

Designing and Maintaining an Affordable Benefits Plan

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Is this your health plan?

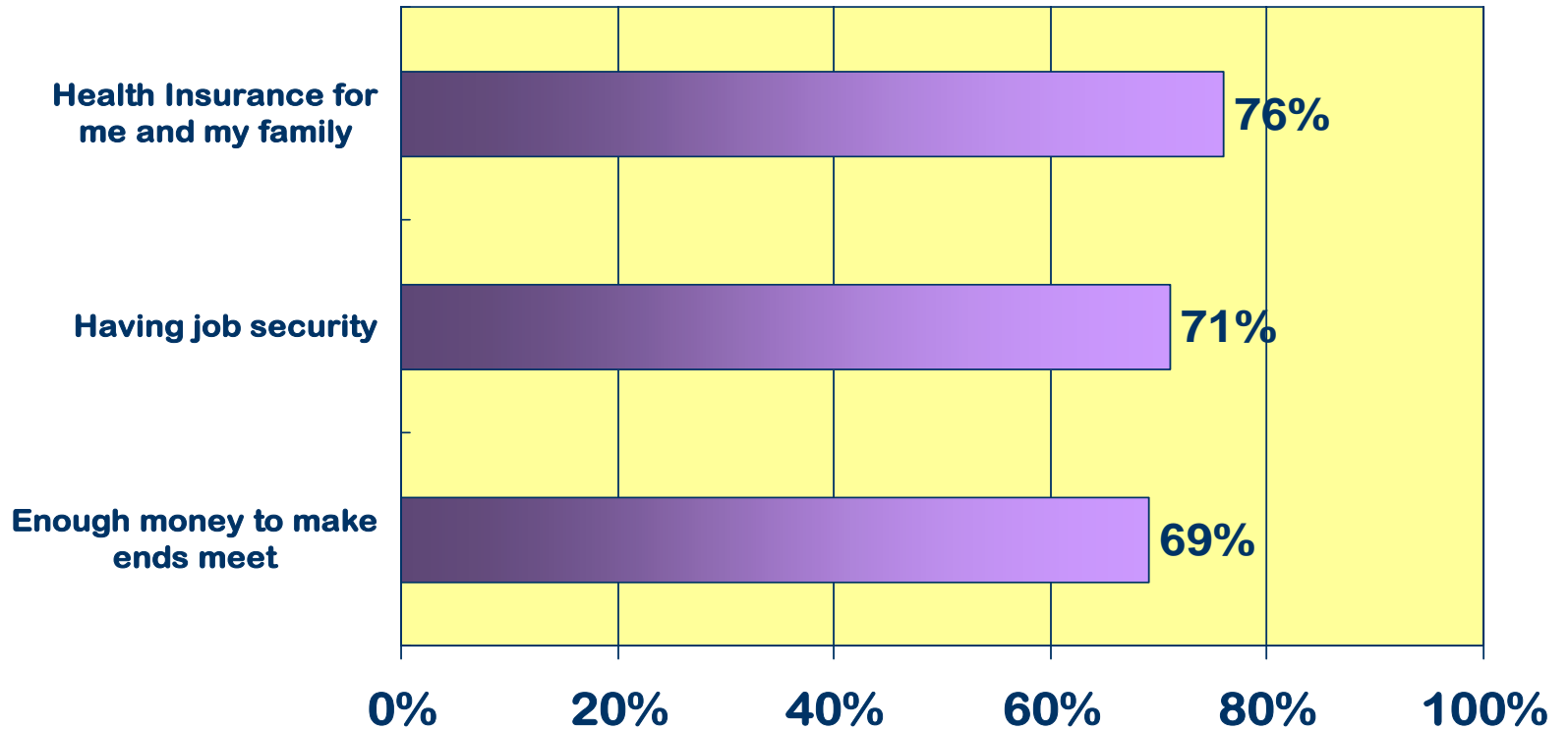


Introduction

- What matters most to employees
- Traditional plan designs used by employers
 - ✓ Plan modifications
 - ✓ Addition of low cost fringe benefits
- Consumer driven healthcare
 - ✓ Health Reimbursement Arrangements
 - ✓ Health Savings Accounts



