

Benefit Insights

With Overall Member Satisfaction High, Outlook for Consumer-Directed Health Plans Signals Growth

According to research from the Blue Cross Blue Shield Association (BCBSA) individuals enrolled in high-deductible health plans (HDHPs) with a health savings account (HSA) component are more actively involved with their health care and more satisfied with various aspects of their coverage than individuals in traditional plans. The data was collected in an online survey of enrollees in consumer-directed and traditional health plans.

The consumer directed health plan (CDHP) enrollees represented all age groups and their overall self-reported health status did not differ from that of enrollees in traditional plans. However, members of the CDHP group were more likely to seek out information and use health-support services:

- 33% of CDHP enrollees sought information on prescription drug costs (compared with 18% of enrollees in traditional plans);
- 27% used wellness programs (9%);
- 20% sought information on the cost of doctor's office visits (14%);
- 18% used a nurse hot line (8%); and
- 15% used online cost-tracking tools (3%).

Overall, the two groups displayed similar utilization of many health care services. For example, 41% of CDHP enrollees asked for a generic brand when needing a prescription, compared with 40% of enrollees in a non-CDHP plan; 22% of the CDHP group delayed seeing a doctor or having a medical procedure (25% non-CDHP); and 18% of enrollees in both groups delayed filling or decided not to fill a prescription that had been written for them.

The CDHP enrollees also expressed greater satisfaction levels with various aspects of their plan:

- 68% of HSA-eligible enrollees were satisfied with the overall

performance of their insurer (compared with 56% of non-CDHP enrollees);

- 71% were satisfied with their access to preventive care and wellness services (57%);
- 69% were satisfied with the health benefits information they received from their plan (55%); and
- 67% were satisfied with the responsiveness of their plan's customer service (55%).

Overall, 61% of the CDHP group said they were likely or very likely to recommend their plan to others, compared to 47% of the traditional plan enrollees.

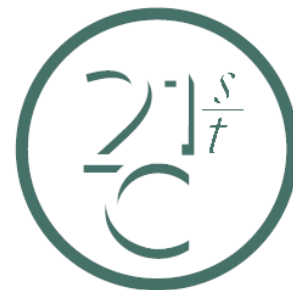
Of the survey respondents who were CDHP enrollees, 12% had been uninsured in the previous year, compared with 6% of traditional plan enrollees.

Data such as this can help to dispel certain misconceptions that CDHP plans attract mainly young and healthy participants and that participants may delay or avoid seeking necessary health care services. These results, along with enrollees' expressed satisfaction levels, may lead more individuals and employers to consider the CDHP as a health plan option.

In addition, data from other sources does indicate that this, indeed, is happening. An ongoing census by America's Health Insurance Plans of its member companies—health insurers—found that the number of people covered by HSAs/HDHPs exceeded 1 million (1,031,000) in March 2005, and had more than doubled over a six month period. Kaiser Family Foundation's 2005 Annual Employer Health Benefits Survey found that 20% of the surveyed employers that offered health insurance provided a HDHP option. Also, a separate survey by Mellon Human Resources and Investor Solutions found that while 7% of its surveyed group (primarily large employers) offered HSAs in 2005, 32% planned to offer this health plan option in 2006.

Welcome to Our Newsletter!

It is with great satisfaction that we bring this newsletter to you. In this issue and in coming months, we will discuss pertinent employee benefit topics which may affect your organization. We sincerely hope that you will find this newsletter informative and please do not hesitate to contact us at advisor@21stcenturybenefit.com or 781-416-1043 should you have any questions or needs.





Don't Let Benefits Issues Get in the Way of a Successful M&A Deal

Business considerations, and perhaps personal ones, guide an owner's decision to sell a company or to expand operations through a merger or acquisition. Consequently, issues involving employee benefits plans are sometimes overlooked until well after the deal negotiations are underway. Delays in recognizing the importance of employee benefits issues to a merger or acquisition can increase the complexities of the transaction and/or create obstacles to its completion.

Benefits plan-related issues can impact merger/acquisition negotiations in a number of ways. Benefits plans can be a source of large liabilities (such as an under funded pension plan) or legal obligations (e.g., COBRA). And, as a crucial factor in employees' compensation, mistakes or misunderstandings involving how benefits obligations will be handled can have severe employee relations' repercussions. Therefore, taking steps to understand and make provisions for how the benefits plans of affected employees will be handled is crucial to the business transaction.

