Employee Benefits Report

CORPORATE BENEFIT SOLUTIONS

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Debating the Pros & Cons of Bush's Proposed Health Plan

The Bush health plan could undermine the employer-paid healthcare system.

President Bush's healthcare proposal, unveiled during his January State of the Union Address, has both its backers and detractors, as experts and analysts sift through the details.

In short, the plan would eliminate tax-free treatment of employer-provided health benefits but offer a standard tax deduction of $7,500 for individuals and $15,000 for families for health care spending.

Plan proponents say it would be fairer than the current system, which favors people lucky enough to have access to employer-sponsored health insurance, and make insurance affordable for as many as five million uninsured Americans. That would "level the playing field" between employer-sponsored insurance plans and those purchased on the individual market, said Kate Baicker, a member of the President's Council of Economic Advisers.

The tax deduction, which would be granted to anyone who purchases health insurance – even the most basic coverage – will also remove the current incentive to buy comprehensive coverage with almost no out-of-pocket costs, she said. That kind of comprehensive coverage shields consumers from the true cost of healthcare, encouraging wasteful spending and driving up costs for everyone.

Current tax law is far less generous to people who must purchase insurance on their own. Although self-employed people can deduct their health insurance, they get no relief from the payroll tax. The only tax relief available to other individual purchasers is the ability to deduct expenses exceeding 7.5 percent of income.

Most people who are uninsured have no opportunity to obtain employer-provided insurance with pretax dollars. Thus, the uninsured must pay up to twice as much after taxes for the same coverage if they choose to insure.

The current system is unfair in other ways, according to by John C. Goodman, president of National Center for Policy Analysis. Families with the most expensive employer-paid health care plans tend to have the highest incomes. As a result, the bulk of federal tax subsidies tend to go to those who need them least. On average:

- Households earning more than $100,000 per year receive an average subsidy of $2,780.
- By contrast, those earning less than $30,000 receive only $396.

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San Francisco Pioneers Mandated Paid Sick Leave

San Francisco's new law mandating paid sick leave went into effect on February 5. The law, approved by voters last November, applies to all workers and requires them to accrue one hour of paid sick leave for every 30 hours worked within San Francisco's boundaries. Employees of larger firms (10+ employees) can accrue up to 72 hours of paid sick leave; employees of smaller firms can accrue up to 40 hours. Leave can be used to care for just about any relative, so it is broader than the state's "kincare" law, which applies to care of a child, spouse, parent, domestic partner or child of a domestic partner.

A study by the Institute for Women's Policy Research asserts that San Francisco companies will save $46 million annually because sick leave will reduce turnover and curtail the spread of colds and flu. The organization puts the costs of the ordinance at $33 million for wages, payroll taxes and administrative expenses.

The San Francisco Chamber of Commerce strongly opposed the measure, and said it would continue to monitor the city's implementation strategy.

Yes, You Can Cut Health Care Costs

Knowing what drives your claims costs can help you take steps to keep them in line.

If there's one constant in this business, it's the ever-rising costs of health care coverage. Here's a compendium of cost savings ideas from Towers Perrin, Deloitte, and The Segal Company:

- ✔ **Establish meaningful deductibles & copayments.** Low copayments have a tendency to encourage demand for questionable or unnecessary care. On the other hand, if co-payments are too high, employees may skip essential care. It's all about balance, and you can determine the right level of cost sharing by comparing your plan to like-sized companies and evaluating the relationship between out-of-pocket costs and utilization behavior from your company and other sources.
- ✔ **Provide coverage incentives.** The best healthcare solution doesn't always come from a provider. You can cut provider usage by publicizing alternative treatment options, home health aids, and providing information about support groups and materials available by mail, phone, the Internet and 24-hour nurse lines.
- ✔ **Continually monitor costs.** It's all about the line item. Take the time to understand current and projected costs and fees. Design or adjust plans in ways that increase price transparency and accountability to improve purchasing efficiency and encourage healthy behaviors.
- ✔ **Monitor vendors' claim management services.** It's not surprising that some managed care organizations do a better job than others of tracking individual physician practice patterns and comparing them to norms in order to systematically detect and prevent costly "upcoding," whereby physicians submit the most complex evaluation codes, even for brief, follow-up office visits, in order to receive higher reimbursement.
- ✔ **Consolidate service providers.** Are you suffering from a case of vendoritis? Consolidate vendors to reduce administrative expense and enhance engagement in your company's strategy. Select optimal services (such as appropriate care management) and match the right vendors with the right services. Negotiate cost targets and implement strong performance measures.
- ✔ **Emphasize disease management programs for chronic conditions.** These programs identify providers, facilities and treatments that have the best track records for improved outcomes. Major insurers like Cigna indicate that there is at least a two-to-one return on the investment cost of disease management programs.
- ✔ **Require patients to pay a greater share of the cost of questionable treatments.** Provide employees with easy-to-read and easy-to-access information about the success of competing treatments (e.g., surgery, rest and pharmaceutical therapy). By requiring patients to pay for a reasonable portion of the cost of treatment, health plans can see a reduction in the use of questionable treatments.
- ✔ **Compare, compare, compare.** You can identify savings opportunities by reviewing vendor contracts and competitive information and by drawing comparisons to industry benchmarks. The most important task you can undertake, particularly with problem areas, is to conduct a detailed claims analysis. This will help you develop targeted design changes and patient management services that address critical areas in need of cost management. ■

