Beware: Pitfalls of Bundled Vision Plans—More Than Meets The Eye

It’s a common scenario: A medical insurance carrier wants to sell your company a medical coverage plan that is partly paid by your employer. The carrier’s sales representative, sensing your company’s price sensitivity, attempts to sweeten the deal by offering a 1% reduction in your company’s medical premiums. Sometimes this can be as much as the vision premium.

But there’s a catch. The vision coverage is employee-paid. So the medical plan which is partly employer-paid, is being subsidized by the vision plan that is 100% financed by your company’s employees.

This deal is too good for any company to pass up, right? Not so fast. The truth is, a bundled deal such as the one above may not only cost employees more money, but may also leave your company open to legal challenges.

At first glance, bundling your vision may seem to make sense. Your company receives a discount on medical coverage for the first year. The promise of easier administration also seems tempting. What you may be overlooking, however, are several long-term considerations.

First, bundling may result in a considerable cost shift to employees from employers, which, if not communicated properly, can result in a violation of the Employee Retirement Income Security Act (ERISA). The Act deems those who have control over a plan or its assets to be fiduciaries that must act solely in the interest of plan participants. If a company reduces what it pays for medical benefits at the expense of increasing its employees’ vision costs, it may be violating its fiduciary responsibilities by engaging in ERISA-prohibited transactions. Furthermore, the implicit subsidy of company medical costs may open the fiduciary to personal liability for the breach as well as the prohibited transactions taxes.

Possible legal jeopardy isn’t the only reason to beware of bundled plans, however. Historically, such plans have much lower enrollments (link to utilization infographic) than stand-alone plans. Lower enrollments mean fewer health screenings for employees, which in turn lead to lower rates of detection of chronic diseases. The result is a higher overall cost to employers, who pay dearly in the form of increased medical expenses. After the first year or so, the medical plan discounts disappear, resulting in still higher ongoing costs.

If a bundled plan isn’t the answer, what is? The best practice for most employers may be stand-alone coverage that safeguards both employees’ health and an employer’s bottom line. Choose a consumer-oriented provider that offers a plan that will maximize your enrollment and reduce expenses for your employees.

Most important, before committing to any plan, ask for an out-of-pocket cost comparison to understand the real impact the plan will have on your employees. In the case of vision-care, for example, out-of-pocket expenses can account for approximately 70 percent of a plan’s price tag. Ultimately, your organization should thoroughly explore whether a bundled package truly meets its needs. Take a second look. You may be glad you did.