Top Ranked Financial Concerns



Source: 2003 MetLife Study of Employee Benefit Trends



2004 Well-Being Index (Harris Interactive)

Benefit	Incidence
Health Insurance	90%
Retirement Plans	68%
Life Insurance	66%
Free Parking	65%
Disability Insurance	55%
Flex Time	33%
Tuition Reimbursement	30%
Bonus	25%
Financial Planning	11%
Personal Banking Services	2%



2004 Well-Being Index (Harris Interactive)

Benefit	Importance to Employees
Health Insurance	89%
Retirement Plans	68%
Disability Insurance	51%
Life Insurance	46%
Bonus	39%

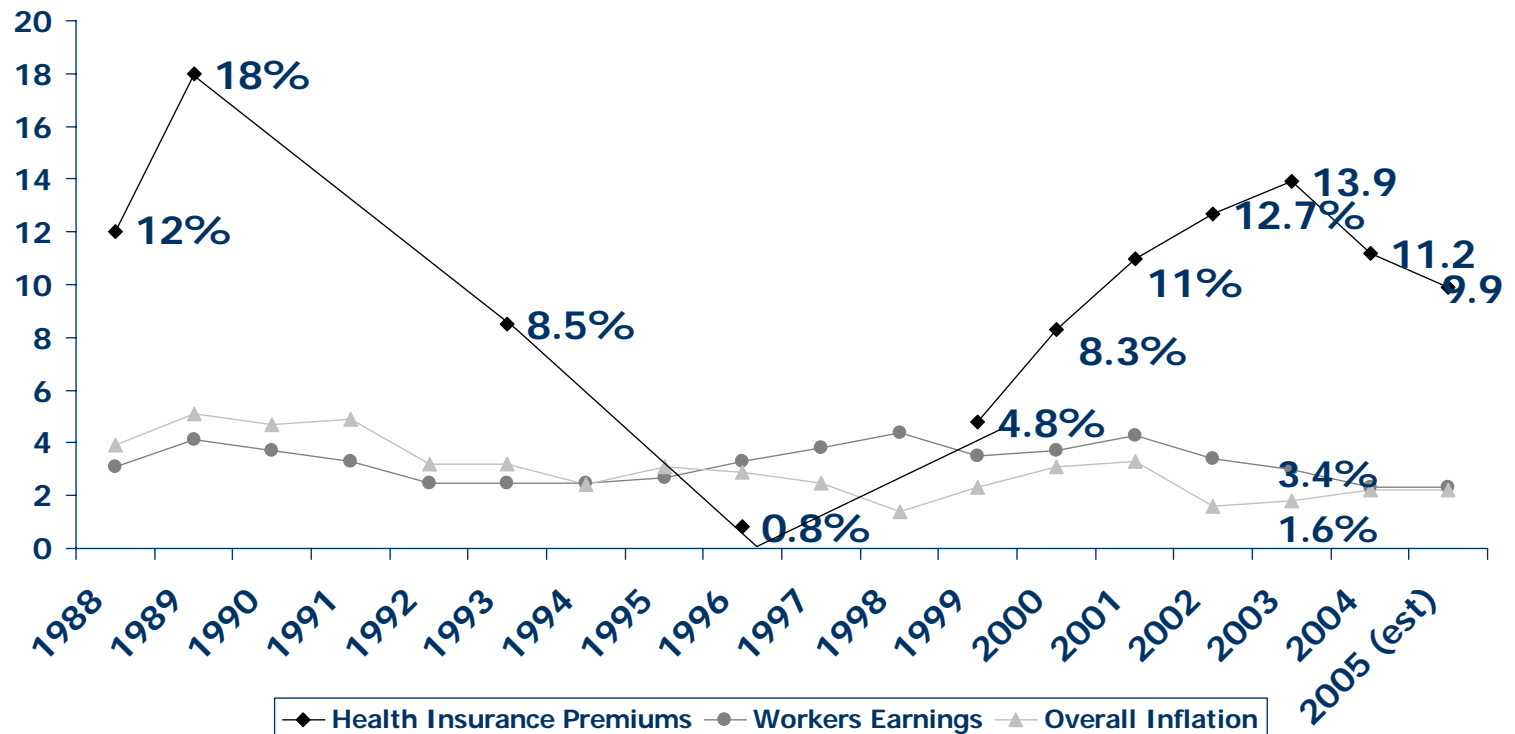


2004 Well-Being Index (Harris Interactive)