Making the Transition:

Benefits professionals know that every action will have a reaction. Before changing benefits or policies significantly, consider how the changes will affect your company, its employees, and the relationship between the two.

- **What level of employer cost is acceptable?**
- **What portion of total rewards should health benefits represent?**
- **Are there significant public relations risks to address?**
- **If changes are needed, what pace of change is appropriate?**
- **What are the trade-offs and priorities between cost control and talent management?**
- **How much volatility risk can the company tolerate?**
- **If the volatility risk is higher than acceptable, what action is the company willing to take to reduce it (e.g., increased employee cost sharing), and at what cost to employee relations?** ■

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If the individual market rises to the challenge, the president's proposal could result in several million fewer uninsured people, Robert Reischauer, president of the Urban Institute, told UPI. On the other hand, it could cause employers to stop offering coverage and throw millions of currently insured people into an individual market that offers either limited or very costly options to those with pre-existing health problems. ■

Understanding 401(k) Fees (and how to reduce them)

Fees can make a big difference in 401(k) returns. Here's an overview of fees providers charge.

Fees are a fact of life for any investment instrument. But as a plan fiduciary, it's your duty to "prudently and solely act in the interest of the plan's participants and beneficiaries." That means understanding – and whenever possible, reducing – the cumulative effect of fees and expenses on retirement savings programs.

When it comes to 401(k) and other retirement plans, fees and expenses generally fall into three categories:

Plan Administration Fees. These fees cover the day-to-day operation of a plan, such as recordkeeping, accounting, legal and trustee services, and potentially a host of additional services like telephone voice response systems, access to customer service representatives, educational seminars, retirement planning software, investment advice, and electronic access to plan information. Generally the more services provided, the higher the fees.

In some instances, these fees will be covered by investment fees that are deducted directly from investment returns. In other instances, they may be borne, in whole or in part, by the employer or charged directly against the assets of the plan.

Investment Fees. By far the largest component of plan fees and expenses is associated with managing plan investments. These fees usually are assessed as a percentage of assets invested. Pay close attention because these fees are often paid in the form of an indirect charge against the participant's account or deducted directly from investment returns. As a result, these fees may not be show up on investment statements.

Individual Service Fees. If assessed at all, these fees may be charged separately to the accounts of those who choose to take advantage of a particular plan feature, such as taking a loan from the plan.

Depending on the investment plan, there may be other charges as well, including sales charges (also known as loads or commissions) and management fees (also known as investment advisory fees or account maintenance fees).

Reducing fees

Obviously fees aren't the only factor to consider when selecting service providers and investments. You'll also want to consider the level and quality of service and the investment's risk and potential return.

In any case, you should be fully aware of every fee charged and the ramifications of each. Begin with a review of all charges. Think about the levels of responsibility and specific services you would like from a service provider, such as loans, Internet trading, telephone transfers, and retirement planning. Your review should include the number of plan participants and the amount of plan assets as of a specified date.

Once you have a clear idea of your requirements, you are ready to begin receiving estimates for new plans or seeking adjustments for your current plans.

Ask each prospective provider to be specific about which services are covered for the estimated fees and which are not. To help in gathering information and making comparisons, you may want to use the same format for each prospective provider. You can use the very handy uniform fee disclosure form available from the U.S. Department of Labor (www.dol.gov/ebsa/pdf/401kfefm.pdf).

