DEFINED CONTRIBUTION HEALTH BENEFITS

A Guide to the Future of Small Business Health Insurance

ZaneBenefits
Health Benefits Employees Love
The #1 Online Health Benefits Solution
Successfully transition to a health benefits solution that creates happier employees, reduces costs, and frees up time for meaningful work. Request a Demo.

Happier Employees
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DISCLAIMER
The information provided herein by Zane Benefits is general in nature and should not be relied on for commercial decisions without conducting independent review and analysis and discussing alternatives with legal, accounting, and insurance advisors. Furthermore, health insurance regulations differ in each state; information provided does not apply to any specific U.S. state except where noted. See a licensed agent for detailed information on your state. www.zanebenefits.com
# A Guide to Defined Contribution Health Benefits

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Less Than 50% of Small Businesses Offer Group Health Insurance. Why?

- Cost: 61%
- Other: 20%
- Too Small: 13%
- Turnover: 6%

That’s 3,000,000 Small Businesses without Group Health Insurance.

Source: kff.org
Small Business Health Insurance: Today

Average Annual Premiums for Single and Family Coverage, 1999-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Single Coverage</th>
<th>Family Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$2,196</td>
<td>$5,791*</td>
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<tr>
<td>2000</td>
<td>$2,471*</td>
<td>$6,438*</td>
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<tr>
<td>2001</td>
<td>$2,689*</td>
<td>$7,061*</td>
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<tr>
<td>2002</td>
<td>$3,083*</td>
<td>$8,003*</td>
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<tr>
<td>2003</td>
<td>$3,383*</td>
<td>$9,068*</td>
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<tr>
<td>2004</td>
<td>$3,695*</td>
<td>$9,950*</td>
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<tr>
<td>2005</td>
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<td>$10,880*</td>
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<tr>
<td>2006</td>
<td>$4,242*</td>
<td>$11,480*</td>
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<td>2007</td>
<td>$4,479*</td>
<td>$12,106*</td>
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<tr>
<td>2008</td>
<td>$4,704*</td>
<td>$12,680*</td>
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<tr>
<td>2009</td>
<td>$4,824*</td>
<td>$13,375*</td>
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<tr>
<td>2010</td>
<td>$5,049*</td>
<td>$13,770*</td>
</tr>
<tr>
<td>2011</td>
<td>$5,429*</td>
<td>$15,073*</td>
</tr>
<tr>
<td>2012</td>
<td>$5,615*</td>
<td>$15,745*</td>
</tr>
</tbody>
</table>

* Estimate is statistically different from estimate for the previous year shown (p<.05).


Group Health Insurance Is Not Sustainable For Small Businesses

From 1999 to 2012:
- Single coverage more than doubled.
- Family coverage nearly tripled.

In the past, group health insurance was the best way to provide quality health insurance to employees. Today, group health insurance is a source of frustration to declining benefits and increased costs.

Businesses need the same quality of coverage, but with controllable cost and sustainable administrative effort.
IN THE BEGINNING…

CREATION OF “MODERN” HEALTH CARE OCCURRED AFTER WORLD WAR II

PRE-WWII

• Limited Employer Involvement
• Catastrophic Health Insurance
• Local BC/BS
• Individual/Family Driven

POST-WWII

• Wage & Price Controls (1941-1947)
• Employer-Sponsored Health Care Exempt from Income Taxes

HUGE Cost Advantage to Employer System
TAX ADVANTAGES FOR GROUP VS. INDIVIDUAL COVERAGE

Group policies enjoyed enormous tax advantages over individual plans:

1. **Employers** allowed to pay for group health insurance “off the books”
2. **Employees** allowed to pay (via salary reduction) for group health insurance “off the books”
2002: Federal government outlines employer tax-free contributions to individual health insurance via Section 105

2014: Health Reform creates advantages to individual health insurance including guaranteed-issue policies, health insurance Marketplaces, and premium tax subsidies

With the new Individual Health Insurance Marketplaces (guaranteed-issue and affordable policies), Defined Contribution Health Plans now have all the same benefits of a group health insurance plan, at a lower cost for the employer and employees.
“Pure” Defined contribution health benefit: A type of health plan in which the amount of the employer's annual contribution to employees' health is specified.