A good employee benefits plan...	Agree	Neutral	Disagree
Encourages me to work harder and perform better	64%	26%	10%
Keeps me working for my current employer	64%	19%	16%
Tells me my employers is concerned about my long term financial future	26%	29%	44%



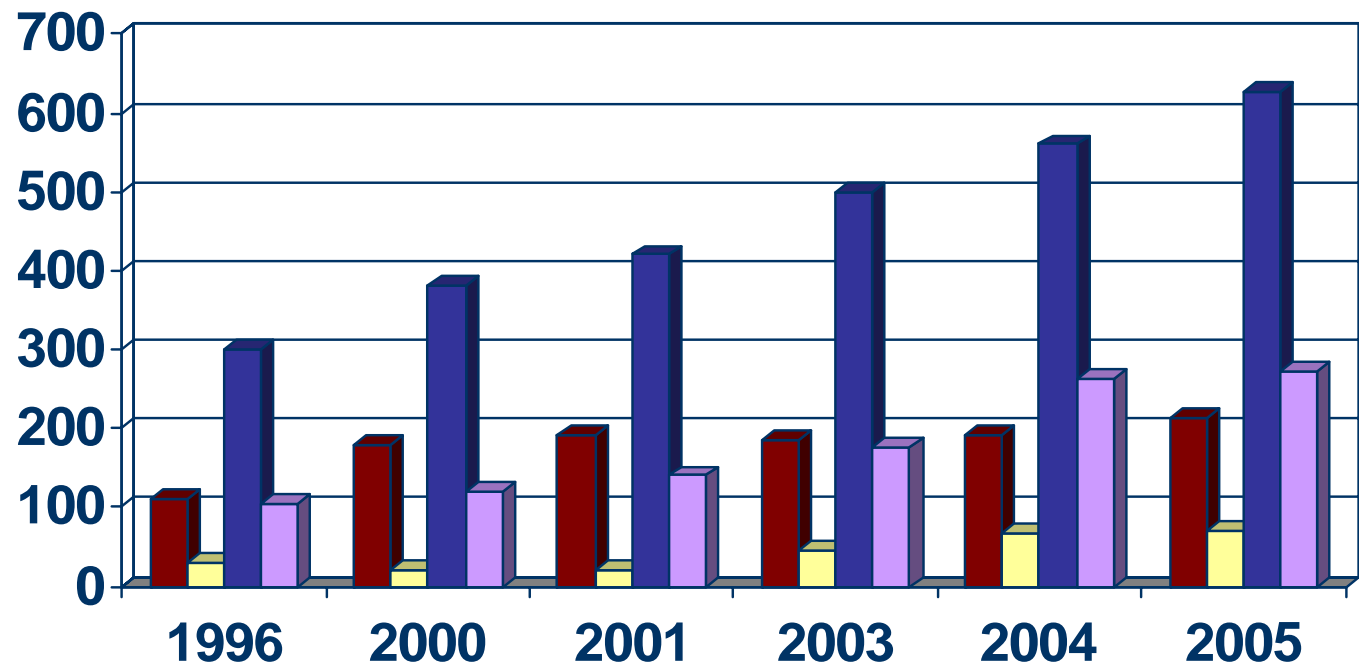
The Challenge of Health Plan Premiums



Source: Kaiser Family Foundation 2004 Survey of Employer Sponsored Health Plans



Cost Sharing of Premiums



■ Employer Single Premium ■ Employee Single Premium
■ Employer Family Premium ■ Employee Family Premium

Source: Bureau of Labor and Industries Data Center



What are employers doing to maintain health plans?

