



# YESTERDAY'S FALLBACK, TODAY'S HR STRATEGY

SUPPLEMENTAL HEALTH  
INSURANCE SOLUTIONS

Prior to healthcare reform, supplemental insurance solutions, also referred to as gap solutions, were often an afterthought because there were more primary plan options that could offer different levels of coverage, and there was more flexibility in who you could offer them to. But in today's landscape, supplemental health insurance plans have become more necessary than before.

In fact, benefit-savvy companies are making them part of their upfront benefit strategy for two main reasons:



**Health insurance remains the #1 benefit that employees value.<sup>1</sup> Plus, benefit satisfaction leads to a 30% higher retention rate, important in today's continued tight talent market.<sup>2</sup>**



**Supplemental health insurance solutions have the flexibility to be layered on top of primary plans to increase coverage and customize benefits for specific employee populations in a more cost-efficient way.**

The goal, of course, is finding the right supplemental health insurance solutions that will effectively enhance a company's strategy and goals.

## Growing Out-of-Pocket Costs

Group health plan costs continue to increase year over year, impacting the coverage picture and cost-burden for employees. To control expenses, companies are forced to put high-deductible primary health plans in place or find other ways to transfer more costs to employees.

To demonstrate the extent of this cost-shifting trend, in 2013, the average single deductible was **\$1,135**. Today, that number is **\$1,763**, a **55%** increase.<sup>3</sup>

But it doesn't stop there. There are also more hidden changes in coverage, such as:



Lowered out-of-network reimbursement levels



Changes to the Rx formularies



Limited or no dental and vision coverage

### The result?

Worker's share of OOP and premium costs have risen from **42%** in 2013 to **67%** in 2018.<sup>4</sup> Today, what was \$2400 in personal healthcare expenses is **\$3,550**, a **48%** increase in 10 years.<sup>5</sup>



## The Retention-Benefits Tug-of-War

With limited ways to offset rising premium costs other than continued cost-shifting, employers are caught in a problematic tug-of-war between offering attractive healthcare benefits to aid in recruitment and retention and the costs of those benefits.

While employers can save on benefit costs through cost-shifting strategies and plan design changes, this approach raises the risk of benefit dissatisfaction, in turn impacting the ability to keep key talent on board. And when you factor in both the direct and indirect costs of talent loss, this impact on the bottom line can be substantial.

**What can you do to solve this strategic HR issue?**



## RECRUIT & RETAIN HIDDEN COSTS

**3 out of 4** employers have trouble keeping talent<sup>6</sup>

Healthcare is the **#1 benefit** employees consider before accepting a job<sup>7</sup>

## HEALTH BENEFITS VISIBLE COSTS

There has been a **52% compounded increase in premium cost** since 2013<sup>4</sup>

There was a **6% increase** in premium cost in 2021 alone<sup>4</sup>

The average deductible has risen **55% since 2013**<sup>3</sup>

## Recruitment Issues: A Closer Look

While not every company has broad-based recruiting needs, most have pockets of recruiting and retaining issues for certain critical positions, whether it's because the position requires a specialized skill or because the demand for the position is higher than the number of people trained and qualified for them.

While it can be different for various industries, here are some examples:

- » Key leadership positions
- » Top performing sales executives
- » Retail regional managers
- » Information security analysts
- » Registered nurses

## DID YOU KNOW?

**2 out of 3** of your executives may be thinking of leaving, or are already preparing to depart.<sup>8</sup>



# SUPPLEMENTAL HEALTH BENEFITS



Supplemental health insurance benefits used to remain back-of-mind because of the various primary plan options that could offer different levels of coverage. But that's no longer the case. **Supplemental health insurance benefits are now the main way to offer benefit differentiation and necessary additional coverage.** Plus, because benefits are critical to retention and recruiting strategies, employers are looking to offset some of the growing coverage gaps using various supplemental benefits.

