Volume 2, Number 1

# Benefit Insights

## Health and Productivity Practices Have Payback for Business

If long-term cost management is the goal, measures that shift a portion of current health care costs to employees seem to fall short. Though increasing employee cost sharing through adjustments in premiums, copayments and coinsurance can bring an employer a temporary respite from steep health plan cost increases, more employers are looking for a long-term strategy, and eyeing health and productivity initiatives as part of the solution.

This long-term view recognizes that the true cost of benefits programs, including health care, consists of more than the out-of-pocket benefits payments alone. Though perhaps hard to quantify, the lost productivity resulting from employee health issues—whether the employee is absent or not—are very real. Research from the Integrated Benefits Institute added calculations of lost productivity to medical benefits payments to estimate that, of the whole, 71% is lost productivity from absence, 19% is workers' compensation and group health medical payments, and 10% is wage replacement.

When viewed this way, it's apparent that an approach that focuses on the cost of health benefits alone, and attempts to lower these costs through reducing or discouraging utilization, can be shortsighted. A longer-term view sees appropriate, timely medical treatment as an investment in employee health, and seeks to implement programs and initiatives designed to help workers remain healthy and productive.

According to the 2005/2006 Staying@Work Survey from Watson Wyatt and the National Business Group on Health, 41% of surveyed employers already incorporate health and productivity initiatives into their overall health care planning, and 32% planned to do so within the coming year. Data from the survey revealed some of the most common health and productivity practices—

| Practice | Offered in 2005/2006 | Offered in 2003 |
|---|---|---|
| Employee Assistance Program | 94% | 88% |
| Return-to-Work Program | 81% | 56% |
| Health Promotion Program | 75% | 56% |
| Health Risk Appraisals | 72% | N/A |
| Work/Family Balance | 71% | 44% |
| Paid Time Off Banks | 40% | 36% |
| Personal Health Coach | 40% | N/A |

Employers that implemented a greater number of health and productivity practices were better able to achieve the desired outcomes. For example, 57% of the companies with 20 or more health and productivity practices reported a better employee understanding of health improvement, compared with 9% of the companies that had fewer than 10 practices in place. Also, employers with 20 or more practices in place were twice as likely to say that this strategy had worked to increase employee satisfaction with the benefits program.

Importantly, employers that took a broad view of how different benefits worked together by integrating various programs reported reduced lost time, improved health and lower costs. A separate survey from the Integrated Benefits Institute found that, over the next five years, 85% of employers want to link health and group medical data to employee absence, disability, lost productivity and company financial performance.

Health and productivity initiatives complement the consumer-directed health care model, which increasingly is making its way into employee benefits programs. With employees being asked to assume a greater responsibility for health care decisions, now is an opportune time to consider health and productivity initiatives.

## 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.

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## *Employers Must Provide Electronic Medicare Part D Disclosure Notice to CMS*

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 added a new prescription drug program to Medicare. Medicare Part D is a voluntary program that provides outpatient prescription drug coverage to eligible individuals. Because some individuals who are eligible for Part D also might be eligible for prescription drug coverage from another source—such as an employer-sponsored health plan—these individuals are entitled to receive a Notice of Creditable Coverage (or, if appropriate, Notice of Non-Creditable Coverage), which explains how this other coverage compares to Medicare Part D. Drug coverage is “creditable” if its actuarial value is at least as great as the actuarial value of the standard Part D coverage. This information is important because individuals who decline Medicare Part D when first eligible are assessed a penalty if they later decide to enroll, unless they have had creditable coverage in the meantime.

In addition to providing the appropriate notice to individuals who are eligible for Medicare Part D, affected employers must disclose to the Centers for Medicare and Medicaid Services (CMS) whether the prescription drug coverage they provide is creditable. Disclosure is provided through an electronic Disclosure Notice form that is available on the CMS Web site (http://www.cms.hhs.gov/apps/ccdisclosure/default.asp). This electronic form is the only option for providing the required notice.

Most employers—even those that do not offer any type of prescription drug coverage to retirees—are affected by the Disclosure Notice requirement, because it is required if the employer plan provides prescription drug coverage to any Medicare-eligible individuals (for example, active employees over age 65 and spouses or other dependents who are Medicare-eligible for any reason, including age, disability or end-stage renal disease). Disclosure is required whether an employer plan is primary or secondary to Medicare.