- 59% of employers are changing plan designs
 - ✓ 37% are increasing co-pays
 - ✓ 17% are increasing deductibles
 - ✓ 15% are increasing out-of-pocket maximums
 - ✓ 48% are introducing tiered copays for prescription and hospital and no copay for nonformulary Rx
- 25% of employers are replacing HMO's with PPO's
- 3% are going to consumer driven health plans (this expected to be 10% in 2 years)
- Increased competition by the providers



Short Term vs. Long Term Views

If you keep shifting costs to keep the employer costs manageable, you're very soon going to reach a point where it's unaffordable for the employees. Then it's as bad or worse than having no plan at all.

Shifting of these costs also does not help employees become better consumers of healthcare.



Involving Employees is Good Medicine

According to a Watson Wyatt 2002 survey, employers who involved their employees in the decision-making process to modify plan design, incurred a lower plan utilization rate than did those employers who arbitrarily “told the employees what the changes would be.”



What Matters Most to Employees

- Stability of coverage
- Comprehensive benefits in event of catastrophic claims
- Benefits are affordable
- Employees are not forced into changing providers when plan changes occur
- **Employees are given choice and decision-making capability in their own health care**



Modest Change is the Key

Introducing modest cost sharing can have the same effect as cutting out entire aspects of a benefit plan.



Cuts vs. Co-pays

- Eliminate pharmacy, prevention, hearing and vision, durable medical equipment and substance abuse/mental health benefits along with capping benefits at \$100,000/yr
- **21.5% decrease in premium**
- Increasing co-payments from \$15 in-network, to a \$250 deductible with 20% coinsurance
- **22.1% decrease in premiums**



Another Modest Change that Works

- Increase co-payments for prescription drugs and office visits but offset the added cost to the employee by seeding employee flexible spending accounts
- According to a study in the October, 2002 issue of Employee Benefit News, an employer saved 14% on premium by increasing co-payments. After seeding \$200 into each employee's FSA, to offset these higher employee costs, they still saved 8% in premium.



Enhancements with Voluntary Benefits

- Supplemental medical
- Prepaid legal
- Cancer & critical illness
- Long term care
- Employee Assistance (EAP)
- Supplemental life
- Short term disability
- Long term disability
- Personal accident
- Dental

The most popular benefits are those that supplement the high cost of medical expenses

Over half of the bankruptcies in 2004 were due to medical bills totaling, on average, \$14,000



Consumer Driven Health Plans

Health Reimbursement Arrangements

Health Savings Accounts



Health Reimbursement Arrangements

”Nobody spends somebody else’s money as carefully as they spend their own.”

--- Milton Friedman, Nobel prize-winning economist



Health Reimbursement Arrangements

*Health Reimbursement Arrangements allow an employer to put money into an account – **that can be rolled over year to year if it is not used** – to help employees pay for health care expenses. These accounts are in addition to a health plan, generally set up with a higher than normal deductible.*

