

Dental Plans for the New Millennium

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What lies ahead for dentists and their patients in the area of dental benefits? Let us first examine what has been the status quo in dental plan design. There are two basic categories of fee-for-service dental plans in Canada. The more common group is called defined benefits although it is much better known by its misnomer "dental insurance". Plan design is based on defining the benefits that are covered as well as the conditions and restrictions under which they are covered. The second but less familiar method is called defined contribution. Direct reimbursement is the basic building block of defined contribution dental plans. This concept requires only that a plan sponsor choose a yearly limit for coverage per plan subscriber per year along with some type of co-payment arrangement. There is no secret formula or hidden fine print in the contract, no need for actuarial tables or complicated mathematical calculations. The beauty of defined contribution is its sheer simplicity.

Dental Insurance Anyone?

Dental plans were never intended to provide insurance against the probability of requiring dental treatment. Due to dentistry's predominant emphasis on prevention and the nature of dental treatment which can be considered any thing but catastrophic, dental treatment costs tend not to be prone to volatile fluctuations. When one combines cost predictability with the tax-exempt status granted by government, dental plans are ideally suited to provide employers with a vehicle to prepay for quality dental care for their employees. Unfortunately, since dental plans were sold initially almost exclusively by insurance companies and purchased by employers as part of an employee insurance package, they were soon labeled as just another type of insurance. This insurance mentality was further enhanced by the fact that until some reliable database could be established, most plan purchasers chose to include some sort of insurance protection against cost overruns in their plans. These plans are called indemnity or insured dental plans. The idea that dental plans were a form of insurance went unchallenged for years and was even reinforced on a daily basis through the constant use of the term dental insurance in conversations and discussions with patients in the dental office. This notion has played

an important role in the lackluster acceptance of the defined contribution concept.

The dental benefits industry has also been overwhelmingly successful in convincing the marketplace that there is only one way to fund dental benefits in a fee-for-service environment, that being the defined benefits model. There are two types of plans provided with this model. One, already mentioned, is the insured or indemnity dental plan variety. As much as 40% of the plan premiums are not available to cover the cost of dental treatment. Since these dental premiums are often bundled with the other health care benefits in the employee package it is also difficult, if not completely impossible, for employers to calculate a direct correlation between money spent and dental benefits derived. The second type of defined benefits dental plans, called Administrative Services Only or ASO plans, are self-funded by the employers who in turn are charged an administrative fee of 3-20% on paid claims by a third party administrator. Both types of plans are identical in terms of design or the coverage they provide. ASO plans are more popular with larger employee groups because increased size reduces risk.

The New Trend in Health Benefits

One of the more interesting recent innovations in employee health benefits has been the introduction of flex benefits. This feature assigns a yearly dollar amount in the form of individual health spending accounts for each employee to allow that employee to pick and choose the type and amount of coverage he or she wants from a litany of health benefits. Unfortunately, all the options for these distinctive benefits, including dental, are only available in defined benefits packages. It doesn't take a degree in rocket science to deduce that under a flex benefit option only those employees who anticipate the need for a particular benefit will want to participate. This doesn't affect those benefits that are true insurable commodities like disability or extended health because their premiums are based on a statistical analysis of probabilities rather than actual participation. The cost of the dental option on the other hand is directly related to participation and requires that a separate pool of funds be maintained to finance it. The only recourse for plan sponsors is to offer an insured dental plan with the

probability that as little as 60% of the premiums will go towards dental treatment, or for those employers who wish to maintain a self-funded dental plan, to either reduce the level of coverage or apply tighter controls to the level of benefits covered to compensate for the smaller pool of funds allocated to dental benefits. It's ironic that employers who embrace a concept of defined contribution with individual spending accounts for their health benefits package can't grasp the same principles when it comes to dealing with the individual benefits within the package. Extending the defined contribution option to dental benefits would make these plans truly flexible.