Employers that contract with a Part D plan to provide prescription drug coverage (or that contract directly with Medicare as a Part D plan) are exempt from the disclosure requirement. Also, an employer that does provide prescription drug coverage to retirees, and that has been approved for the Retiree Drug Subsidy, does not need to file the Disclosure Notice with CMS with respect to the retirees for whom the employer is claiming the subsidy.

The Disclosure Notice must be submitted to CMS annually. The initial Disclosure Notice must be provided by March 31, 2006, for plan years that end in 2006. For 2007 and later plan years, disclosure must be provided within 60 days after the beginning of the plan year. Also, a Disclosure Notice must be submitted within 30 days after a prescription drug plan’s termination, and within 30 days after any changes that affect the creditable coverage status of the plan.

Generally, an employer will be required to submit only one disclosure form. Though prescription drug coverage may be provided under different benefits options (HMO, PPO, etc.), separate Disclosure Notices are not required for each option (but the form does ask for the number of different options).

The information required by the Disclosure Notice includes the following—

- Identifying information about the entity filling out the form, including employer name, EIN, address and telephone number.
- Period of time covered by the Disclosure Notice (i.e., the beginning and ending calendar dates of the “plan year” covered in the Notice, which CMS defines as the beginning and ending dates of the employer’s annual renewal or contract period).
- Number of benefits options offered to Medicare-eligible individuals.
- Creditable coverage status of the benefits options offered.
- Estimated number of Medicare Part D eligible individuals who are expected to be covered under the benefits options as of the beginning of the plan year, and an estimated number of the individuals expected to be covered under a retiree health plan.
- Latest date on which the Notice of Creditable Coverage (or Notice of Non-Creditable Coverage) was provided to eligible individuals.

The CMS Web site (www.cms.hhs.gov/creditablecoverage) provides guidance on this and other questions about Medicare Part D. Contact us for additional information.

### *continued from page 4...**Take Steps to Spot Compliance Issues Before They Cause Problems for You and Your Benefit Plans*

If the IRS does audit a plan, noncompliance errors that have been corrected either through the self-correction program or the voluntary correction program will not be treated as continuing issues. Certain other noncompliance issues uncovered during an audit may be corrected at that time, though the fees and penalties imposed will be greater than if the errors had been caught and corrected at an earlier time.

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*“Information contained in this newsletter about product offerings, services, or benefits is illustrative and general in description, and is not intended to be relied on as complete information. While every attempt is made to ensure the accuracy of the information provided, we do not warranty the accuracy of the information. Therefore, information should be relied upon only when coordinated with professional tax and legal advice.”*

# Both Employers and Employees Gain from Voluntary Benefits

With the cost of benefits increasing—for both employers and employees—voluntary benefits are gaining appeal, in large part because they offer advantages and opportunities to employers and employee alike.

Voluntary benefits are programs which, though offered through the workplace, are paid for completely by employees. A broad range of benefits can fall under the voluntary benefits umbrella, and the list is growing all the time: dental, vision, hearing, legal, disability buy-up, long-term care, supplemental life, supplemental AD&D, universal life, group auto, group homeowner's, supplemental medical policies, and veterinary pet insurance are among current popular voluntary benefits offerings.

### Employers gain a number of advantages in bringing a selection of voluntary benefits into their workplace:

- Voluntary benefits can be offered at little or no cost to the employer. Typically, the employee pays the entire premium and, though the employer might handle administrative costs, this should—with the right vendor—simply entail setting up the payroll deduction.
- Voluntary benefits enable a small employer with a limited benefits budget to offer access to a wider range of benefits, thus making it more competitive among its industry peers as an employer-of-choice.
- Offering a wider range of benefits likely will increase employee satisfaction and boost morale. It sends the message that the employer cares about individual employee needs and is willing to do the legwork in securing access to the types of benefits that meet these needs.
- Similarly, by making the employer a more attractive place to work, voluntary benefits can enhance recruitment efforts.
- Because voluntary benefits require active choice-making by employees, they encourage a consumerist approach to benefits, which can reinforce the employer's efforts to get employees into this mindset when dealing with their health care benefits.