The need for supplemental health insurance solutions is clear and has been identified and acknowledged by employers. However, **finding the correct type of supplemental health insurance solution to fit an employer's specific needs has proven to be a challenge.**

The most well-known type of supplemental health insurance solutions fall into the category of voluntary insurance, also known as worksite voluntary. In fact, some benefit consultants and even industry publications erroneously interchange the words "voluntary" and "supplemental." While voluntary is a type of supplemental benefit, not all supplemental options fall into the category of voluntary. Their application also tends to be vastly different than other types of more comprehensive supplemental plans. It's important to weigh all types of supplemental solutions when considering how to design a supplemental benefit strategy that will support recruitment and retention.

**85%**

of employers recognize how important supplemental health insurance benefits are to their rewards strategy<sup>9</sup>



**MORE THAN 80%**

of employers choose supplemental tools to enrich their already existing core benefits strategy.<sup>9</sup>

**ALMOST 90%**

of employees rank health-related benefits as very or extremely important.<sup>10</sup>



## Common Gap Solutions

As mentioned previously, some supplemental solutions are also referred to as gap solutions, as they are specifically used to fill gaps in coverage, like those created from the degradation of primary health coverage.

**Historically, when looking for ways to backfill coverage and create better benefits, employers and their consultants have been largely focused on two types of solutions: worksite voluntary products and consumer accounts.**



### SNAPSHOT: VOLUNTARY “GAP” PLANS (Accident, Critical Illness and Hospital Indemnity)

Disease- or Event-Driven Coverage Trigger	Yes
Coverage for Broad Range of Out-of-Pocket Medical Expenses	No
Insurance	Yes
Funded by Employer	Maybe
Ability to Offer to Select Classes	Yes
Tax Savings*	Maybe

**Summary:** Event or disease-driven plans like hospital indemnity plans, accident, cancer or critical illness plans are frequently marketed to fill gaps in medical coverage. However, various restrictions and limitations often prevent these types of plans from actually filling such gaps. For instance, they may require a specific event (like hospital stays or accidents) or diagnosis (like cancer or a critical illness) for coverage to kick in. They may even have pre-existing condition limitations, and often, the coverage is quite limited. In addition, since payment from voluntary plans is not based on the actual expense incurred, employees may pay taxes on the funds received if they exceed the actual outlay.

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# SUPPLEMENTAL HEALTH BENEFITS



## SNAPSHOT: CONSUMER HEALTH ACCOUNTS

	HSA	FSA	HRA
Covers 213(d) Expenses	✓	✓	✗ (not typically)
Tax Savings*	✓	✓	✓
Shareholders & Partners Eligible <small>(but don't receive the same tax treatment)</small>	✓	✗	✗
Class Out Employees <small>(must offer to all, but enrollment is voluntary)</small>	✗	✗ <small>(must offer to all, but enrollment is voluntary)</small>	✗
Portable if ee leaves	✓	✗	✗ <small>(but typically limits set by employer)</small>
Max Annual (2023)	✓ \$3,850 single / \$7,750 family	✗ Capped at \$3,050	✗ No limit, but employers typically impose one

**Summary:** Consumer health accounts allows the employee to use pre-tax funds for their health care expenses. These accounts do provide tax savings, but they must be offered to all employees, not select levels of employees. They also have contribution limits, which hinders how much you can actually use them. Health accounts are “dollars in-dollars out” and not insurance, so there is no guarantee that sufficient funds will be available when employees need them.

**HSA:** An employee-owned and contributed tax-exempt account to pay for qualified medical expenses. Employee must be enrolled in a primary qualifying plan. Usually funded through salary deduction agreement. An HSA does have contribution limits.

**FSA:** An employer-owned, employee contributed account that allows eligible employees to be reimbursed for qualified medical expenses. Usually funded through salary deduction agreement. FSA does have contribution limits. Funds do not roll over from year to year, so they are “use it or lose it.”

**HRA:** An employer-owned and contributed benefit plan that reimburses for qualified medical expenses. Must be integrated with other group health plan coverage. An HRA does not have contribution limits, but the employer must contribute the same amount to each employee because nondiscrimination rules apply. This makes it difficult to offer a lot to anyone and typically limits are set at a level to offset some of a high deductible.