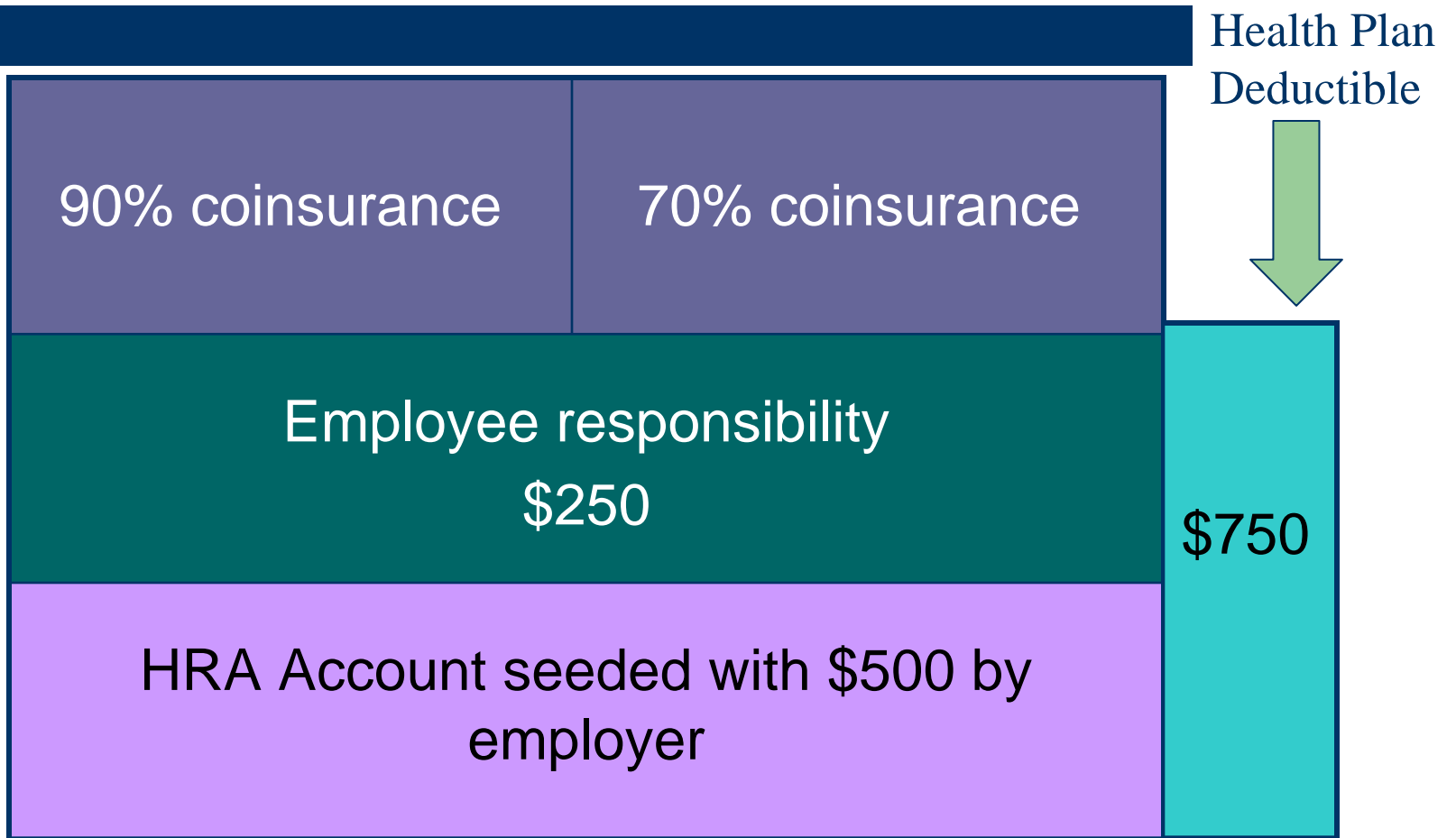


How it Works

- Employer provides seed money for HRA
- Employees use seed money to cover medical expenses first-dollar, if they choose
- If the entire HRA account is used, employee will be responsible to satisfy what is left of the plan deductible.
- If the entire account isn't used, the funds are rolled over into the next plan year
- Once the plan deductible is satisfied, the health plan then starts to pay the medical bills.



Visuals are easier...



Perceived Advantages to Employers

- A means to help employees make informed healthcare decisions
- A tool to address rising healthcare costs
- A benefit that will give employees the greater choices they want – flexibility and information to help in choosing providers and treatment options



Perceived Advantages for Employees

- First dollar coverage for expenses up to the amount contributed by the employer
- A broad range of providers and services (may cover services not covered by the health plan like lasik surgery, acupuncture, contacts, etc.)
- Tools to help make informed healthcare decisions
- Lower premiums and more predictable out-of-pocket maximums
- Roll-over feature if the funds aren't used in a year



Specifics of HRA's

- HRA's must hold only employer dollars
- It may be used to reimburse employees, former employees, retirees, and/or their tax dependents for medical care expenses defined under Code Section 213.
- HRA's may be offered in conjunction with FSA's, but no part of the HRA can be funded with pre-tax dollars.
- HRA's may not be "cashed-out", but retirees may use them for post-retirement medical expenses.



