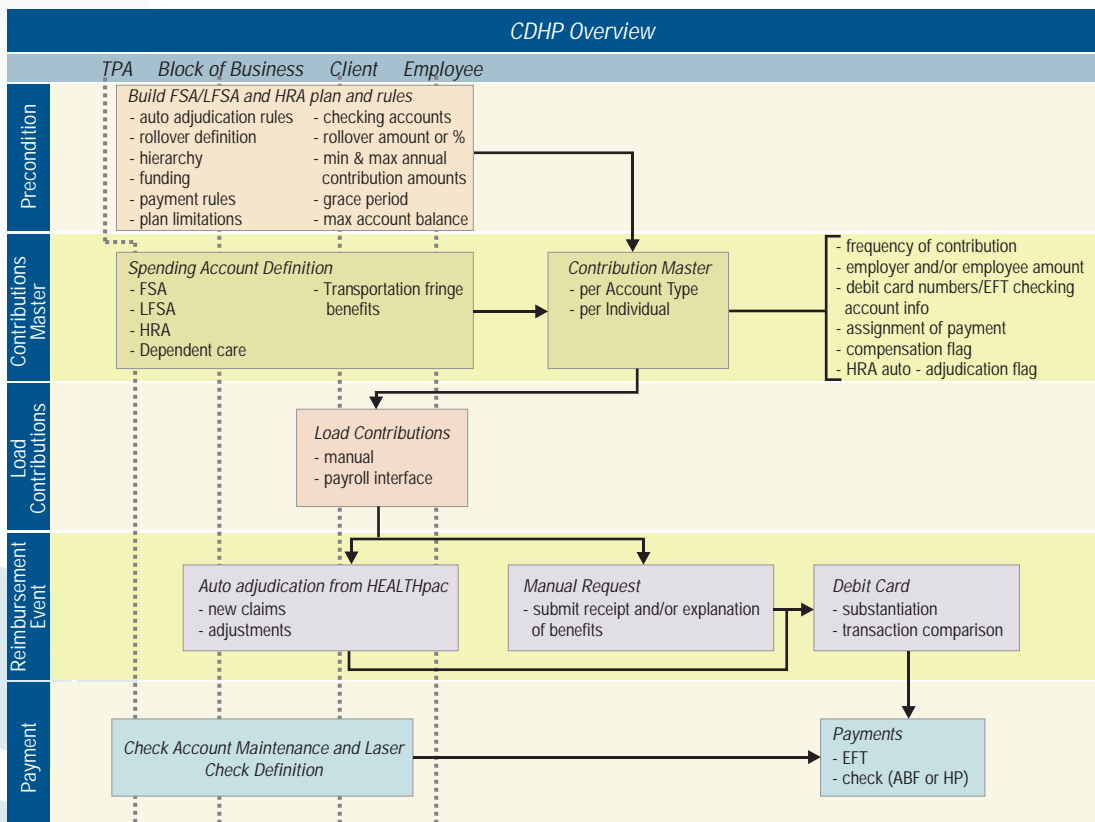
Employers may continue to offer Flexible Spending Accounts (FSAs) or Limited Flexible Spending Accounts (LFSAs) in addition to the HRAs and HSAs, which adds to the complexity as to which funds are used for which medical categories and when. Therefore, administrative systems must integrate advanced hierarchies essential for deposits and debit tracking that span multiple accounts.

HEALTHpac Accelerates CDHP Administration

Flexible plan design, along with corresponding maintenance ease, has always been the hallmark of HEALTHpac's user-efficiency. In refining our consumer-driven capabilities, we have collaborated with our client community to deliver a rich set of business processes.

Our CDHP functionality integrates expanded data, business rules and workflow triggers to include:

- ❖ Plan design, eligibility, funding, payment, rollover and auto-adjudication rules
- ❖ Contribution and spending definitions by account type for each individual to include frequency, debit/EFT accounts, payment assignments
- ❖ Funding via payroll interfaces or manual posting
- ❖ Reimbursement triggers from incoming or adjusted claims processed in HEALTHpac and receipts/EOBS that are substantiated by a debit card transaction comparisons
- ❖ EFT/check remittance and account reconciliations



Member-Level Plan & Spending Account Definitions

Plan elections are driven at the member level and are attached based on the products elected such as medical, dental, vision, pharmacy, flex and others. The system logic validates coverage according to benefit elections and COB status, authorizing payments from accounts based on adjudication rules. This system may require the medical necessity categories to be substantiated.

