



WHITE PAPER

MERP VS. TRADITIONAL HEALTH INSURANCE

When exploring health insurance options for employees, businesses often default to traditional group plans, but alternatives like Medical Expense Reimbursement Plans (MERPs) offer unique benefits. MERPs allow employers to reimburse employees for eligible out-of-pocket medical expenses, providing flexibility, cost savings, and tax advantages. This guide highlights the differences between MERPs and traditional insurance plans, showcasing how they can benefit employers, employees, and insurance brokers alike while reducing overall healthcare expenses.

When it comes to health insurance benefits for employees, businesses have various options. Most companies offer traditional health insurance plans to provide employees with standardized medical coverage. However, there are other medical insurance products to choose from that offer additional benefits. One such product is a Medical Expense Reimbursement Plan (MERP).

Whether you're an insurance broker, business or employee, this article will help you understand how MERP products differ from traditional health insurance plans. This information can help you make more informed choices for your clients, business or yourself.

What Is a Medical Expense Reimbursement Plan?

A MERP is a type of health reimbursement plan (HRA) that allows employers to reimburse employees for eligible out-of-pocket medical expenses. These can include insurance, medical, dental and vision expenses. For example, a MERP could reimburse employees for doctor visits, dentist appointments, medication and even insurance premiums.

Many employers pair a MERP with a group high-deductible health insurance plan (HDHP). An HDHP has lower monthly premiums but higher out-of-pocket costs. Employers can use a MERP product to offset the high costs of an HDHP for employees. When an employee's health insurance doesn't cover an amount, they can claim it from their MERP. Stand-alone MERP products are also helpful for employees who have their own private health insurance policies.

What Is Traditional Health Insurance?

Traditional health insurance refers to the insurance plans available to most Americans. Here is a health insurance plans comparison to help you understand the difference between the most common plan types:

- **Exclusive Provider Organization (EPO):** Services are only covered when members use healthcare providers in the plan's network.
- **Preferred Provider Organization (PPO):** Members pay less for services from the plan's network of providers. By paying an additional cost, members can also see out-of-network providers without a referral.
- **Point of Service (POS):** A POS offers more coverage for providers in its network. Members need a referral from a primary care doctor to see an out-of-network provider.
- **Health Maintenance Organization (HMO):** This plan only covers healthcare services from HMO-employed professionals.

With traditional health insurance, individuals pay a monthly premium for medical coverage. They may still need to pay a portion of their medical expenses in the form of deductibles, coinsurance and copayments. A deductible refers **to the amount you pay** for medical expenses before the insurance plan starts to pay. Coinsurance is the percentage of any medical expenses you pay once you've reached the deductible amount. A copayment is a fixed amount you may need to pay for certain medical expenses.



Comparing MERP and Traditional Health Insurance

Businesses can offer their employees both traditional health insurance and a MERP or offer either product separately. The right option depends on the company and its employees. To choose what to offer, you can evaluate the key differences between a MERP and a traditional health insurance plan below:

- **Use:** Employers commonly offer traditional health insurance plans to their employees. In 2023, around [53.7% of the U.S. population](#) had an employer-sponsored health insurance plan. MERP products are less common employer offerings. However, they can help employers save money on health insurance and employees cut back on medical costs.
- **Structure:** A traditional health insurance plan requires members to pay a monthly premium to receive coverage from an insurance provider. The business or employee may pay this premium. For a MERP, the business contributes toward a MERP account, which reimburses employees for eligible medical expenses.
- **Cost to employees:** For traditional health insurance plans, employees will usually need to pay the deductible, coinsurance and copayments. They may also cover the premium if their employer doesn't. With a MERP, the employee must pay the initial cost for medical expenses but can claim any qualifying ones back from their employer.
- **Cost to businesses:** Many businesses purchase group insurance plans to offer their employees. This benefit may attract talented individuals but can be expensive for the employer. A MERP helps companies [reduce their health insurance costs](#) without reducing employee medical benefits.
- **Claims process:** Employees must claim directly from their insurance provider when they have a traditional insurance plan. This process is slightly different from that of a MERP. Most MERP products have a third-party administrator (TPA) who oversees the claims process. After paying for a medical service or product, the employee can submit a claim to the TPA along with proof of payment. Some MERP providers may also offer members a dedicated card to pay directly for expenses with their MERP funds.

Benefits of Medical Expense Reimbursement Plans

MERP products benefit both employers and employees.

Employer Benefits

Employers can offer employees a MERP as part of a comprehensive benefit package.

This strategy can offer employers:

- **Reduced costs:** The primary benefit of a MERP is that it can help employers reduce their health insurance costs. Group plans with lower deductibles are attractive for employees but costly for employers. Employers can save money by switching to an HDHP and offering a MERP to minimize the financial impact on employees.
- **Customizable plans:** Employers can customize their MERP plans to suit their budget and employee needs. They have full control over the contribution amounts, eligible expenses and reimbursement process. Employers also have the flexibility to change insurance plans and carriers while maintaining MERP accounts.
- **Tax savings:** MERP plans are also beneficial because they offer employers tax savings. The IRS classifies MERP contributions as tax-deductible business expenses, which allows the employer to pay less tax.

Employee Benefits

Employees who have a MERP receive these benefits:

- **Tax savings:** MERP products offer tax advantages to employees. If their employer allows it, employees can contribute to their MERP with pre-tax dollars deducted from their wages. This allows employees to save more money for medical expenses. Any reimbursements they receive from their MERP fund are tax-exempt.
- **Lower medical costs:** High medical costs can cause financial stress, and even individuals with insurance plans may struggle to afford healthcare. With an employer-provided MERP, employees have access to extra money to put toward paying off medical bills.

Discover MERP Solutions From The Difference Card

The Difference Card specializes in **Medical Expense Reimbursement Plans** for businesses. We help our clients create unique benefits plans that improve employee benefits while reducing health insurance costs. On average, companies who work with us see savings of **as much as 18%**.

We also **partner with insurance brokers** to bring our cost-saving solutions to their clients. By becoming a Producer Partner, you can set your agency apart and grow your business. In 2023, The Difference Card helped Partner Agencies generate over \$5.1 million in new revenue from Employer Group clients.

Contact us today to find out how The Difference Card can help your business! You can also learn more **about the member experience** to see the difference our solutions make.

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