Compare this to a traditional group health plan where the employer specifies the group health insurance plan (a defined benefit).

With a “pure” defined contribution approach:

- A group health insurance plan is not offered
- Employees receive a tax free health care allowance, and choose any individual health plan

Defined contribution health benefits by themselves are not health insurance plans, rather they are a health benefits strategy that allows the employer and employees to realize cost-savings and offer benefits that employees value.
With a defined contribution health plan, both employees and employers save money.
DEFINED CONTRIBUTION VS. GROUP HEALTH INSURANCE

**DEFINED CONTRIBUTION**

- **No Minimum Contribution**
  business determines its own contribution amounts and controls all costs

- **No Minimum Participation**
  business sets its own eligibility requirements

- **Easy Administration**
  spend less than 5 minutes per month, and no annual renewals

**GROUP HEALTH INSURANCE**

- **Requires Minimum Contribution**
  employers must contribute 50%-75% of premium, and face annual renewals

- **Requires Minimum Participation**
  50%-75% of employees must participate in the plan

- **Requires Additional Admin**
  requires paperwork & annual renewals

How does this work for employees? See page 13.
HEALTH CARE REFORM FAVORS DEFINED CONTRIBUTION

Before 2014
- Medical Underwriting
- No Federal Subsidies for Individual Policies
- Employer-Driven

After 2014
- No Medical Underwriting ("Guaranteed-Issue")
- Federal Subsidies for Individual Policies
- Individual/Family Driven

HUGE Cost Advantage for Individual System
Access to the Best Health Care
Employees choose:
✓ Any type of plan, from any insurance carrier
✓ The network of providers and doctors
✓ The coverage to fit their individual health needs (maternity coverage, prescription, HSA-plan, etc.)
✓ The level of deductible, co-pays, co-insurance, etc.

Coverage for All Employees
✓ Individual/family policies are all guaranteed-issue in 2014

Health Insurance Subsidies
✓ The majority of employees will qualify for a discount on their premium expenses, lowering the cost of their premium even more
✓ The only way to give employees access to the subsidies is by not offering group health insurance
How US health care reform will affect employee benefits

The shift away from employer-provided health insurance will be vastly greater than expected and will make sense for many companies and lower-income workers alike. (Read more about the survey methodology.)

June 2011 * Shubham Singhal, Jens Stueland, and Drew Ungersman
Source: Healthcare Systems and Services Practice

US health care reform sets in motion the largest change in employer-provided health benefits in the post-World War II era. While the pace and timing are difficult to predict, McKinsey research points to a radical restructuring of employer-sponsored health benefits following the 2010 passage of the Affordable Care Act.

Many of the law’s relevant provisions take effect in 2014. Our research suggests that when employers become more aware of the new economic and social incentives embedded in the law and of the option to restructure benefits beyond dropping or keeping them, many will make dramatic changes. The Congressional Budget Office has estimated that only about 7 percent of employees currently covered by employer-sponsored insurance (ESI) will have to switch to subsidized-exchange policies in 2014. However, our early-2011 survey of more than 1,300 employers across industries, geographies, and employer sizes, as well as other proprietary research, found that reform will provoke a much greater response. See more
CONCLUSION

We hope this guide has given you the foundation for creating defined contribution health benefits that employees love.

Because of the unsustainable costs of group health insurance, and the new individual health insurance opportunities with health care reform, educated businesses are transitioning to defined contribution health benefits to give employees access to equal or better health insurance, at a controllable cost, with less administrative time.
**NEXT STEPS**

*Ready to get started?* Four simple next steps:

1) Set a date to cancel your group health insurance plan (if you have one)

2) Define any amount you can afford for health benefits

3) Use a Defined Contribution Software provider to:
   - Give each employee a fixed dollar amount to use on premiums
   - Develop a customized transition and on-boarding plan, and educate employees on their new plan

4) Select any insurance professional to help employees select the best plan
ADDITIONAL RESOURCES

View our full library of employee health benefits resources at:
http://www.zanebenefits.com/health-benefits-resources
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