

Benefit Insights

New Health Care Communications Strategies Needed for Effective Cost Control

In order to control rising health care costs, more employers have begun passing along cost hikes to employees, and are attempting to persuade employees to make smarter health care spending decisions. However, employees are beginning to resist calls for more cost-shifting, and already feel that they are effective health care consumers. This “disconnect” between employers and employees, as reported in a survey by human resources consultant Towers Perrin, indicates that if efforts to make employees true “partners” in cost control are to succeed, employers may need to make changes in their health care communications strategies.

The research, which included a survey of more than 1,000 employees and a companion survey of executives and managers at 120 U.S. companies, found that only about a quarter (28%) of employees thought that it would be appropriate for employers to ask them to absorb more health care cost increases. Nevertheless, in a similar survey conducted last year, almost half (46%) said that they would understand the need for the additional cost-shifting.

Why are employees resisting the idea of continued cost-shifting? According to the survey, many employees (more than a third) simply don't buy the premise that rising health care costs have implications for the success of their companies. Furthermore, only about a half (53%) said they believe what their employers communicate about rising health care costs.

As to health care consumerism, a large majority of the employees—82%—thought of themselves as good health care consumers. In contrast, only 36% of employers held this opinion of their employees.

Survey results indicate that different types of health care communication strategies are needed to fully enlist employees in cost containment efforts. For example, only about a quarter of the surveyed employers (28%) said that they communicate with employees about health care issues other than costs. Furthermore,

less than a third of the managers surveyed (31%) felt that their companies had sent clear messages about what employees need to do to be more effective health consumers.

The survey states that employees might be more open to changing their health care spending habits if they believed it was in their own interest—not only their employer's interest—to do so. For example, most employees indicated that they were open to initiatives that directly benefited them, such as plans that offered financial incentives for healthy behavior or confidential health risk assessments that identified an individual's health risks. In contrast to cost-shifting, the benefit of which employees saw as going only to the employer, initiatives such as these can positively impact employer costs and at the same time employees see them as being in their best interest, as well.



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Employees Are Finding HSAs Appealing, But More Education Is Needed

Consumer interest in health savings accounts (HSAs) is high, making HSAs prime for consideration as employers seek ways to better manage health care costs and encourage employees to become smarter users of the health care system.

The largest group insurance program in the world, the Federal Employees Health Benefits Program (FEHBP), will begin offering HSAs in 2005. In late-September, the Office of Personnel Management launched an HSA web site where federal employees could obtain information about the new HSA option. The day after the site launched, it logged more than 12,000 visitors; within 17 days, that number had grown to more than 44,000. More than a quarter of those visiting the site registered to receive email updates and further information on the HSA option.

Surveys of employees in the private sector also reflect high interest in HSAs. According to a survey by Cigna, when asked if they would be interested in a tax-free, interest-earning account in which they could invest for current or future health care expenses, more than two-thirds of the respondents said they were very interested or somewhat interested. Interest was highest among those ages 18-39 (71% very or somewhat interested), but even among those age 60 and older, the level of interest stood at 59%.

KRC Research conducted the survey for Cigna, with results based on responses from a sample of more than 800 employed individuals enrolled in health plans nationwide.

The features of HSAs that respondents found attractive (cited by eight in ten) included the tax-free growth of account earnings, year-to-year carryover, account portability, and use of accounts to pay for post-retirement medical expenses. More than half said they would find it appealing if the account included a debit card (57%) or checks (52%) that they could use to pay for their share

of health care expenses (rather than paying for costs such as co-payments out of pocket, and then filing a form for reimbursement).

Despite their interest in savings accounts for health care, the surveyed employees were less enthused about high deductible health plans (HDHPs). Under current law, only individuals covered under an HDHP—a plan with a minimum deductible of \$1,000 for individuals/\$2,000 for families and an out-of-pocket expense limit that does not exceed \$5,000 for individuals/\$10,000 for families (amounts are indexed)—may participate in an HSA. Almost half of the participants in the Cigna survey (48%) said they preferred to have a health care plan that costs more through payroll deductions or premiums but that has lower deductibles. A lesser percentage (35%) said they preferred the lower plan cost/higher deductible approach.

