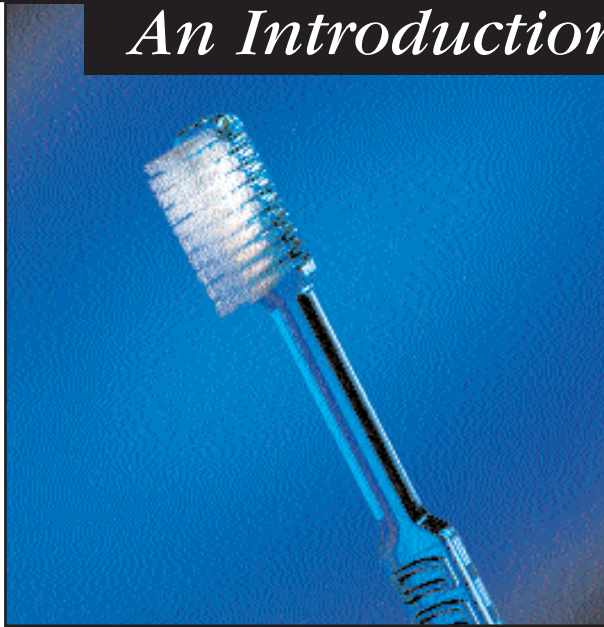


DIRECT REIMBURSEMENT

An Introduction



ADA[®]

DIRECTSM
REIMBURSEMENT
DENTAL PLANS

benefits made simple

Direct Reimbursement: An Introduction

Direct Reimbursement (DR) is an innovative approach to self-funding a company's dental plan.

DR is strongly supported by the American Dental Association and many benefits professionals as a simple, cost effective way to provide a dental plan for employees — one that gives them complete freedom to choose their dentists.

In this brochure, you'll find the most common questions employers raise regarding Direct Reimbursement dental plans. Once you've read the material, we think you'll agree that Direct Reimbursement is the dental benefits plan for smart companies.



Next Steps

This brochure is intended to address the most common questions you may have regarding DR, as well as its benefits to employers and employees. For additional information on how to implement and administer a Direct Reimbursement dental plan, please feel free to contact ADA staff at **1-800-232-1890**. You may also contact your local dental society, benefits consultant or broker.

Direct Reimbursement puts employers directly in contact with the claims process. Doesn't this also put them in the uncomfortable position of being responsible for claim review or denial?

Yes, but that position should not be uncomfortable under a Direct Reimbursement program. The only reasons for claim denial would be in a case where the employee was not eligible for the benefit or had reached the maximum benefit payment, or if the claim appeared to be fraudulent. In the first two cases, the basis for denial could be easily documented, and would not be a problem for the employer. In the case of fraud, the employer will need to be closely involved since such deception may be grounds for disciplinary action.

The other side of the employer involvement with the claims process is that the employees receive the benefit in the form of a check paid directly from the employer. This helps the employees to realize that the benefit is real money, paid by the company they work for, to assist in payment for their dental care.

Can Direct Reimbursement work with flexible spending accounts?

Yes. Section 125 of the IRS code permits employers to establish a plan under which employees can elect to set aside a portion of their salaries or wages by designating a specific amount of their pre-tax dollars to be deposited into a fund. These funds are called flexible spending accounts (FSAs). Each individual fund is then used for reimbursement

of the contributing employee's health, dental and/or other allowable expenses for the upcoming year that are otherwise not covered or reimbursed under other plans. The employee determines the amount to be deducted from his/her gross wages each pay period. A conservative estimate of these expenses may be advised since funds which are deposited in the FSA but not spent in a given year are forfeited, according to the IRS code.

Under a Direct Reimbursement plan, the employer would reimburse the employee the portion determined by the design of the plan. The employee could then be reimbursed for the balance from the funds in the FSA. This results in the employee being able to pay for these expenses with pre-tax income.

An additional benefit of this arrangement is that the employer and employee each experience tax savings on the money in the fund. Employees do not pay income tax on the contributed amounts, and since the funds do not qualify as income, the employer is not responsible for paying wage sensitive taxes (e.g. FICA and FUTA) on the amount set aside.