Once you have selected a service provider or investments, be prepared to monitor the level and quality of the services and performance of investments to make sture they continue to be reasonable and suit the needs of your employees. Make provisions to receive information on a regular basis so that you can monitor investment returns and service provider performance. ■

The High Cost of Hidden Fees

A percentage point here, a percentage point there. It doesn't really add up, does it?

Indeed, it does. Take, for example, an employee with 35 years until retirement and a current 401(k) account balance of $25,000. According to the U.S. Department of Labor, if returns in the account over the next 35 years average seven percent and fees and expenses reduce the average returns by 0.5 percent, the employee's account balance will grow to $227,000 at retirement – even if there are no further contributions to the account.

If fees and expenses are 1.5 percent, however, the account balance will grow to only $163,000. That one percent difference in fees and expenses would reduce the account balance at retirement by 28 percent. ■

Up in Smoke: Tobacco Cessation Programs at Work

Getting employees to quit smoking can be one of the best steps you can make to lower healthcare costs.

If you're not convinced that smoking exacts a high cost from your company, consider these sobering facts:

- The Centers for Disease Control estimates that companies spend $3,856 per smoker per year in direct medical costs and lost productivity.
- 80 percent of healthcare costs are from people with serious health problems.
- One in ten smokers alive today is living with a serious smoke-related illness.
- Smoking claims more than 440,000 lives each year – more people than die each year from AIDS, drugs and alcohol, homicide, suicide and motor vehicle accidents combined.

The good news is that smoking rates continue to fall across the country – an estimated 23 percent of adults smoke today, down from 37 percent in 1970.

Still, it's not surprising that employers list smoking prevention among their top three health priorities for employees (along with treating high blood pressure and obesity), according to a study by the National Business Group on Health (NBGH).

Companies today are taking both punitive and positive steps to help employees quit. Union Pacific, for example, stopped hiring smokers in seven states this year as part of a pilot program. The company will make all its property smoke-free this summer. Alaska Airlines hasn't hired smokers since the mid-1980s and instituted a nicotine test for applicants a decade later, according to the Associated Press.

U-Haul International, through its parent company, requires its smoking employees to pay $11.50 a week for a wellness program that is mandatory as part of its health insurance. The fee is waived for nonsmokers.

Some employers are even willing to provide cold hard cash to help employees quit. Employees at PacifiCare Health Systems Inc. can get nearly $400 when they earn a certain number of health credits. The credits can be earned through stop-smoking programs or exercising. Other employees offer incentives ranging from iPods to discounts on health insurance.

Promoting cessation

Not just any cessation program will do. To be successful, the Centers for Disease Control suggests tobacco cessation programs include:

- Four to six face-to-face counseling sessions of at least 30 minutes each;
- Both prescription and over-the-counter medications;
- At least two quit attempts each year;
- Communicating the availability of support program.

With smoking cessation programs costing about $4 annually per employee, according to the NBGH, it's hard to counter the economic benefits of such a program. For more information, please call us.

Employers can help employees who smoke by:

- **Requesting or selecting health plans that cover effective treatment of smoking.**
- **Ensuring that health care providers (those in on-site medical clinics and those with larger health care plans) adhere to Health Employer Data Information Set (HEDIS) requirements. HEDIS measures whether providers screen all patients for smoking, counsel smokers to quit and recommend FDA approved medications.**
- **Designing or offering benefits that cover a variety of treatments.**
- **Allowing individuals to choose their preferred approach.**
- **Utilizing telephone counseling.**
- **Ensuring that smoking cessation counseling emphasizes problem-solving and social support to enhance the likelihood of abstinence.**
- **Removing fees, co-pays, and other restrictions intended to limit use of benefits.**
- **Communicating to employees the types of cessation benefits that are covered under their health plans.**
- **Taking a long-term approach to smoking cessation and structuring benefits to support multiple quit attempts.**
- **Offering smoking cessation treatment to employees' spouses and dependents.**
- **Promoting a healthy workplace that discourages smoking and values the wellbeing of all employees.**
- **Instituting workplace bans on smoking to reduce tobacco use and protect nonsmokers from secondhand smoke.**
- **Offering incentives to achieve and maintain healthy lifestyles.**