Any business owner entering merger/acquisition negotiations will need a thorough understanding of the affected employee benefits plans in order to assess the financial significance these plans bring to the transaction. For example, what is the funding status of any pension plan? Who will take responsibility for the COBRA coverage of employees terminated from the seller? Will the health insurer continue coverage for employees affected by the transaction? If health insurance coverage is self-funded, what is the extent of outstanding claims and potential liabilities? Which party will be responsible for any severance pay, accumulated vacation time or paid time off? Unforeseen liabilities associated with issues

such as these can result in unwelcome surprises if discovered well into business negotiations.

Involving human resources and benefits personnel at the early stages of the business transaction can be one of the most important keys to avoiding problems. HR and benefits executives and staff are the individuals in a company with the best knowledge of the employee benefits plans. Furthermore, they understand the business strategy supporting the plans; how the plans fit into the company's philosophy; compliance issues the plans create; and plan provisions and/or vendor-related issues that may be implicated in a merger/acquisition transaction.

HR involvement also is vital insofar as the role these individuals play in communicating M&A-related benefits issues to affected employees. Business transitions are a time when employees will be concerned about the potential for job loss or other changes in the status quo. Invariably, this becomes a time of stress for employees, with the potential for lower productivity, higher absenteeism and increased medical and disability claims. HR's ability to answer questions, address rumors and clarify misconceptions will help keep these types of problems to a minimum.

Overall, employee benefits plans can present a myriad of complex, challenging issues in an M&A transaction. If dealt with upfront, early in the deal, the chances of these issues having a negative impact on the transaction are minimized. Involving HR staff in the beginning, and working with the services of business professionals savvy in M&A issues, also helps to ensure that employee benefits plan-related issues do not get in the way of a successful business deal.

Attract and Retain Valuable Employees with Group Long-Term Care Insurance

As our population ages and becomes more aware of the escalating costs associated with long-term care, demand is increasing for innovative solutions to these issues. Forward thinking employers are searching for flexible ways to meet the needs of their employees and their dependents, and to provide financial protection for the catastrophic effects of long-term care.

Offering group long-term care insurance programs for employees is rapidly gaining popularity as a new addition to employee benefit plans. Long-term care insurance products for your employees are available through highly rated insurers at a reasonable cost to employers.

What are the employer benefits of offering group long-term care insurance?

- Builds morale and loyalty among workers. Employers are finding that sponsoring a group long-term care insurance plan shows concern for the welfare of their employees and their dependents.
- Enhances the attractiveness of your company as an employer and helps you to retain your most qualified, highly skilled employees.

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Communications Improve Employee Perception of Benefits Package Value

At most companies, employee benefits represent a significant portion of an employee's overall compensation. According to the Bureau of Labor Statistics, employee benefits' costs account for almost 30 percent of an employee's total compensation. Yet this significant outlay often gets overlooked, or undervalued, by employees. For example, according to data from MetLife, 28% of surveyed full-time employees thought their employer's contribution toward health insurance was less than \$1,000 per employee annually, and almost half—49 percent—put this figure at less than \$2,000. This perception significantly underestimates what is likely to be an employer's actual contribution.

The average annual employer contribution for health coverage during 2004 was \$3,137 for individual coverage and \$7,289 for family coverage, according to the Kaiser Family Foundation and Health Research and Educational Trust 2004 Employer Health Benefits survey. According to the Bureau of Labor Statistics March 2005 National Compensation Survey, employees pay only 18 percent of the health care plan premium for single coverage and 31 percent of the premium for family coverage, with employers covering the rest of the cost.

Effective communications can go a long way toward bridging this gap between perception and reality. Too often, employee benefits' communications are limited to the annual enrollment period, when most employees' focus will be on what their benefits are costing them, and not on what their employer contributes to the total benefits package. Furthermore, research from MetLife shows that the amount of time most employees take to make decisions about their

benefits is small, 57 percent spend only 30 minutes or less, with the average running just over one hour.

Employee benefits' communications should continually reinforce the value of the benefits package. In addition to the significant contribution most companies make toward health insurance, there are other items such as employer contributions to a pension plan or profit sharing plan or matches to a 401(k) plan; employer premium contributions toward other health and welfare benefits (e.g., life, disability, dental insurance); savings employees realize through purchasing any voluntary benefits at a group rate; the salary—in dollars—represented by paid vacation days; and employer contributions to mandatory benefits, such as Social Security and Medicare.