What might this data mean for employers that are considering an HSA/HDHP health plan offering? It probably means that employee education and choice will be keys to successful introduction of an HSA. Part of the theory behind HSAs is that employees will be more careful consumers of health care if more of their own dollars are at stake. However, being a smart consumer goes hand-in-hand with being a careful consumer. Many of the HSA products available today reflect this, and are offered in conjunction with health education tools and incentives for healthy behavior.

Since surveys indicate both employee receptivity to and uncertainty about HSAs, employers wanting to implement them might do so while continuing to offer other options. As employees become more familiar with and knowledgeable about HSAs, other options could be modified or reduced, if appropriate for employer and employee needs.

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considered to meet these criteria: money market funds, interest-bearing savings accounts, certificates of deposit, and stable value products.

- Fees and expenses. The IRA provider cannot charge costs and fees (e.g., set-up charges, maintenance fees, investment expenses, etc.) that exceed what it would charge for regular rollovers to IRAs.
- Information for employees. Employees must receive disclosures on the automatic rollover provisions, including how the rollover will be invested, associated fees/charges, and contact information. These disclosures can be included in the summary plan description (SPD) or in a summary of material modifications (SMM).

- Prohibited transactions. In relying on the safe harbor, the employer cannot engage in a prohibited transaction that involves selection of the IRA institution or investment product.

Plans that provide for mandatory cash-outs must be amended to provide for automatic rollovers. Additionally, employers will need to amend SPDs and/or issue SMMs. Furthermore, employers will need to select IRA providers and investment products. All this will involve costs (many of which are one-time costs), but according to the DOL, the guidance provided by the safe harbor will lessen the time required to select IRA providers, investment products, and fee structures, and thus reduce what the cost to employers would have been without the regulation.

Look Beyond Cost in Evaluating Health Plan Carriers

Although by some accounts health plan cost increases moderated in 2003, the hikes still were substantial, by any definition of the word. Mercer Human Resource Consulting reported an average 10% health plan cost increase, and projected this figure would rise to 13% for 2004. The Institute of Management and Administration, citing a survey by the Council of Insurance Agents and Brokers, reported 10%-20% price increases for group medical insurance premiums during the second half of 2003.

Premium increases such as these are higher than many businesses are willing to absorb. An employer must decide whether to scale back benefits, pass on all or part of the increase to employees, or seek a more cost-effective plan with a different carrier.

Many factors go into evaluating a potential carrier. (Cost may not be the only reason for an employer to consider changing health insurance carriers. Dissatisfaction with the current coverage offered, the carrier's customer service or claims payment record also can be reasons to shop around). If an employer does decide to explore carrier change, the following are among the issues to consider in evaluating potential options.

- How financially stable is the carrier? Is it licensed? Information on these important considerations should be available from insurance rating services (such as A.M. Best), or from state insurance commission websites.
- How does the carrier set premium rates? Will it issue coverage only if a certain percentage or number of the group enrolls? How is the premium cost allocated among claims, administrative fees/expenses, and commissions?
- Is the carrier's provider network adequate in terms of the range of providers and their locations? For employees, perhaps the most potential disruption caused by a new carrier involves having to change physicians or hospitals (or having to pay more to continue with a current provider). Will the new carrier's network require a substantial portion of employees to make a provider change?
- What is the carrier's reputation for efficient and accurate claims payment? Problems in this area ultimately will cost the employer at renewal time, and with employee satisfaction.
- How does the carrier define important contract provisions (covered employees, dependents, coordination-of-benefits, usual and customary)? What limitations, exclusions, and caps on services are imposed? Make sure contract provisions reflect the needs of the work force, and that the plan cost reflects extreme limitations.
- Will employees have a choice of plan options, such as with varying deductibles and copayments? Choice will increase employee satisfaction, and can result in cost savings, if high



deductible/copayment options are chosen.

