

# Benefit Insights

## ***Data on Health Care Provider Quality is Valuable, But Underused***

Quality ratings of physicians and hospitals are intended to help consumers choose the most effective health care providers for their needs. Research has shown that individuals who choose highly rated health care providers see better results. However, quality ratings have not been shown to significantly affect the market share of providers, or to influence an employee's decision-making process when choosing a physician or hospital. This leaves employers to ponder how to encourage employees to make better use of available data on health care provider quality.

The equality of health care can be measured in a number of different ways. However, certain types of data concerning physicians and hospitals are generally considered to be indicative of the quality of that health care provider. These include outcomes information (such as the success rates a hospital has for specific procedures), patient satisfaction surveys or report cards, the provider's accreditation by an organization that evaluates that type of provider, board certification for the type of medicine being practiced (for a physician), and the experience level of the provider.

What research has revealed, however, is that even when data on these factors is made available to consumers, they're not likely to use it to influence their provider selection. A recent study published in *Health Affairs* examined the impact of a public reporting system in New York State for coronary artery bypass surgery. The researchers found that consumers who used the system to pick a top-performing hospital or surgeon were 50% less likely to die during the procedure than those who picked a hospital or surgeon ranked in the lowest quarter of the list. Despite this seemingly impressive indicator of quality performance, market share of the health care providers was not affected (though surgeons with the

highest mortality rates were more likely to retire or leave the practice).

Other studies have revealed similar conclusions about the impact of quality ratings on consumer choice. A study by Harris Interactive asked a sample of adults whether they had reviewed quality ratings of hospitals, physicians and health plans and, if so, whether they had considered making a change or had actually made a change as a result of these ratings. Harris reported that while "many millions" of people had seen such ratings, just "1% or less" had based a health care provider decision on them. Another study, published in 2001 in the *Annual Review of Public Health*, evaluated evidence of the impact of consumer report cards on health care consumers and providers, and concluded that such report cards do not make a difference in consumer decision-making.

Since choosing a health care provider based on data concerning quality can lead to positive outcomes and experiences for patients, employers need to consider how to encourage employees to use such information. Research suggests that employers may need to be more aggressive in making this information available to employees, especially information concerning poor plans and providers. Also, employees may be more receptive to quality information when they are able to readily personalize it to their own physician or condition, rather than having to sort through more generalized lists.

Information on health care provider quality is available from a number of sources. By working with your broker or vendor to encourage plan members to use this information, an employer can help ensure that the investment in its health care program leads to optimal results for employees.

### ***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](mailto:advisor@21stcenturybenefit.com) or 781-416-1043 should you have any questions or needs.



## Employers Should Strengthen Wellness Programs to Reduce Boomer Disability Claims

If you haven't considered the "graying" of the current work force, perhaps you haven't reviewed current Department of Labor statistics:

- The median age of all U.S. employees is 40.4 years.
- The median age of employees in public administration is 43.8 years.
- The median age is 43.5 years in education and 43.0 years at transportation and utility companies.

Compare this data to a statistic provided by UnumProvident, a Tennessee-based group health insurance underwriter. They found that an increase of just one year in the median age of employees could increase claim costs anywhere from 4% to 8%. This is just a sampling of the findings that resulted from their recent study entitled "The Health and Productivity in the Aging American Work Force: Realities and Opportunities." The population for the study came from UnumProvident's disability database. Their research included 26.8 million covered individuals and approximately 178,000 employer policyholders.

Although the study revealed that workers age 40 and older display a lower incidence of work injuries, short-term disability and unscheduled absences than their younger colleagues do, the average amount of time older workers miss because of an injury or illness is almost a third more. The study went on to note that the middle-aged workers account for 50% of all short-term disability claims, and almost 75% of long-term disability claims.

The main reasons for long-term absences for this employee demographic include problems with the musculoskeletal and circulatory systems in addition to mental diseases and cancer. Risk factors such as smoking, lack of exercise and obesity can lead to healthcare costs for the middle-aged workers that are nearly 300% higher than for younger employees.

The challenge for employers with a significant middle-aged population is to find a methodology to keep their experienced workers, but not subject themselves to the high cost of disability claims in doing so. The answer to the problem lies in establishing wellness programs that meet the health needs of your aging workforce.