Employers interested in setting up an FSA should contact an attorney or other benefits professional familiar with IRS Section 125 regulations. Many TPAs also offer Section 125 services.



Basic Questions

What is Direct Reimbursement?

Direct Reimbursement (DR) is a simple, cost-effective dental plan that guarantees you the following important benefits:

- No premiums. Instead, you pay when actual treatment is received.
- Virtually all of the money spent goes toward dental treatment — *not* to extraneous overhead or administration.
- Employees are free to visit any dentists they choose, including their current dentists.
- Potential cost savings, decreased employee complaints about plan restrictions and ease of administration — all from a dental benefits concept so *simple* you won't believe you never thought of it yourself.



benefits made simple

How does Direct Reimbursement work?

Under a Direct Reimbursement plan, the employee and covered dependents visit the dentist of their choice, receive the necessary treatment and typically pay the dentist's bill directly to the dental office. The employee then presents a paid receipt or proof of treatment to his/her employer or to the TPA (third-party administrator) who administers the plan, and the employee is reimbursed according to the straight-forward plan design. Plan designs are selected by companies based on their budgets and therefore vary accordingly.

How is DR unlike other dental plans?

With DR, benefits are based on *dollars spent* on dental care rather than on *type of treatment* received. This eliminates detailed claims reviews and hassles about what is covered and what isn't. Unlike some dental plans, DR frees patients to plan treatment with their dentists alone. The ADA promotes DR as part of its continuing effort to see that patients are free to select any dentist for care, including their current dentist.

I'm looking for a plan that allows me to control costs within my budget. Is DR flexible in this way?

Yes. The details of a Direct Reimbursement plan may vary depending on the level of benefits the employer wishes to provide. Some of the options to be considered in designing the plan include:

- employees only or employees and dependents
- co-payment provisions
- annual benefit maximums (individual or family)
- immediate benefits or a waiting period for eligibility

Several examples of possible Direct Reimbursement benefit designs illustrate this flexibility:

Example A

100% of the first \$100 of dental expenses
80% of the next \$500
50% of the next \$2,000
Maximum Annual Benefits Paid: \$1,500*

Example B

100% of the first \$100 of dental expenses
80% of the next \$250
50% of the next \$2,000
Maximum Annual Benefits Paid: \$1,300*

Example C

100% of the first \$100 of dental expenses
80% of the next \$500
50% of the next \$1,000
Maximum Annual Benefit Paid: \$1,000*

Example D

50% of \$1,000 of dental expenses
Maximum Annual Benefits Paid: \$500*

** These totals can represent either an individual or a family maximum.*

Administrative Questions

By removing many of the complex administrative features associated with most dental plans (e.g. detailed claim forms and service limits and exclusions), a Direct Reimbursement (DR) plan is well-suited to employer self administration or to a third party administrator (TPA).

The only routine administrative actions are: 1) verifying patient eligibility; 2) calculating the benefit reimbursement; 3) issuing the reimbursement check; 4) maintaining records of amounts paid to each employee; and 5) educating employees about DR.

Where do I go to find a TPA?

Seek out a company that specializes in benefits plans. In addition to your broker or benefits consultant, the ADA and your state or local dental society may be able to assist you in identifying some of the third-party administrators in your area who administer DR plans for companies similar to yours.

Even if administration of a Direct Reimbursement plan is done in-house, aren't there still costs involved?

There are administrative costs involved with any program. Direct Reimbursement administrative costs are generally harder to identify than those of an insured

plan. Simple documents required to be filed with the federal government, such as IRS disclosure reports and summary plan documents, may be prepared by qualified in-house staff, third-party administrators (TPAs), benefits consultants or brokers.

As with all types of benefits plans, an employer may consider retaining the services of an experienced benefits consultant in order to establish an appropriate plan design and effective administrative procedures. The employer may also elect to have their current TPA administer the DR plan.

plan. Aside from the costs associated with employee communications, administration may be simply a small portion of each day's clerical functions, rather than a specific individual's or department's full-time concern. Administering DR is usually as easy as a simple check-writing process.