Beyond annual enrollment, communications should use a variety of media throughout the year to explain the value of the benefits package. This might include an annual total compensation statement that shows the employer's actual outlay—in salary and benefits—for the employee; "Did you know?" emails, placards and posters, each highlighting the actual cost of, and employer contribution, toward a specific benefit; and items in newsletters discussing benefits cost issues in understandable terms.

A company's employee benefits package is important—not only because of the cost the employer incurs in offering it, but insofar as the role it plays in recruitment and retention efforts. Effective year-round communications help ensure that the investment the employer has made in the benefits package produces the highest return in terms of employee recognition, and understanding of the true value of their total compensation.



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- Encourages employees to focus on financial and retirement planning.
- Eases the burden on employees who act as caregivers for spouses or parents, resulting in increased productivity and decreased absenteeism.

What should employers consider before offering coverage to employees?

Employers interested in offering long-term care policies should educate their employees on the benefits of the insurance and then determine how much interest their employees have in an employer-sponsored policy.

Next, employers should decide whether to offer coverage without paying any portion of the premium or to make a contribution toward the premium. Some employers pay for their workers' base policy and offer them the option to "buy up" to a more comprehensive policy. Any employer contributions towards the premium for qualified long-term care insurance for the employee, his or her spouse, and his or her dependents are excluded from an employee's gross income and tax deductible for the employer.

If you are interested in learning more, America's Health Insurance Plans (AHIP) offers a free guide for employers, "An Employer's Guide to Long-Term Care Insurance" at its website www.ahip.org.

Living a Long, Healthy Retirement

Americans are living longer than ever. The average life expectancy rate for Americans is now 77.4, up from 49 in 1901 and, if scientists are right, life expectancy will continue to increase all the way to 85 by the year 2182. Even so more important than how long you live is the quality of your life.

Many seniors are discovering that by following a few healthy guidelines, they'll live longer and happier. Isn't that the whole point of retirement? Even if you never followed a healthy regimen at any point in your life, it's never too late to start.

One of the best tips for wellness is to stop smoking and avoid second-hand smoke. If you smoke, quit. Even if you've smoked all of your life, your body will begin to heal itself as soon as you stop. After one smoke-free year, your risk of heart disease is cut in half.

A healthy diet is another way to live longer, healthier lives according to the American Heart Association. The AHA recommends eating a variety of fruits, vegetables, and grain products, including whole grains. They also suggest fat-free and low-fat milk products, fish, legumes (beans), skinless poultry and lean meats; and to limit fats and oils to liquid and tub margarines, canola oil and olive oil.

Coffee and tea are great if you're having a couple of cups a day, but if you always have a pot on, then you may be increasing your risk of serious illness. Too many caffeinated

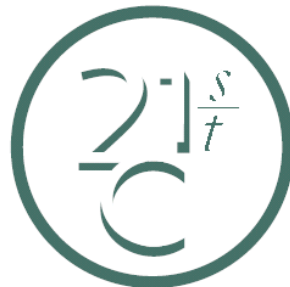
beverages can disturb your sleep patterns and put additional strain on your kidneys.

A martini at the end of the day or a glass of wine with dinner may actually improve your health, and maybe your mood, as well. But be very careful with alcohol as its effects are felt in greater intensity as you get older. More than a few is too many for any age group.

Most of us have discovered moderation as we head into our retirement years, but regular exercise may be something that is a dim memory of our youth. According to researchers at the Stanford University School of Medicine, even people who start exercising later in life appear to gain many of the same health benefits as those who've exercised their whole lives.

So, you get all the gain for just a little pain. Not only will regular exercise help you stay trim and fit, but scientists have made a direct link to exercise and managing and controlling the symptoms of fibromyalgia, diabetes, asthma and helping to offset the unpleasant side effects of cancer treatment.

For older Americans, exercise can be particularly helpful in dealing with arthritis, the conditioning of heart and lungs, increasing muscle mass, and even more importantly, muscle strength. These benefits can translate into improved ability to carry out functions of daily living such as climbing stairs, shopping, carrying packages, etc.



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