Spending account maintenance is handled within the benefit plan to enable administrators to rapidly build the business rules associated with fund management. These accounts are user-defined and may consist of FSA/LFSA, HRA, dependent care and transportation fringe benefits. Additionally, criteria can be defined if advanced funding is required.

HRA rules are built in conjunction with the high-deductible major medical benefit plan, which is attached to the member record. Setup of the plan includes pre-existing and pre-condition rules, definition of specific networks including benefit level by network if necessary and out of network penalties. Additionally, the associated HRA rules contain checking account if different from the major medical plan, funding requirements, annual contribution amount by dependent coverage, account maximum, payment rule hierarchy if more than HRA available, payment grace periods, rollover rules and adjudication options.

As mentioned above, HEALTHpac is architected with specific rollover criteria. Users can define amounts to be carried over either as an amount or a percentage. Additionally, flags can be set to determine a 'hard' or 'soft' rollover distinguishing whether current calendar year funds can be applied to last year's claims.

Organizations that are not paying claims and/or who are solely responsible for maintaining spending accounts can also utilize the HEALTHpac system. In this model, administrators simply build the plan shell, then provide spending accounts, contribution rules, checking account, payment periods and funding definitions.

Contribution Fund Management

The contribution record is a critical component of HEALTHpac's CDHP application. This record traps EFT data, the debit card default as well as the hierarchy of accounts used for payments. Each spending account associated with the contribution record contains contribution periods, dollar amounts based on who will be contributing (whether employer or employee), payroll periods and the assignment of payment elections. Pro-rated amounts will be calculated for HRA contributions due to life change events. For discrimination testing, the spending account records will also contain flags to track individuals that are highly compensated.

Fund Posting

Spending account contributions may be loaded electronically or manually. Interfaces with leading payroll providers such as ADP and Paychex will be essential, as will be the ability to record election or contribution changes. Therefore, additional audit capabilities have been built into the system to account for manually entered transactions.

Reimbursement, Auto-Recoveries and Adjustments

When claims are being processed in the HEALTHpac system, reimbursements can be substantiated utilizing plan parameters, auto-adjudication, duplicate checking and spending rules that validate the claim detail line by line. Authorization requirements for HRA reimbursement will be

driven by authorizations built within the benefit exception parameters. When a service is authorized, the system will automatically create the spending account claim and process it for payment.

FSA, LFSA and/or HRA claims require reconciliation against the enrollee's debit card transactions. HEALTHpac will automatically compare the claim date of service and dollar amounts to validate the debit card charges against a specific account. In scenarios where the debit card transaction is greater than the reimbursable expense, HEALTHpac will automatically generate a letter for over-payment recovery. Correspondingly, if insufficient funds exist to cover the reimbursable expense, the system will adjust the payment amount. Users also have the ability to process adjustments, refunds or voids that will update the spending accounts accordingly.

Deductible and Out-of-Pocket Transaction Exchange

Plan sponsors often engage the services of Pharmacy Benefit Managers (PBMs) and potentially HRA/HSA administrators for claims adjudication. As a result, administrators require the ability to electronically load claim history information to accurately update the deductible and out-of-pocket amounts at both the individual as well as the family level.

Our CDHP module can readily facilitate both inbound and outbound NCPDP data. Additionally, we have designed triggers to identify when a deductible or out-of-pocket threshold is exceeded, so overage refunds can be automatically generated.

Spending Account Accumulators

Spending account accumulators reside in a separate record from the benefit accumulators in HEALTHpac for customer service and online servicing convenience. The spending

account accumulators will be distinguished by each account. Summary information will include the annual contribution amounts, the year-to-date contributions, the spending account balance, total payments and HRA accumulators.

Debit Card Transactions

Debit card transactions are triggered when an employee enrolls in the health plan. Flags are set in HEALTHpac to identify the debit card vendor and trigger an eligibility file to be exchanged with the card provider. Together, administrators and debit card vendors define an auto-substantiation process that utilizes categorization rules to validate eligible charges.

The debit card provider will send daily transaction logs to the administrator; they trigger the recording of debit card activity and account accumulator updates in HEALTHpac. Similarly, the HEALTHpac administrator will forward reimbursement files to the debit card vendor to validate the charge amount and fund balance. Again, if the funding is unavailable an over-payment recovery process (inclusive of correspondence/notification) will be invoked.

