

Benefit Insights

Recent Survey Shows Employees Value Health Insurance More Than Higher Salaries

A recent national survey by Stony Brook University, indicates that more Americans are willing to take a lower paying job offering health coverage than a job with a higher salary but no benefits.

The Health Pulse of America, conducted by Stony Brook's Center for Survey Research, shows just how important a role medical benefits play in the job selections people make today. After researchers conducted telephone surveys with 865 adults, they found not only are employees increasingly valuing comprehensive medical coverage, they are also wanting more vacation time from their employers. These are the two major findings of the SBU survey, which also addresses other work-related issues.

When asked if they had to choose between a job with health coverage and a lower salary, and a higher paying job that lacked health benefits, 71 percent would take the lower

salaried job with benefits, while only 24 percent would take the higher paying job with no coverage.

Even when asked to rate the two issues separately, the result was equally surprising: 73 percent rated good health care benefits as very important, while only 37 percent rated a higher salary as very important. Good retirement benefits and job security also ranked higher than salary, with 66 percent and 71 percent, respectively, rating these as very important.

Respondents are also overwhelmingly stressed out at work. More than 40 percent of those polled believe that increased paid vacation time would improve Americans' health. This perception is equally common among current workers and those out of the work force, and is especially pronounced among people aged 49 and younger. Nearly 50 percent of Americans polled believe that extended vacation time would not have a negative impact on the economy, and about one third believe it would help.

The survey also found that 50% of respondents with employer-sponsored health insurance have concerns that their employers will reduce their coverage next year, and 29% have concerns that they will lose their coverage; 50% of respondents said that they could not afford to purchase health insurance on the private market. However, respondents were "generally satisfied" with their current health insurance and other benefits, the survey found. About 60% of respondents with employer-sponsored health insurance said that they would prefer a raise over improved coverage in the next year.

The survey is available online at <http://ws.cc.stonybrook.edu/surveys/HPAAug03.htm>.



Welcome to Our Newsletter!

Seeing school buses should remind human resource professionals to review their dependent children eligibility definitions & full time student requirement. Children reaching a limiting age would be eligible for COBRA. Contact us if you have questions.

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Voluntary Benefits Can Be a Win-Win Situation for Both Employers and Employees

Attracting and retaining key, productive employees can often be a complex task. Setting your company apart from other companies, however, can help you strengthen employee loyalty and attract top talent. One way to distinguish your company from others is to offer your employees a well-rounded and comprehensive voluntary employee benefits package.

A voluntary benefit program is an effective way to provide employees with the benefits they want at little or no cost to the company. Research shows that employees want choices from among types of benefits due to their varying needs,



family status, finances, age, current coverage, or other circumstances.

Popular optional employee benefits include life insurance, accident coverage, short-term and long-term disability insurance, dental insurance, vision insurance, and long-term care and critical illness insurance. These products are made available to employees at a fraction of what the products would cost if purchased by the employees on an individual basis. Employees suffering from health problems may also be able to receive guaranteed issue benefits.

The key to meeting employees' needs is to make sure that the right mix of benefits is offered. It is important for an employer to administer a true assessment of employee demographics. Many companies often make the mistake of

offering too many concierge-style benefits in order to make their company look good. But in the end, that strategy just ends up being wasteful.

When considering a voluntary benefit program to offer employees, look for benefits that provide clear, compelling advantages to both your company and your employees alike. Employers should consider whether the voluntary benefit is cost effective, easy to implement, and satisfies employee needs. Consider these four factors when developing a benefits package:

- **Design** - An effective benefits package must be designed so that it is competitive, comprehensive, affordable, simple, and valuable given the employer's and employees' present circumstances.
- **Communication** - While the design of the benefits package is important, effective communication of the benefits is essential so that employees become aware of and enroll in the benefits program that is being offered.
- **Value** - In order to be appreciated, benefits must be of value to the employee. Instead of offering benefits that might be more trouble than they are worth, find out what employees really need.
- **Service** - Consider service before, during, and after enrollment. Employers must be able to administer the plans easily, and employees must be able to understand and use the benefits.

To make voluntary benefit programs even more appealing to employees, the Internal Revenue Service established a tax filing incentive called Section 125, commonly referred to as "cafeteria" or "POP" plans. Employees who participate in a 125 plan pay less FICA, federal, and state tax on the dollars routed through these plans. The employer also saves on the required FICA match.

By offering just the right voluntary benefits program, employers can expand their fringe benefits to attract top-notch employees without increasing overhead costs. In today's economy, it is essential for employers to offer employees maximum benefit options. If assembled with care and thought, a voluntary benefits package will result in a win-win situation for both the employer and employee.

Prescription Drug Plans Struggle to Combat Skyrocketing Costs

Drug spending has grown more quickly than other health spending. Price increases, higher utilization, and the use of newer, more expensive drugs all play a part in increasing drug spending.

In fact, a recent employer survey reported that health insurance premiums increased 12.7% from 2001 to 2002, the largest increase since 1990. Among the main culprits are pharmaceuticals, which have increased in cost more than 17% overall, and nearly 20% for private insurance, in the last year alone.

By offering health insurance that includes prescription drug coverage, group health insurance plans play a critical role in assuring access to needed medications. Not surprisingly, studies show that people with prescription coverage fill more prescriptions than people without coverage, and are also likely to have access to a broader array of medical treatments and therapies.