### From the employee's perspective, voluntary benefits look good for several reasons:

- By buying through the workplace, the employee gains access to a discounted group rate, which otherwise would not have been available.
- Researching insurance products and agents takes time. When buying through the workplace, the employee knows that someone else has done the background work and that the offered benefits are of sound quality.
- Employees pay for voluntary benefits through payroll deduction, which offers both convenience and help in budgeting, since the premium cost is spread over the year.
- The employee has the ability to customize the benefits to his or her individual situation. An employee with a family can, for example, economically enhance life insurance coverage, while a single employee can take a pass on added life insurance but buy pet insurance instead.

With the wide array of voluntary benefits—and vendors—available, an employer deciding to bring any of these programs to its workplace has a number of decisions to make. In deciding which benefits to offer, look at employee demographics, along with the current benefits offerings in place. Survey or talk to employees to determine what they're interested in (even though employees will pay for any added voluntary benefit, no employer wants to bring in a benefit offering that garners very low participation).

In choosing a vendor, aim for one that makes the added benefit(s) both cost-effective and time-efficient. You want a vendor that has strong communications materials and customer service, so that employees will turn to the vendor—and not your human resources staff—with questions or problems about the benefit. You also want a vendor with a track record of quick and appropriate claims payment, or the offering will not rank high in employee satisfaction.

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However, correction, even at this late date, can preserve the plan's qualified status. The IRS will regard honest and inadvertent mistakes differently than abusive or prohibited transactions, which can put the qualified status of the plan in jeopardy and result in severe penalties for the plan sponsor.

The IRS maintains various tools to help employers meet compliance requirements and understand the plan examination process. These include the Employee Plans Examination Process Guide; a Web-based guide intended to help both plan sponsors and those that provide services to plans better understand the examination process. The agency also distributes a periodic newsletter; Retirement News for Employers, which features information useful to businesses that sponsor pension plans, 401(k)s, SEPs, Simple IRAs, and other qualified plans. Information on these products is available through the IRS Web site for retirement plans, www.irs.gov/ep.

It is important to remember that agencies besides the IRS—namely, the Department of Labor's Employee Benefits Security Administration and the Pension Benefit Guaranty Corporation—also oversee benefit plans and have their own compliance processes. The IRS also advises plan sponsors to consult with their benefits plan professionals to determine "when and what" to change in a plan in order to achieve and maintain compliance. This advice should be followed, as staying current with compliance requirements can pose a challenge for the average business owner.

## *Take Steps to Spot Compliance Issues Before They Cause Problems for You and Your Benefit Plans*

Reports indicate that the Internal Revenue Service (IRS)—one of the government agencies responsible for overseeing employee benefit plans—is staffing up and intends to increase its number of benefit plan audits. The agency expects to audit an overall 9,000 employee benefit plans in 2005 and 10,000 in 2006, with most of these audits being of qualified retirement plans.

Because of the large public trust placed in employee benefit plans—particularly qualified retirement plans—and because of the sizable tax breaks plans receive, the IRS seriously examines issues involving a plan's compliance with applicable regulatory and reporting requirements. And an employee benefit plan sponsor should be serious about plan compliance, since both monetary penalties and other civil and criminal sanctions can result from noncompliance.

According to the IRS, the most common compliance mistakes include:

- Not following the terms of the plan document;
- Not covering the proper employees;
- Not giving employees the required information about the plan;
- Not depositing employee deferrals or contributions in a timely manner; and
- Not limiting employee deferrals and employer contributions to the amounts permitted by law.

The IRS recognizes that changes in a company's workforce may inadvertently cause a compliance problem to arise. For example, a sudden increase in staffing at lower level payroll positions may produce a change in deferral patterns and resulting nondiscrimination testing problems in a salary deferral plan. For this reason, the agency urges employers to conduct periodic reviews of their plans.

The IRS characterizes its approach toward employee benefit plan compliance as one of a "carrot and stick," with the carrot being the agency's self-correction and voluntary correction programs, and the stick being an audit. The self-correction program enables plan sponsors to correct inadvertent errors in plans without IRS involvement. The incentive to self-correct is that no IRS notification is required, no fees or penalties are assessed, and the plan, plan sponsor and participants retain the tax benefits. Compliance issues that cannot be rectified through the self-correction program may be able to be resolved through the voluntary correction program, which requires IRS involvement while correcting the errors and preserving the tax benefits.

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