What if an Employee Leaves?

- If employees leave the company, plan design may require the funds are forfeited, or may allow continuing reimbursements.
- If an employee opts for COBRA, the employer must maintain that employee's HRA throughout the COBRA coverage period.



HRA's and FSA's together

- An employer can offer both an HRA and an FSA. The HRA is funded solely by the employer and the FSA is funded solely by the employee.
- The plan must designate if HRA funds are paid out first, or FSA funds. One account must be exhausted before the other is tapped.



Dealing with the “Use It or Lose It” Rule

Given that FSA’s continue to have the “use it or lose it” rule, it may be wise to require that FSA funds be utilized first, then HRA funds. This will allow for carry-forward of funds from year to year that can be used for future expenses, or taken out at retirement.

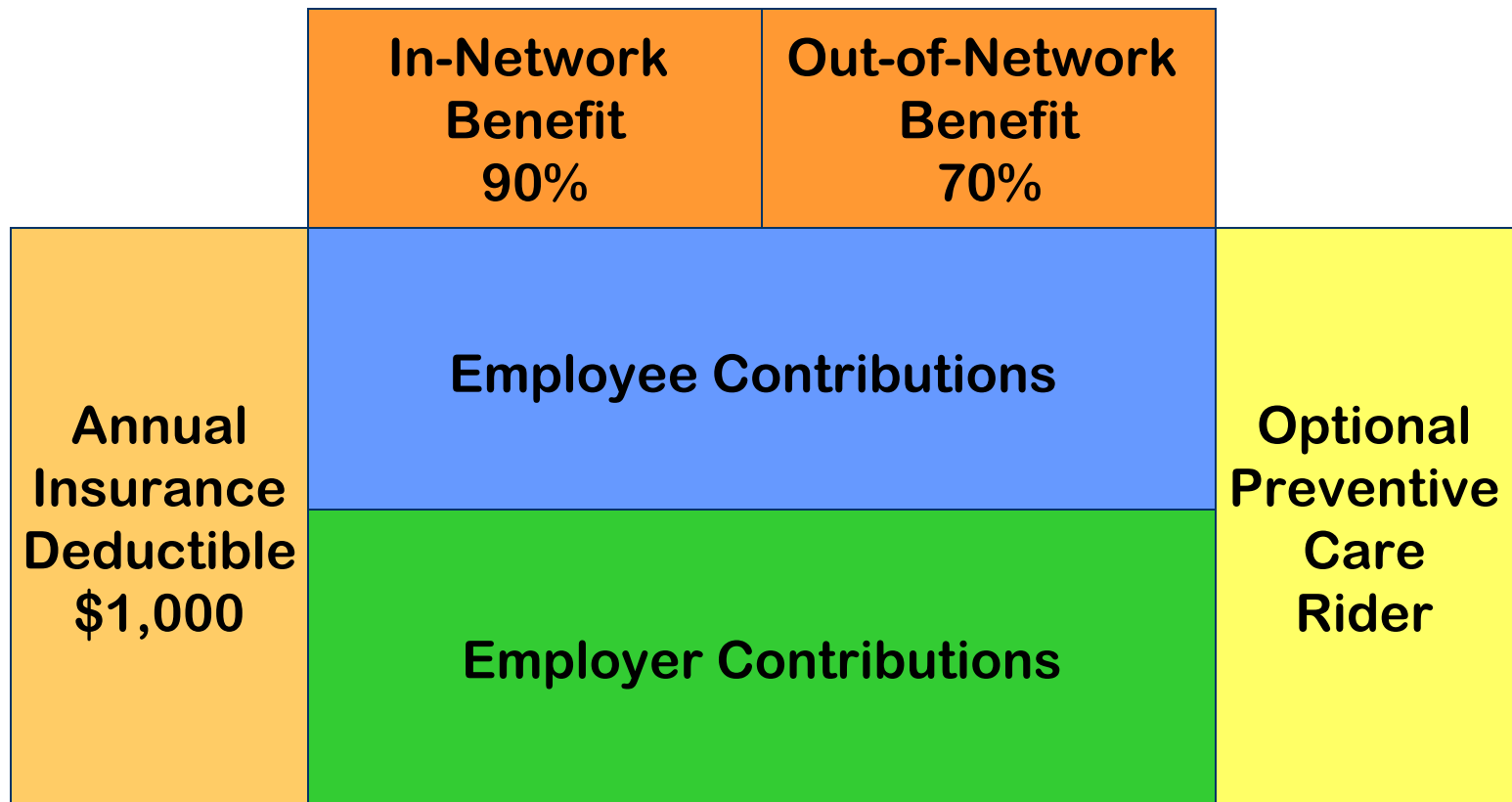


Health Savings Accounts

Similar to HRA's but with a new twist.....



Another Visual...HSA



HSA Highlights

- Tax free savings accounts used to pay for health expenses
- HSA's must be coupled with a **qualified** high deductible health plan
- Annual deductible must be at least \$1,000 per individual or \$2,000 per family
- Out of pocket maximums can't exceed \$5,000 for individuals and \$10,000 for families
- Can be employer-sponsored or individual coverage



HSA Highlights

- Individuals, employers or both can contribute up to deductible amount or \$2,650 for individuals and \$5,250 for families, whichever is less.
- Can be used for deductibles, co-payments prescriptions, and/or any eligible health expense that would be deemed deductible by IRS
- Unused money at the end of the year can be rolled into the next year tax-free
- HSAs are portable and can be used in retirement



HSA Highlights

- Double coverage is not allowed with an HSA
 - ✓ Specified disease, vision, dental, accident and disability coverage do not count as other coverage
- Medical reimbursement accounts through a flex plan are not allowed with an HSA