Although drug spending for beneficiaries with coverage is nearly two-thirds higher, those without coverage pay nearly twice as much out of pocket (\$463 versus \$253). On average, beneficiaries with coverage pay out-of-pocket for about one-third of their total spending on drugs.

Obviously, prescription coverage makes a particularly large difference in dollar terms for those in the poorest health. Among beneficiaries with chronic conditions, those with coverage had much higher total spending (\$1,402 versus \$944) and much lower out-of-pocket spending (\$412 versus \$944) than beneficiaries without coverage.

Most people who have medical insurance obtain drug coverage through the same source that provides their overall health insurance: most commonly an employer or union plan, private non-group coverage, or Medicaid. Nearly all employee plans include drug benefits for workers (although not necessarily retirees).

Until the 1980s, prescription drug coverage was not a distinct benefit, but was included in most conventional major medical plans. Coverage was subject to the same overall deductible for all medical services and to the coinsurance amounts (typically 20 percent) that applied to covered expenses. Two developments have led to changes in drug benefits.



The first is the widespread use of managed care plans, such as health maintenance organizations (HMOs), preferred provider organizations, and point of service plans, which now cover 89 percent of workers, although a smaller percentage of retirees. Managed care plans offer a distinct drug benefit: only about 10 percent impose a deductible, and a co-payment, for example, \$5 for generic drugs and \$10 for brand name drugs, is used in place of a coinsurance percentage.



The second is the growth of pharmacy benefits managers (PBMs). Most managed care plans now contract with PBMs to administer prescription benefits. In addition, many large employers have "carved out" prescription drug benefits from their general health plans and contract separately with a PBM. Unlike indemnity insurers, PBMs process and pay claims at the point of sale. They develop formularies (lists of preferred or approved drugs), negotiate discounts with manufacturers and retail pharmacies, encourage use of mail-order pharmacies, and take other steps to better control escalating drug costs. PBMs are not insurers and usually do not accept financial risk for the costs of services, although their contracts with managed care plans or employers may include some incentives for cost reduction.

For more than 10 years, and coinciding with the first time prescription costs began rising more rapidly than other health care costs (1990), employers have worked diligently with their insurers and pharmacy managers to develop prescription drug plans that could better control costs.

As a result, there has been a push toward multi-tiered pharmacy benefit plans, which are thought to better control escalating drug costs. Most employers now offer 2- or 3-tier prescription drug coverage plans, with the amount of out-of-pocket cost increasing from the bottom to top tiers. While these plans vary, in most the lowest tier includes low-cost generic drugs, the second tier including brand-name drugs for which no generic exists, and the third tier brand-name drugs for which generic substitutions do exist.

The rapidly escalating costs for drugs make ensuring adequate prescription drug coverage critical. The evidence in support of the need for drug coverage is compelling. Even if employers were to stop increasing out-of-pocket costs for drugs, costs for prescriptions would be high enough to force many patients to choose which prescriptions they can afford to have filled. Unfortunately, the current health care system provides little or no assistance for individuals facing such difficult decisions.

New Proposed COBRA Regulations Issued By the Department of Labor

Approximately seventeen years since COBRA became law, the Department of Labor (DOL) has issued a proposed regulation that provides updated guidance regarding the timing and content of COBRA notices and the establishment of new standards for administration. Issued in late May 2003, the proposed regulation includes two notice models, both of which, if adapted and used by employers, would constitute a “safe harbor” for compliance. With the new proposed regulation, the DOL is taking steps to clear up some of the confusion relating to the COBRA administration process for employers.

This regulation, if approved, will become final and effective for plan years starting on or after January 1, 2004. It is widely anticipated that there will be changes to certain details of the proposed regulation and model notices before it is finalized. It is not anticipated, however, that any of the changes will modify the major provisions of the proposed regulation.

Here are some of brief highlights of this proposed regulation:

1. A new Model General Notice of COBRA Continuation Coverage Rights and COBRA qualifying event notice which, if adapted and used by an employer “will be deemed to satisfy the notice content” of the regulation. Note, however, that use of these model notices is not required.
2. In addition to the four notices that have always been required, the new proposed regulation calls for two additional COBRA notices: a “notice of unavailability of COBRA coverage” and a “notice of termination of COBRA coverage.”
3. The new proposed regulation makes it clear that an employer is in compliance with COBRA if it furnishes the initial COBRA notice to the employee and spouse within 90 days after the employee becomes covered by the plan.
4. The new proposed regulation permits the initial COBRA Notice to be included in a summary plan description, and considers mailing of the SPD to the employee and spouse to constitute compliance with the COBRA delivery requirements.
5. The new proposed regulation requires plan administrators to establish reasonable procedures for COBRA beneficiaries to follow when providing notification of COBRA acceptance. Those procedures will be deemed reasonable if they are:
 - Described in the plan’s SPD
 - Specify the means by which qualified beneficiaries must give those notices, such as the use of specific forms
 - Specify the required content of that notice

It should be noted that this article only contains a brief synopsis of this proposed regulation. Until this regulation is finalized you should not make any changes to your current COBRA administration process.

While some employers may feel this proposed regulation will result in increased burdens, the reality is the new rules will clear up much of the confusion surrounding the COBRA process. Once this regulation becomes final, everyone will know exactly how to deal with COBRA notices and will have the comfort of using notices that constitute safe harbors.

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