Check or EFT Payments

HEALTHpac provides the option to generate either a manual check or an EFT transaction and can batch the payments. In scenarios where a debit card is not used and full funding is not available, a partial payment will be made followed by a reimbursement request to expedite payment as funds are contributed.

For EFT activity, HEALTHpac will batch employee payments and send the NACHA file to the bank for processing. Reimbursement statements will then be expedited to the employee for reconciliation purposes.

Consolidation of Explanation of Benefits

The explanation of benefit statement, especially across multiple accounts, needs to be accurate and concise. To



alleviate potential confusion for enrollees and providers alike, the CDHP module will consolidate the data so that the recipient can see how the claim dollars were allocated as a whole. This summarized EOB will detail how the claim charges (including covered and non-covered services) are allocated among accounts.

Online Account Management and Dashboards

Online servicing is an essential component to CDHP enrollees and critical to containing call center volumes. HEALTHpac's WEBeci will provide plan administrators as well as enrollees with comprehensive data for managing their specific accounts.

Beginning with enrollment, WEBeci will facilitate:

- ❖ Selection of each spending account type
- ❖ Specification of contribution amount
- ❖ EFT account information
- ❖ Ability to specify payment based on assignment of benefits in the claim or to the employee
- ❖ Ability to specify account to pay from first (FSA/LFSA or HRA)

Beyond initial enrollment, an online dashboard will provide detailed data on plan coverages, individual spending accounts and contributions, incurred claims, individual and family per occurrence accumulators as well as related activity. When an enrollee elects to manually submit spending account claims, he or she will also have the ability to direct outstanding payment balances from the FSA or HRA account.

A user-intuitive claims search utility streamlines the user's ability to locate a claim with sort criteria by date, type (medical, dental, etc), provider as well as by charge amount.

Customer Service Efficiencies

Customer-facing personnel need user-intuitive drill-down tools to quickly resolve enrollee inquiries. CSIpac is the fully

integrated application that enables Customer Service Representatives (CSRs) to access all levels of benefits and accumulators, account contributions and balances, claim status and more.

Along with streamlined search queries that link claim activity to the account payment hierarchy, CSRs must also be able to perform data updates as well as route calls through the HEALTHpac workflow. Specific CSR update options include:

- ❖ The manual adjudication of medical charges not covered to the respective HRA or FSA/LFSA account
- ❖ Altering the spending account for claims
- ❖ Changing the assignment of benefits to the employee or assignment in the claim by specific spending account

Regulatory & Client Reporting

Administrators, plan sponsors, enrollees as well as the U.S. government will expect extensive detail for consumer-driven health plans. All plans must have the ability to produce 'discrimination testing' - federally mandated tax reports with varying data requirements based upon the enrollee funding account used.

Ad hoc reporting on HEALTHpac transactions continue to be both flexible and robust. Additionally, the CDHP module will provide several standard, parameter-driven reports in Excel, CSV or PDF formats to include:

- ❖ Summaries of spending account definitions, plan building and spending account rules, plus requests for reimbursements
- ❖ Statement reports reflecting account type, transaction records, a contribution master summary as well as discrimination testing

- ❖ Check registers by client or spending account
- ❖ Payroll deposit reconciliation with HEALTHpac
- ❖ Paid claims by spending account

Achieving CDHP Automation & Transparency

Rapid growth of CDHPs will continue to challenge system administrators and their vendors as well as respective trading partners to more fluidly manage myriad financial transactions. Today, plan enrollees expect expeditious service that moves beyond claims processing turnaround to envelop a cohesive, transparent summary of their contributions, account administration and investments.

MphasiS' CDHP module is designed to flexibly manage multiple account hierarchies, facilitate financial and third party data exchange as well as deliver online and customer-facing functions with ease and clarity.

¹Source: *National Survey of Employer-Sponsored Health Plans*, Mercer Human Resources Consulting, as cited in *Managed Care Outlook*, January 2006.

²Source: *Reducing Corporate Health Care Costs 2006 Survey* by Human Capital Practice of Deloitte Consulting LLP and the Deloitte Center for Health Solutions.

³Source: "Credit card payment processors like TSYS rush into medical niche," by Peralte C. Paul. *Atlanta Journal-Constitution*, 4/27/06.

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