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## Another Supplemental Option: Expense Reimbursed Health Insurance Plans

There is a type of employer-sponsored supplemental health insurance option many are not familiar with, called expense reimbursed health insurance plans. Employers can provide these excepted benefit plans to specific employee classes to aid in their retention and recruitment efforts in a more targeted way. These plans can be added onto a variety of primary plans (insured or self-funded) to offer various levels of healthcare reimbursement for qualified healthcare expenses. We will show a few case studies on how ArmadaCare's clients have used our range of supplemental expense reimbursed insurance plans to achieve specific workforce objectives.



### SNAPSHOT: EXPENSE REIMBURSED HEALTH INSURANCE PLANS

Disease- or Event-Driven Coverage Trigger	No
Coverage for Broad Range of Out-of-Pocket Medical Expenses	Yes
Insurance	Yes
Funded by Employer	Yes
Ability to Offer to Select Classes	Yes
Tax Savings*	Yes

**Summary:** Unlike the common voluntary benefits, these reimbursements do not require a certain event to trigger coverage. Expense reimbursed health insurance plans offer coverage for various types of healthcare expenses, and depending on the plan type and level of plan, that can include 213(d) HSA-type qualified expenses that extend beyond what the primary plan typically covers. Enrolled members can submit claims at any time for any eligible expense until the specified level limit is met. In comparison to health accounts, expense reimbursed insurance plans have tax-efficiency without the limitations.

Expense reimbursed health insurance plans can also be offered by employee class. This type of supplemental benefit is considered an excepted benefit, so nondiscrimination rules don't apply. That makes expense reimbursed ideal for solving the recruitment/retention and health benefit costs tug-of-war. The plans can be layered on top of the primary health insurance plan just for those difficult to recruit and retain positions.

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# A SIDE-BY-SIDE COMPARISON



## Looking to leverage insurance to fill coverage gaps?

Not all supplemental health insurance solutions are equal.

	Voluntary "Gap" Plans	Ultimate Health®
Tax Efficient*	✗	✓
Broad 213(d) Claims Eligibility	✗ <small>Narrow Coverage for Specified Diseases, Accidents or Hospitalizations</small>	✓
Insurance	✓	✓ <small>\$50K or \$100K of annual supplemental health insurance coverage</small>
Employer or Employee Funded	<b>Both but employee funded more common</b>	<b>Employer</b>
Ability to Offer to Select Classes	✓	✓
Offers Valuable Support Services for Optimal Physical & Emotional Well-Being	✗	✓
Provides Coverage to...	<b>Health Plan Enrolled Population</b>	<b>Select Key Performers to Drive Retention &amp; Health Productivity</b>

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# A SIDE-BY-SIDE COMPARISON



## The value of insurance versus dollars-in, dollars-out health accounts.

	HSA	FSA	HRA	Expense Reimbursed Insured Plans
Covers 213(d) Expenses	✓	✓	✗	✓
Employer Funded	✓ ✗ (employer may contribute limited amount)	✗	✗	✓
Tax Efficient*	✓	✓	✓	✓
Shareholders & Partners Eligible	✓	✗	✗	✓
Class Out Employees	✗ (must offer to all, but enrollment is voluntary)	✗ (must offer to all, but enrollment is voluntary)	✗ (cannot offer to just highly compensated)	✓
Insurance Coverage (Not Just Fixed Funds)	✗	✗	✗	✓
Max Annual (2023)	\$3,850 single / \$7,750 family	Capped at \$3,050	No limit, but employers typically impose one	\$50k or \$100k of annual supplemental health insurance coverage

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For this case, a large financial services firm was exploring options to replace a self-funded executive medical reimbursement plan. After completing a compliance review, the client uncovered that their current self-funded plan could be considered taxable compensation to employees, so their benefits team began exploring other options.