- Are wellness programs and preventive screenings included in the plan? Inclusion of such services may result in cost savings down the road and in areas outside the health plan (decreased absenteeism/increased productivity).
- Does the carrier use technology to improve access to plan information? For example if employees can get answers to coverage questions and track the progress of claims electronically, they will make fewer calls to the carrier's customer service department and to the employer's human resources or benefits personnel, resulting in cost and time savings. (A related issue is: if the available technology does not address a particular issue, how easy is it to reach a real person?)
- Can the carrier articulate specific steps it has implemented to reduce waste, ensure appropriate care, and control costs? Some employers use "quality indicators" to judge the effectiveness of plans on these and other issues (e.g., members' access to specialists, screening rates for preventive procedures, how the plan responds to complaints, etc.). One set of quality indicators is HEDIS, developed by the National Committee for Quality Assurance, which can help health plan purchasers compare the performance of plans.



- Will the carrier provide references of customers in similar industries, of similar size, and in similar communities? This information will provide valuable insight into the carrier's reputation.

When evaluating potential carriers, remember that low cost does not always translate into best value. Weighing coverage and cost, along with considerations of reputation, financial stability, and responsiveness to employer and employee needs, are essential in choosing the right plan and carrier for a company.

Automatic Rollovers Take the Place of Mandatory Cash-Outs

Given the mobility of today's workforce, many employees who are covered under an employer-sponsored retirement plan leave employment long before retirement, and before they have accumulated any significant retirement benefit. Because of the administrative cost and hassle of maintaining such small accounts, employers have been permitted to cash out small balances, on a mandatory basis. Originally, the maximum amount that could be cashed out was \$3,500, but this threshold later was increased to \$5,000.

Legislation passed in 2001 created an automatic rollover provision for such small retirement benefit amounts. The effective date of this provision was delayed until the Department of Labor (DOL) issued final regulations on a "safe harbor," requirements that employers could follow to ensure that automatic rollovers would not trigger fiduciary liability concerns (such as for the investment chosen for the rollover). The DOL recently issued these regulations. As a result, beginning with mandatory cash-outs that would occur on or after March 28, 2005, an automatic rollover will be required for certain distributions.

According to the DOL, based on the estimated number of individuals who would receive a small cash-out from a retirement plan, the automatic rollover provision will preserve approximately \$270 million in retirement savings annually. Because cash-outs are taxed and rollovers are not, the provision creates approximately \$77 million in tax savings for the affected individuals.

The mandatory rollover provision applies to all qualified defined benefit or defined contribution retirement plans that use mandatory cash-outs. Such plans must be amended to provide

that these involuntary distributions will be automatically rolled over into a designated IRA, unless the participant makes an election to take the distribution in cash or to have it rolled over into another plan or IRA of his or her own choosing.

Six conditions must be followed in order for an automatic rollover to gain safe harbor protection:

- Amount of the distribution. If the present value of an employee's retirement benefit is \$5,000 or less, it can be automatically rolled over into an IRA, unless the employee directs otherwise. Larger amounts cannot be automatically rolled over without the employee's consent. Amounts attributable to previously rolled over sums are not counted in determining whether the \$5,000 ceiling has been reached, but previously rolled over sums can be part of the mandatory rollover.
- Rollover IRA. Automatic rollovers must be made to an IRA (or individual retirement annuity) maintained by a bank, insurance company, mutual fund company, or other financial institution able to offer IRAs. The employer and institution providing the IRA must enter into a written agreement that covers fees, investment vehicles, and other matters covered in the safe harbor, and that indicates that the institution meets and will continue to meet the safe harbor requirements.
- Kinds of investments. Mandatory rollovers must be invested in vehicles that preserve principal and provide for a reasonable rate of return. The rate need not be guaranteed. The safe harbor specifies that the following investments will be

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