- If the deductible is \$1,000 for an individual, it will be \$2,000 for a family (possibly incurred by all one person)



HSA Highlights

- Office visit copays are not permitted
- Drug cards are not permitted
- Out of pocket maximums include deductibles and coinsurance
- Eligible person must not be entitled to Medicare



HSA Contributions

- Contributions by an employer are not taxable income to employee (income and FICA tax)
- Contributions by an employee are pre-tax (income and FICA tax)
- Individuals cannot take a deduction on their tax return for medical expenses paid through an HSA
- Interest and earnings on contributions are not taxable while in HSA



HSA Contributions

The contribution limit is calculated on a monthly basis – partial years will have partial contributions

- ✓ An employee opens an HSA account in January but buys a high deductible policy in June with a \$2,000 deductible, the maximum he can contribute to the policy is $\frac{1}{12}^{\text{th}}$ of \$2,000 for 7 months, or \$ 1,166.69.



HSA Distributions

- Balances remaining at the end of the year roll over tax-free
- Distributions can be made via debit card
- If a person becomes ineligible for an HSA, they can still use the funds for qualified medical expenses.
 - ✓ Including COBRA, LTC and Medicare premiums
- Amounts spent for non-qualified medical expenses will be taxed along with an additional 10% excise tax if spent before age 65.



Challenges to Consumer-Driven Healthcare Models

- Ready access to sources of health care to make informed health care decisions.
- High deductibles can cause employees to not seek care.
- Premium increases tend to be higher for HSAs (20%) than for traditional plans (12%)



Association Health Plans (AHP)

- Legislation before Congress to provide incentives for AHP's
- Associations must have a bona fide reason for incorporation other than for insurance purposes
- Insurance carriers must be willing to provide coverage
- For small employers (<26 ee) there will likely be no savings over a non-association plan.



Questions???