The client chose to enroll 429 of their executives and their families into ArmadaCare's premier employer-sponsored supplemental health insured plan that is compliant with IRC Section 105(h). The premiums are tax deductible for the company and reimbursements non-taxable to the employee.\* Other advantages include:

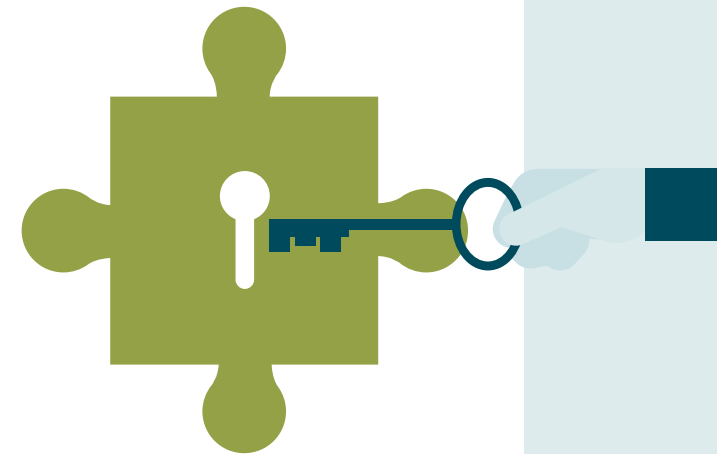
- Diverting risk exposure for costly tax penalties and fees.
- Eliminating the HR administrative burden of the previous plan.
- Providing other valuable coverage and conveniences to help keep their executives happy, healthy and focused.

The client saw such value in the plan that they increased the number of enrolled members to 720, a **70% increase**.

**Note:** This client's average annual executive turnover is now 7%, far below the industry average of 16.5%.<sup>11</sup>

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Data in this case study is drawn from actual ArmadaCare client utilization and retention data.





This case involved a large global company that due to spiraling healthcare costs, had to increase employee cost sharing. Caught in the middle, however, were their regional managers who were accustomed to a richer PPO plan and who became a retention risk.

Rather than making the costly move of improving the primary health plan to solve for this narrow issue, the employer opted to put in place a supplemental expense reimbursed health insurance plan targeted to just the 500 regional managers. With this additional coverage, the regional managers had coverage that more closely resembled the coverage they had with their previous PPO. And because they could also use this benefit for expenses beyond medical, it added additional value tailored to the individual family's needs. This strategy had a positive impact on their retention without driving up benefit costs for the entire population. By boosting coverage for only those they were worried about losing, they were able to strike an ideal balance between health plan costs and recruiting needs.

**Note:** An employer of any size could leverage this strategy.

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A clinical research company was growing fast and needed to recruit key researchers within 6–9 months. Critical for their ability to secure new contracts and drive revenue, these types of researchers are in high demand. Not only is recruiting for this position difficult but there are hefty turnover costs when adding lost contract revenue with recruiting and other costs.

While increasing compensation could help, the company tried to avoid that approach since in the past, it often meant a bidding war. By plugging in a targeted benefit, they were able to offer something unique that employees valued: health coverage that can meet their individual health and life-stage needs. The company also found that investing in a targeted solution where the premium is a tax-deductible business expense and the reimbursements are non-taxable to the employee can be a more cost-efficient way to provide a distinctive reward, or type of compensation, to those employees.