The new millennium will bring with it exciting changes in the business community as companies adapt to rapidly changing technology. Downsizing has already created a whole new generation of independent contract workers. Computer technology and networking has allowed for the development of an entrepreneurial spirit away from a centralized work environment towards a multi-service oriented work force. This restructuring in the workforce has created a need to service this rapidly growing segment of the business community. Just as consumers of goods are now being presented with unprecedented opportunities to pick and choose how and where they shop through Internet services such as Amazon.com and E-bay, consumers of services will also want greater flexibility to pick and choose how and what types of benefits they need and can afford. Defined benefits by their very nature limit flexibility because control is achieved through packaging. This new generation of employees does not necessarily seek or want things in neat packages. Employers are also starting to recognize that it's not the design of the dental plan that makes their employees healthy, it's the plan's ability to allow their employees to seek regular dental care and make informed decisions about good dental health. Dental plans need to be structured to reflect that goal.

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The Coming of Age for Defined Contribution

So what is the answer? Cue the Lone Ranger music because here comes defined contribution to the rescue. What could be simpler for any employer than merely setting up individual dental spending accounts and letting the employees decide when and where to spend the money as needs dictate with no thoughts of insurance or entitlement? As mentioned earlier, direct reimbursement is the basic building block for these types of dental plans. Direct reimbursement was first introduced into the U.S. with the support of the American Dental Association as a pure form of dental pre-payment. Plans are self-funded by employers and are designed with varying levels of reimbursement based on the dollar amount of treatment received as opposed to the type of treatment received. A typical

plan might cover 100% of the first \$200, 80% of the next \$200 and 50% of the last \$350 for a maximum of \$750 per year. There are no restrictions or conditions placed on coverage other than dollars and sense. All that is required of the employee is a receipt from the dental office to be presented to the plan administrator — there are no complicated or time-consuming dental claim forms to be filled out and processed. The employee is thus reimbursed directly by the employer. The concept presents a number of advantages. There certainly is no mistaking this plan for dental insurance and its misbegotten cousin called entitlement. It is also obvious that the funding is being provided directly by the employer rather than some insurance company. The co-payments make each employee that much more responsible financially and that much more attentive to and interested in the cost of his or her dental treatment. All these factors add up to cost containment every bit as effective as the defined benefits dental plans. Direct reimbursement plans can be set up in Canada as long as certain rules and conditions set by the Canada Customs and Revenue Agency are met. CDA offers an employer booklet to help guide potential clients through the process which should include seeking proper legal advice.

There are several reasons why direct reimbursement has not become more widely accepted by employers. Perhaps the greatest obstacle could lie in the fact that direct reimbursement was a concept ahead of its time. In a more practical light, there has also been a lack of adequate funding to properly promote the concept. There simply was and is no incentive for insurance companies, or any other third party administrator, to promote direct reimbursement since it eliminates the need for any outside agency. The risk presented by self-funding has certainly discouraged the participation of many small business entities. While a great many potential clients of direct reimbursement liked the simplicity and clarity of the concept, they balked at doing their own administration. They were also concerned about their inability to monitor utilization and to profile for abuse since a lack of claim forms also meant a lack of data. In spite of these disadvantages, many employers in both Canada and the U.S. have found direct reimbursement to be a valuable and rewarding way to provide dental benefits for their employees. Many more potential candidates for a defined contribution dental plan have slipped through the cracks because of the several disadvantages already discussed. Where does this leave defined contribution in terms of providing a solution to a growing problem in the dental benefits marketplace?

Defined contribution has moved beyond direct reimbursement. There is now a solution for the growing number of small and independent business owners and their employees who are

looking for flexibility and value. The federal government's 1998 budget now makes it possible for proprietors to realize some of the favourable tax treatment previously reserved for incorporated businesses. Although insurance companies haven't yet caught on, there are companies in the marketplace that offer defined contribution dental plans based on the direct reimbursement concept. Alberta and the four Atlantic provinces have what they feel is a sound solution. It's called Quikcard. Quikcard dental plans have been in existence in Alberta since 1989 and were introduced into Atlantic Canada in 1998. The doubters and naysayers would say that defined contribution is pure folly and that any employer foolish enough to venture into this type of plan will experience uncontrollable utilization and sky high costs. Organized dentistry could never refute that argument with solid data. Direct reimbursement never lent itself to statistical analysis but there are now defined contribution dental plans in the marketplace which can provide valid data in support of the claim from organized dentistry that there is a better way to offer dental benefits that is both cost effective and affordable.

Dr. Dugal is chairman of the board of the Alberta Dental Service Corporation, which markets Quikcard dental plans in Alberta.

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