

# Benefit Insights

Volume XI, Number 10

## ***Effective Employee Communication: A Must to Ensure Understanding of Health Insurance Rate Changes***

Ensuring employee understanding of benefit plan changes and rate changes can be difficult, at best. When working to inform your employees of changes in their benefit packages - be it coverage changes, rate increases, or just additional information regarding their benefits - experts advise keeping communications simple, straightforward, and focused.

Start by scheduling a mandatory employee meeting, or series of meetings. Accurately and completely convey the necessary information, then follow-up all meetings with a handout of matching written materials that serve to reiterate the pertinent information discussed in the meeting.

Invite the experts. Employees like the opportunity to meet the company health insurance representative or 401(k) provider. When benefits change, call in the people responsible for the change and give them the chance to meet and talk to your employees. More often than not, they will have better, more informed answers for your employees, as this is their job. Just as important, it takes you out of the hot seat.

Also, provide a single person or point of contact for employees to go to with questions and concerns after the meetings. Your best option may be to have all personal communications directed to your agent/broker or insurance company representative. Many employees do not feel comfortable discussing their personal situations with other company employees. Therefore, providing them with a single contact person outside of the company will effectively alleviate much unnecessary employee concern and help you as the employer adhere to the recently enacted HIPAA privacy laws. Remember that you never want to receive Protected Health Information (PHI) from your employees.

Keep meetings friendly and informative. This is not the place for confrontation. The atmosphere should be somewhat casual, with a comfortable business tone. Take the time to open the meeting with news that serves to heighten employee



awareness by engaging in friendly communication that accurately conveys the investment you make in your employees and your employee programs. Let them know you care and be honest about what prompted these benefit changes.

Aside from handouts that serve to reiterate the meeting discussions, have copies of any necessary booklets, pamphlets, and worksheets for all employees. Be prepared. This is not the time to ask employees to share information. Doing so will only serve to heighten employee anxiety about any changes being discussed.

Perhaps the most important thing to remember is to treat your employees like you would want to be treated. Be honest, open, and willing to take the time necessary to explain adequately the changes to them. Be prepared to have even your best efforts met with frustration and concern. This is to be expected and can be kept at a minimum by keeping communications simple, straightforward, and focused.

### ***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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## Health Reimbursement Arrangements (HRAs) - New Era of Health Insurance?



ers. While HRAs have been around for some time, laws regarding the proper tax treatment of these plans have limited their use.

Using HRAs, employers would purchase basic medical coverage for employees, usually with a high deductible. Employees would be able to share in the cost of the coverage as they do now. To offset the impact of the deductible, employers deposit money into an account the employee can use for routine medical bills, prescriptions, and other substantiated health expenses. Any reimbursements made to the employee would be tax-free. Once these funds are spent, the employee would then incur out-of-pocket expenses until the deductible is met. Any funds remaining at the end of the year would carryover for use in future years.

Proponents of consumer driven health care believe subjecting consumers to the actual cost of medical care will sharpen their purchase decisions of health and pharmacy services. Once patients begin to control the payment for services, they will be more inclined to shop and inquire about the cost of care. Furthermore, consumers will tend to educate themselves more under these programs, which lead to improved quality of care and increased patient satisfaction.

Even with the advantages of HRAs, critics of consumer driven plans argue they discriminate against unhealthy and older employees. Depending on the actual plan design, this may be true to some extent. However, the flexibility of these plans offers employers the ability to structure plans with out-of-pocket costs substantially similar to those of traditional health insurance plans. Unlike Medical Savings Accounts, or MSAs, there are no stringent plan requirements with HRAs.

With most employers looking for answers to spiraling health insurance costs, new regulations impacting health reimbursement arrangements, or HRAs, could not have come at a more opportune time. On June 26, 2002, the IRS and Treasury Department both issued guidance clarifying the tax treatment of HRAs maintained by some employ-

Another question concerning HRAs is whether they will be able to manage costs any more effectively than the HMOs of the early 90's. These two concepts could not be more different. The future of HRAs bank on consumer responsibility, while HMOs controlled costs for a short time by driving down physician and facility fees. One can rest assured that HRAs will not slow down medical inflation, as technology advances and drug development will continue to increase costs. However, a nation full of fiscally smart consumers should allow employers to continue subsidizing the cost of healthcare for employees for many years to come.

### **Here are a few items to note:**

1. HRAs are available for all sizes of companies and concerns.
2. HRAs can reimburse only substantiated medical expenses.
3. Only employer dollars can be used to fund the HRA; however, Flexible Spending Accounts can still be used for employee savings.
4. Employers can require FSAs to be exhausted before HRA funds are accessible.
5. No cash outs or similar arrangements are permitted for terminated or retired employees.
6. HRAs are group plans subject to COBRA continuation laws.



While consumer driven medical plans have been attracting quite a bit of attention, their use has been fairly limited, due at least in part to tax uncertainties. With these worries now for the most part diminished, employers should begin examining these plans a little closer in coming years. The timing is certainly right for a shift to a consumer driven healthcare system.

## ***HIPAA Regulations Must Be Understood By Employers Too!***

Despite increased discussion concerning the regulations of the Health Insurance Portability and Accountability Act (HIPAA), there is still much confusion among employers about what HIPAA is and how it affects their businesses.