**Note:** An employer of any size could leverage this strategy.



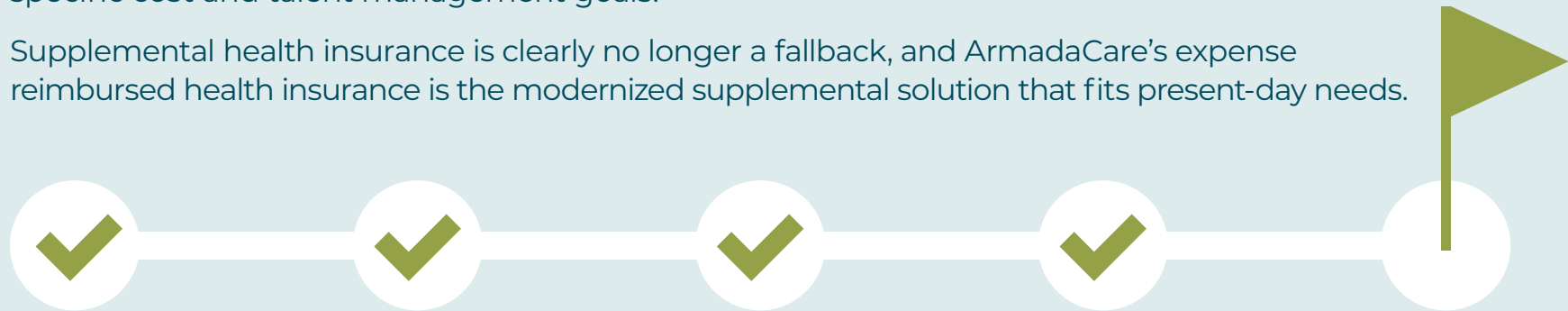
# THE NEXT GENERATION OF SUPPLEMENTAL



While voluntary insurance and consumer health accounts can be used to fill some gaps in coverage, they aren't always efficiently meeting the needs because of their limitations. And in terms of recruitment and retention, they do little to allow employers to differentiate from the competition and help key employees feel valued.

**ArmadaCare's expense reimbursed supplemental health insurance plans have been designed to address both needs successfully.** They combine valued, broad coverage for everyday and unexpected healthcare expenses with the ability to target at-risk employee groups. This ability to selectively enhance coverage, can help you boost recruitment and retention without breaking the bank. And with many different plan options and levels of coverage designed to meet the needs of various employee groups from executives to top performers, it's possible to find a combination that can work for each company's specific cost and talent management goals.

Supplemental health insurance is clearly no longer a fallback, and ArmadaCare's expense reimbursed health insurance is the modernized supplemental solution that fits present-day needs.



<sup>1</sup> [Fast Company](#)

<sup>2</sup> [Willis Towers Watson](#)

<sup>3</sup> [Kaiser Family Foundation](#)

<sup>4</sup> [Statista](#)

<sup>5</sup> [Statista](#)

<sup>6</sup> [Willis Towers Watson](#)

<sup>7</sup> [Fast Company](#)

<sup>8</sup> [New York Times](#)

<sup>9</sup> [Willis Towers Watson](#)

<sup>10</sup> [SHRM](#)

<sup>11</sup> [Statista](#)

## ArmadaCare's Supplemental Product Suite: Expense Reimbursed Health Insurance Plans

A Powerful Solution for Today's Targeted Benefit Challenges

### WHAT



Select from various plan types and levels of coverage to meet employee needs



World-class service that will mean less distraction for your HR team and more satisfaction for key talent



Coverage for everyday as well as unexpected and elective healthcare expenses



Member Conveniences: secure online portal, mobile app, Prescription Visa® Card and direct deposit

### WHY

#### Financial Advantages

Because they are not subject to payroll taxes and leverage the value of insurance, ArmadaCare's tax-efficient plans enable you to pay less and give more than a comparable bonus\*

#### Retain and Recruit

ArmadaCare's insured plans can be offered as an incentive or reward to select employees or potential new hires, including senior leaders and other critical people

#### Carve-Out Coverage

Coverage can be carved out by employee class, so companies can find the right balance between controlling benefit costs and offering attractive benefit packages to hard to recruit and retain positions

#### Flexibility to Adapt

Coverage that has the flexibility to be there when needed, without disease or event limitations

A leading insurance program manager, ArmadaCare delivers uncommon health insurance solutions designed to enhance ordinary health benefits. With the steadfast belief that health insurance should be better, ArmadaCare's plans fill voids in coverage for routine and unexpected healthcare expenses, offer valuable health and productivity support services and invite usage with modern conveniences, education touchpoints and people-first service. The result gives our clients the edge they need to retain, recruit and reward talent at all levels.

Learn more at [www.ArmadaCare.com](http://www.ArmadaCare.com).

Call us at **1-877-534-6357** or email [solutions@armadacare.com](mailto:solutions@armadacare.com).

ArmadaCare's supplemental health insurance policies are underwritten by Sirius America Insurance Company and Transamerica Life Insurance Company. Insurance plans and coverages vary by state. Please contact us to confirm state availability.

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