



specialty care

A Direct Route to Dental Care

Direct Reimbursement Dental
Care is Helping Employers Save
on Dental Coverage

In an effort to reduce costs and increase employee satisfaction, many companies are modifying their dental-coverage plans to offer—either solely or with other plans—direct reimbursement dental coverage, a self-funded, cost-effective dental plan.

Supported by the American Dental Association (ADA), direct reimbursement offers patients the freedom to visit the dentists of their choice and, with that dentist, plan for the treatments they need.

How is Direct Reimbursement Different?

Direct reimbursement plans differ from traditional dental plans in that the benefits are based on the actual cost of the care—the dollars spent, says Samantha Paulson, director of marketing and programs at the Virginia Dental Association. Traditional plans are based on the type of treatment the employee receives. Direct reimbursement reduces the detailed claims reviews and other coverage hassles.

Paulson not only promotes direct reimbursement, she also uses it. “It’s not a traditional plan,” she says. “It’s another option for dental care. The way the plan works (depending on how a company has set it up) is I’ll go visit my dentist and get my cleaning and services, and I’ll pay that bill, and based on my plan design, I’ll be reimbursed.”

How Does it Work?

Under a direct reimbursement plan, Paulson says, a patient and their dependents visit their dentist for treatment. The employee pays the dental bill, and then presents the receipt to his employer or the employer’s third-party administrator (TPA), who reimburses the employee.

According to Paulson, the amount of reimbursement varies. “Plans can be set up any way,” she says. “Our plan covers 100 percent of your first \$200, then 80 percent after that for a maximum benefit of \$1,000 per year. It’s a very comprehensive plan.”

Paxton Company, a Norfolk, Va.-based supplier of boat parts, marine supplies and marine equipment, has their plan set up to cover employees with an annual maximum benefit (per covered individual) of \$1,500. The plan has no exclusions other than procedures performed for cosmetic purposes.

Paxton’s plan is set up to reimburse 100 percent of the first \$150 of dental costs. Then, after a \$50 deductible, the plan reimburses 80 percent of the next \$250 and 50 percent of the next \$2,300. Employees who participate in the plan can choose any dental provider they want.

Plans can be arranged in many ways, and, for instance, an administrator can set up a plan so that employees don’t pay

the total cost up front, Paulson says. "It can be designed so that the employee pays their portion, presents the bill and the employer pays the rest."

Plans can be customized based on a company's budget. "More smaller companies are now able to offer dental coverage because the costs are typically lower with direct reimbursement," Paulson says. "It's a very simple plan," says Paulson. "It takes minimal time for employers to manage."

But how companies manage their direct reimbursement plans depends on their size.

Paxton's plan is administered by Benefits Administration Inc. (BAI), a Richmond, Va.-based benefits consulting firm and third party administrator. "Some companies, depending on their staff resources, would rather outsource it," says Paulson.

Working the Tax Angle

The ADA has promoted direct reimbursement plans since 1986, says Dennis McHugh, the manager of the ADA's Dental Benefit Information Services. Six years ago the ADA got very aggressive in their promotion of direct reimbursement. In the fall of 2002, they sent more than 300,000 direct mail pieces to employers across the country.

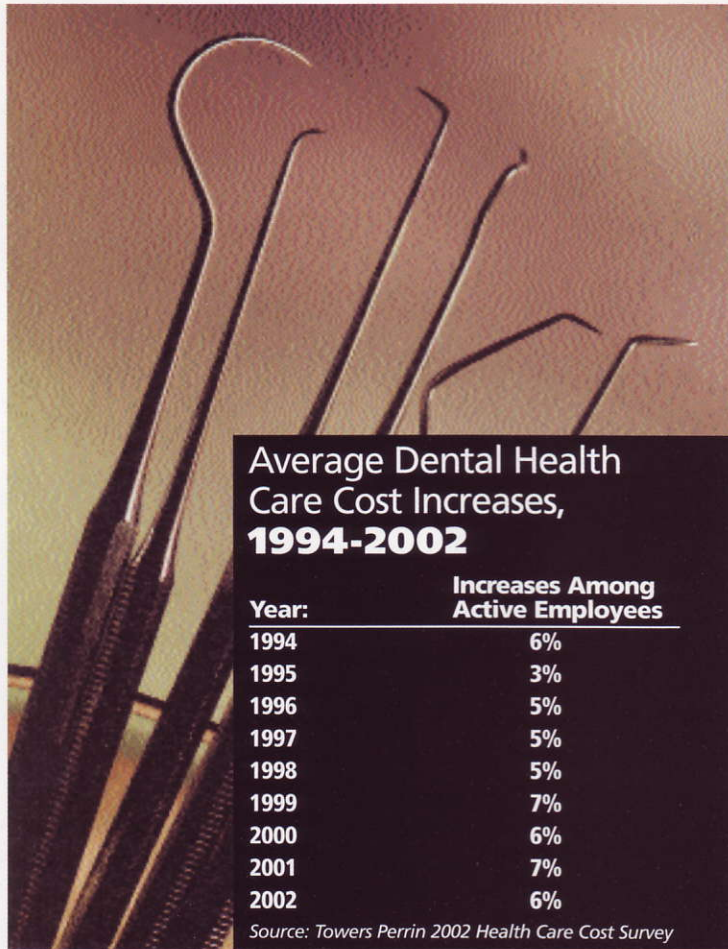
McHugh says direct reimbursement plans often save employees and employers money. "We've seen savings up to 25 percent" depending on the plan design, he says. The plans are self-funded and based on pretax income, he says.