***The HIPAA's administrative simplification provision covers three key categories of requirements:***

- Transactions standards, which mandate that health-care claims and related transactions be processed using standard format and content;
- Privacy provisions, which require elaborate policies, procedures, and systems with respect to maintenance and release of protected health information (PHI); and
- Security requirements, which protect confidential information.

HIPAA regulations cover employer sponsored health plans, health care providers, and clearinghouses. These regulations have a major impact on employers who provide their employees with health care benefits.

### ***Employer Health Plans as Covered Entities***

HIPAA regulations provide certain definitions of what constitutes a covered entity. A covered entity maintains and transmits individually identifiable health information for the purpose of providing medical care, administering claims, etc. Employers themselves, by definition, are not considered covered entities. An employer health plan, however, meets the definition of a covered entity and is subject to any applicable HIPAA requirements. The definition of employer health plans includes medical, visual, dental, and employee assistance programs.

The level of compliance needed for employer health plans depends on its administration and whether the plan is fully insured or self-insured. Employers with self-insured plans generally have easier access to PHI and are, therefore, subjected to more privacy regulations.

Privacy regulations for large plans became a requirement on April 14, 2003. Large plans are characterized as having at least \$5 million in yearly health care premiums, as well as plans that cover companies that are self-insured and pay \$5 million worth of claims annually. Companies with annual health care premiums of less than \$5 million or self-funded claims of less than \$5 million have until April 14, 2004, to comply with the new privacy standards.

Because of HIPAA, all employers offering health benefits will see changes in the way they interact with health care providers and health plans. Employers will surely be asked by these covered entities to provide assurances that health data is protected and that the employer will cooperate with the covered entity in meeting HIPAA requirements. Employees will have a greater role in dealing with claims issues, since third parties will generally not have access to PHI without a signed authorization.

Under HIPAA, companies are required to tighten access to individually identifiable employee health data, restricting the number of people who have access to the information and

the ways it may be viewed. Policies, procedures, and systems to address appropriate uses and disclosures of protected health information have to be developed. In other words, unauthorized employees should not have access to protected health information.

Companies must designate a privacy official and contact person for violation-of-privacy complaints. Companies must also train employees to handle the information and add safeguards such as a computer firewall, filing cabinets, and doors with locks for areas containing private medical information. In addition, businesses must obtain signed agreements from health care benefits providers and policy administrators regarding the limits of usage and disclosure of protected health information. Some companies hire outside consultants to help them with HIPAA compliance, while others handle it in-house or use a combination of both.

Finally, one of the more difficult issues facing employers is the delicate balance that must be maintained between HIPAA's privacy rules and the employer's need for health information to insure compliance with health status employment laws such as COBRA, FMLA, ADA, Workers' Compensation, and OSHA. Many of these laws require the employer to take affirmative steps in response to an employee's medical condition. HIPAA, however, prohibits an employer from using health information for employment determinations unless the employee consents.

Those employers with fully insured health plans could avoid most of the privacy requirements if the employer elects to have absolutely no access at any time to PHI, other than de-identified summary health information. This also means that such employers with group health plans, which require individual employee health statements to be completed as part of the enrollment process, must receive such completed employee health statements in sealed form, so that the employer cannot see, read, or copy the PHI on employee health statements.

Such employers (who advise their insurance companies that they have elected not to receive any PHI) would also be prohibited from assisting employees with any claims or medical pre-authorization problems. Employees would need to deal directly with their health insurance company or with their employer's benefits agent/broker.

With these HIPAA regulations comes a whole new set of responsibilities for employers. While these new requirements will take some getting used to, they are not unlike other regulations that have come into effect in recent years. Once employers have adjusted to the systems and policies, the original goals of HIPAA will become more evident.



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## Employee Cost Sharing on the Rise

According to a recent study from Hewitt Associates, employers can expect the sixth straight year of double-digit healthcare premium increases in 2003, with average increases expected to be 14 to 16 percent. As insurance costs continue to rise, employers are faced with having to pass these increases on to their employees. This trend has been evolving over the past several years. While new ways to distribute the increase in healthcare spending continue to be explored, Hewitt predicts that most employers will pass along at least 25 to 30 percent of this year's increase to their employees.

As in past years, pharmacy and hospital costs have caused the greatest spending increase, making them the main target of cost shifting. Already both large and small employers have rolled out tiered pharmacy plans and provider networks. While tiered plans continue to increase in popularity, the most common trend for cost sharing in 2003 will affect employees' core medical benefits. The "2003 Benefit Manager Survey," conducted by Credit Suisse First Boston, predicts that the biggest benefit design change this year will be increased co-pays and deductibles for physician visits and hospital admissions. According to the survey, thirty-three percent of employers with HMO or POS plans expect to significantly boost co-pays and deductibles for these services.

Cost sharing also occurs in the form of increased employee payroll deductions. Many employers find it more



effective for employees to pay the increases out of their own pockets, encouraging them to become more cost-efficient decision-makers in their health care spending. Employees must become educated about the responsibilities and consequences of their choices, and what's right for them both medically and financially.

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