Even if an employer chooses to have a third party administrator manage the reimbursements and the necessary record keeping, the charges for these services are usually less than those associated with other kinds of dental plans due to this same simplicity that DR offers.

How can I estimate how much a plan will cost?

Because Direct Reimbursement is a self-funding strategy, costs will vary from month to month. There are no monthly premiums. Therefore, an employer incurs no expense until an employee receives dental treatment and requests reimbursement.

Unlike medical expenses, dental expenses are quite predictable. Many state dental societies are currently working with brokers and benefits consultants to provide DR cost estimates to employers upon request.

Should employees contribute to plan cost?

This is up to the individual employer. However, it should be kept in mind that by virtue of the plan design, employees do contribute by sharing the cost of treatment. Most people do not incur extensive dental costs in a given year, so a significant regular payroll deduction could easily exceed their annual routine expenses.

If a company designs a plan for 250 individuals with an annual maximum of \$1,000, will it spend the full \$250,000?

This is highly unlikely. While that is the maximum potential cost of the program, it is not at all close to the actual experience of any Direct Reimbursement dental plan known to the American Dental Association. Plans do not reach their maximum potential for several reasons. First, as a national average, approximately 40-45% of all people with dental benefit coverage do not receive any dental treatment in any given year. Second, of those who do

receive treatment, most incur dental costs of less than \$200 a year. Employers who are especially concerned about the risk of self-funding can explore purchasing stop-loss insurance to cover the risk of excessive claims.

Without monitoring by a third party payer or insurance company, does Direct Reimbursement increase the possibility of fraud on the part of the dentist and employee?

Documented cases of fraud in dental benefits plans are extremely rare. Nevertheless, the cost sharing aspect of Direct Reimbursement plans is important because it helps control abuse by both patient and dentist. The use of a claim form with both the dentist's and the employee's signature also helps to assure a valid claim.

If an employer is especially concerned about fraud, it may elect to periodically verify claims and notify employees that falsified claims may be grounds for disciplinary action. Fraud on the part of the dentist may result in loss of license to practice and/or prosecution. In addition, a TPA or benefits consultant can serve this function by monitoring usage and patterns among employees, as part of its normal administrative services.

The variations on the concept are limited only by the degree of financial commitment the employer is prepared to make. An employer may initially want to offer a conservative annual maximum. After analyzing a few years' experience with the plan, the employer may choose to enhance the benefit levels.

By eliminating exclusions and limitations on treatment, DR allows patients the freedom to plan the appropriate treatment with their dentist with no interference from a third-party payer or insurance company. At the same time, DR allows employers to ultimately *control* costs by the plan design and annual maximum.

How do I design a DR plan?

Your benefits consultant or broker may have information for you to use when designing a DR plan. In addition, American Dental Association staff, and in some cases, state or local dental society staff, all are available to assist you with any questions or concerns you may have. Of course, your attorney, benefits consultant or CPA should review the plan to make sure it complies with all applicable laws.

Will Direct Reimbursement work for companies of any size?

Yes. Both large and small employers have instituted Direct Reimbursement programs to assist employees. With Direct Reimbursement, an employer can individualize the plan to suit the needs of the employees while creating the maximum benefit provisions to satisfy the company's financial goals.

Do employees like Direct Reimbursement?

Yes. Direct Reimbursement offers significant advantages to employees, who appreciate the following benefits:

- DR allows employees to receive treatment from the dentists of their choice.
- With DR, employees can easily calculate, in advance, what their share of their dental expense will be.
- Employees receive benefits for all types of dental needs, not limited to insurance plan restrictions. (Traditional forms of dental benefits plans may discriminate based on age by covering *fully* the needs of young employees and covering only *partially* the needs of older employees. DR covers all procedures — from cleanings to prosthodontics to periodontics — equally.)