He also says that direct reimbursement plans can be coordinated with a Section 125 Cafeteria plan, so that an employee's pretax dollars can be used to pay for the employee's part of the treatment. In Section 125, the IRS allows employers to set up a plan so that workers can elect to contribute wages into a flexible spending account (FSA). Then each individual fund is used for reimbursement of the employee's health, dental or other allowable expenses. However, FSA funds that are not spent in the given year are forfeited. With direct reimbursement, the employer reimburses the set amount. The employee can be reimbursed for the balance from the funds in the FSA. This would mean that the employee could pay all the dental expenses with pretax income.

Direct Reimbursement Helps Employers

For cost-conscious employers, direct reimbursement plans can offer a host of savings, and may also help increase employee satisfaction.

Margaret Beale, Paxton's CEO, found that, with a direct reimbursement plan, her company saved about 10 percent of its annual dental premium and increased the amount of dental benefits available to its employees. Prior to 1997, Paxton offered a traditional, insured plan that had rising premiums, a small network of dentists and a list of numerous excluded procedures.



C.P. Coyner, a benefits consultant for BAI, says direct reimbursement is growing in importance. The most important factor spurring the interest in direct reimbursement, he says, is the cost benefit. As health care premiums continue to rise, companies are under more pressure. They are scrambling to find ways to cut back here and trim some there to afford the increasing premiums. Direct reimbursement "often lets them save some money on premiums." Dental, he says, represents only about 4 percent of the total health care dollar. "Direct reimbursement can help if the company has an insured plan and the economics are such that savings can be achieved," he says.

"Say a couple of workers don't go to the dentist," Paulson says, "then there's no cost incurred. Dental, unlike medical, isn't something where you'll have catastrophic expenses." And, she says, cost sharing can be set up. "The one thing about the plan is it can be set up any way" the employer wants it. Mainly "it encourages employees to be good dental customers."

In addition, use of a direct reimbursement may help to reduce the overhead of the dental plan. Pre-determinations, pre-authorizations, usual and customary (UCR) fees, review of X-rays and dental provider network management are eliminated.

What Does this Mean in Savings?

It means that 90 percent to 95 percent of the dollars spent on the plan go toward benefits. By comparison, in other plans,

only about 80 percent of the dollars go toward benefits.

Another potential perk: fewer complaints from workers. Why? Because employees are involved in the process and know what is covered and what is not and they don't have to wait for approval.

"Oftentimes human resources managers are very happy because the employees are happy. There are no complaints about waiting periods or plan exclusions or UCR," she says.

The plan, says Paulson, is easy for employers, too, because "they don't have to worry about negotiating plans every year."

It's good to offer dental benefits because dentistry has progressed a lot over the last 20 to 30 years, says Coyner. "There are so many preventive treatments now that can really lengthen the life of one's natural teeth, particularly if one starts young. So I think there is a greater appreciation for what dentistry can do today and that provides value for everybody."

Employers can choose any level of financial commitment initially and later revise their benefit levels. Employers will pay a certain amount into a fund used to pay for reimbursement. At year's end, the excess money is rolled over. "What we suggest," Paulson says, "is to set aside the normal premium (e.g. from your traditional plan) for the first year to pay it into the fund."

And it's easy to communicate the benefits of these plans, Paulson says. "Most employers set it up so it covers every type of treatment, so there are no excluded procedures (other than cosmetic)."

Some Employers Hesitant about Direct Reimbursement

Some employers are still unwilling to jump on board with direct reimbursement. According to Paulson, most concerns are easily addressed.

"Sometimes employers are initially uncomfortable with direct reimbursement because it requires employees to pay the cost of their dental visit up front," says Paulson. "But if that's the case, employers can have the plan set up as a direct assignment—rather than employees submitting claims to the administrator, payments are assigned to the provider by the administrator."

Other employers worry about provider pricing.

"Some employers feel that because there aren't UCRs and pre-authorization, there aren't cost controls," she says. "But the way the plan is designed, there are cost controls in that there's a cap on the plan."

Paulson says she understands why some employers shy away from direct reimbursement, but she believes that most employers will find the plan rewarding if they give it a try. "There are some employers who are so focused on the initial cost to employees, they'd rather go with an insured plan with a low benefit than provide something that I think is of higher quality."

Direct Reimbursement Makes For Happy Workers

Workers are happy when health coverage is a breeze to understand. Direct reimbursement is simple, says Coyner. "They [employees] know what it covers when you say it covers all dental procedures except cosmetic, when you say



Direct Reimbursement Enrollment is Growing

Direct reimbursement is growing in popularity. According to the American Dental Association, enrollment more than doubled between 1997 and 2001.

Year:	Companies Enrolled:
1997	209
1998	320
1999	350
2000	478
2001	492

Source: American Dental Association

it's going to reimburse base dental costs, not procedures, that's simple to understand," he says. These plans don't have rules like six-month waiting periods for procedures or 180 days between cleanings (unless that is how the company sets it up). "There are all kinds of rules, limitations and restrictions" that traditional plans have that "ours don't have and that adds to the simplicity of it."

According to Beale, Paxton employees are very pleased with the direct reimbursement dental plan. Of the firm's approximately 100 employees, 90 are now enrolled in the plan. Beale says she has not received complaints from her employees about having to pay for the cost of their dental care before claiming reimbursement.

Coyner believes direct reimbursement works out well for everyone. One of the things we like to say about direct reimbursement is that it presents a win, win, win for the employee, the employer and the dentist, he says."

"The key is that if direct reimbursement weren't proving to be the economic benefit it is, you wouldn't find all these large employers throughout the country using it after 10 to 15 years," he says. ■