Direct Reimbursement plans typically require that the patient must pay the full bill “up front” before receiving reimbursement from the employer. Does the policy cause employees to put off needed dental treatment?

Current available data on Direct Reimbursement indicate that utilization of Direct Reimbursement dental plans does not differ significantly from that seen with other types of plans. However, if “up front” payments do present a problem for some patients, the flexibility of a DR plan design may allow employers to establish reimbursement mechanisms to counter the situation. The design of a Direct Reimbursement plan should be adapted to the needs of the employer and the patient.

For example, if credit card payments are accepted by a dentist, and reimbursement is prompt, the patient may charge dental services and receive the reimbursement before the credit card payment is due. In some instances, patients may establish a deferred payment plan with the dentist.

Also, if the employer chooses, reimbursement to the patient can be made upon the presentation of proof of treatment, rather than proof of payment. Some companies arrange for an “authorization of payment” (or “assignment of benefit”) directly to the dentist. In these ways, the up-front payment can be greatly reduced or avoided altogether.

An added advantage of Direct Reimbursement is that if the employee does have to pay the dentist prior to reimbursement, the employee can know, in advance, exactly what the final out-of-pocket expense will be. (Under plans which pay the benefit based on “usual and customary” or on a fee schedule basis, the final calculated amount of benefit may not be known in advance.) Again, as long as employee reimbursements are prompt, up front payment by the patient probably won't be a problem in the first place.

Direct Reimbursement plans do not have usual and customary or fee schedule limits. How will I control my costs without these mechanisms in place?

Usual, customary and reasonable (UCR) fee determinations, and fee schedules, have been established by insurance companies to determine payment limits

for dental benefits. These controls were considered to be necessary to limit the insurer's exposure to losses. This system was already used with medical insurance, so the system was extended to dental plans.

Dental plans based on UCR determinations or fee schedules typically insulate patients from dental costs. Consequently, the patient may have little awareness of or involvement in the direct payment of dental costs. On the other hand, Direct Reimbursement enhances patient involvement and awareness of dental costs and payment. The patient will determine whether the charges made for dental treatment received are reasonable. Patients become involved in the plan by their participation with co-payments, annual maximums and, when required, “up front” payment of the costs of treatment.

Direct Reimbursement benefits are expressed in terms of dollars only. This means that the dentist's charges are important to an employee, since the plan design encourages the employee to make the most efficient use of the benefit dollars. Under Direct Reimbursement, patients have the freedom to receive treatment from the dentist who they feel will give them the best value for their dental benefit allowance.

Cost & Funding Questions

A Direct Reimbursement dental plan gives the employer immediate control over the level of benefits offered. By instituting cost sharing measures into the plan design (e.g. co-payments and annual maximums), the employer is protected against discretionary utilization and wide fluctuations in benefit costs.

Unlike conventional insured programs where the premium rate is frequently determined by the pooled experience of many groups, the expense for a Direct Reimbursement program is based only on the company's experience, plus applicable TPA or benefit consultant fees, if any. In addition, employer funds that are typically held in reserve and invested by a third party are held and invested by the employer to generate additional interest income which may be applied against the cost of the program.

Perhaps the most clearly discernible savings to the employer is in the minimal administrative costs of a Direct Reimbursement plan. The simplification of claim forms and other extraneous paperwork reduces much of the

transactional costs of administration.

Further, a Direct Reimbursement program has no premium tax liability as do conventional insurance plans.

Finally, a decision to self-administer the program may greatly reduce the charges usually made by an insurance company for overhead, such as marketing costs and profit-and-risk margins.

Brokers, benefits consultants, the

ADA and/or your local dental society can recommend options for developing an administrative system, if your company does not already have one.

In a small company, DR administration may simply take the form of a spreadsheet program. The ADA makes available information about Direct Reimbursement administrative software programs that will assist companies with this function. Moreover, the employer may elect to have a third-party administrator (TPA) manage the Direct Reimbursement plan. Whether an employer chooses to self-administer or use the services of a TPA, the savings in administration and overhead that a DR plans offers can be significant.



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