The University of Washington Health Promotion Research Center offers the following suggestions for creating an aging workforce wellness program:

### 1. Adopt and Implement Policies and Programs Proven to Work

- Provide smoking cessation counseling and medications
- Provide breast, cervical, and colorectal cancer screening, and blood pressure and cholesterol risk detection and management

- Institute physical activity and healthy eating promotion, with emphasis on weight control
  - Facilitate smoking bans and stair-use reminders
- ### 2. Align Employee Incentives Toward Receiving Services and Participating in Programs
- **Reduce or eliminate cost-sharing** – Reducing out-of-pocket costs has been proven to increase use of breast cancer screening and tobacco cessation treatment. Reducing or eliminating these costs for other known high-value services, such as screens for blood pressure, cervical



cancer, cholesterol, and colorectal cancer could increase their use as well.

- **Provide Easy Access and Use** – Reducing structural barriers such as location, hours of operation, and availability of childcare has been shown to increase participation in breast and colorectal cancer screening. Creating or improving access to places for physical activity, including walking, also increases the potential for employees to participate.
- ### 3. Communicate "Why" and "How" Information and Track Results
- **Offer Compelling Insight, Rationales, and Guidance for Using Health Promotion Services and Activities** – Motivating employee participation requires communicating about why and how to use the policies and programs being offered. Specifically, health insurance benefits that include no-cost screening and smoking cessation are more likely to be used if they are promoted using standard marketing and communication principles.
  - **Assess Employee Needs** – Surveys, such as health risk assessments (HRA), can generate information on employee health status and health risks that helps employers make smart, targeted health promotion investments. Survey data, which should be anonymous to the employer, will also establish benchmarks against which employers can assess the effectiveness of their investments over time.

## Will a Roth 401(k) Benefit You?

At the beginning of 2006, a new employer retirement plan option was introduced to the market. The Roth 401(k) (or the 403(b) for non-profit organizations) may be making an appearance at your workplace soon, and it's up to you to decide whether you should take advantage of the program.

The Roth 401(k) is not intended to replace the traditional 401(k); rather, it's intended to add a new dimension. The traditional 401(k) allows you to reduce your taxable income by the amount of your annual contribution, so your taxable income would be slightly smaller. Once you begin withdrawing from that account, however, you are taxed on each withdrawal. With the Roth 401(k) there is no immediate tax benefit, but once you start withdrawing from the account (assuming you are at least age 59½ and you have had the account for at least 5 years), all withdrawals are tax-free. Keep in mind that employer matches are made based on pre-tax amounts, kept in a separate account, and are taxed at withdrawal.

When you opt for a Roth 401(k), like the traditional 401(k), you will specify the amount you wish to contribute, and of that amount you will specify which portion should be deposited into the pre-tax account (traditional 401(k)) and after-tax account (Roth 401(k)).

Unlike a Roth IRA, there are no minimum income limits, but there are contribution limits. Roth 401(k) contributions count toward your annual 401(k) limit, which for 2006 is \$15,000. The Roth IRA has a limit of \$4,000, so with a Roth 401(k) you can save much more tax-free money for your retirement. The funds continue to build, tax-free, until you die, which is great if you plan to leave the money to your heirs. However, unlike a Roth IRA, you will have to start taking minimum withdrawals once you reach 70½.

If you are a young employee in a lower income tax bracket, a Roth 401(k) will be even more beneficial to you, since in theory you'll be eligible for tax-free withdrawals during retirement when you might have found yourself in a higher tax bracket.

The Roth 401(k) may not be appropriate for everyone. The criteria to determine whether to participate or not include the following factors:

- How much you can save?
- How much time you have to save before retirement?
- Which state laws apply to the would-be changes in your tax situation?
- Can you handle the difference in your take home pay that may occur with the new account?
- Would you lose tax exemptions, credits, and/or reductions if your income were higher?
- Do you have other deferral opportunities?
- What is your estimated tax rate during retirement?

Since the Roth 401(k) is relatively new, and employers are not required to offer it, you may not have the opportunity to take advantage of this account. The use of the plan is increasing, however, and according to a recent survey by Jackson Hewitt and Associates, 35% of the companies surveyed plan to initiate the program within the next year.

The best way to determine whether or not you could benefit from a Roth 401(k) program is to speak with your financial advisor. They can help you determine whether you meet the above criteria for benefiting from the account.

### **continued from page 4...Data Details Latest Compensation and Benefits Costs**

the agency publishes a breakdown of compensation and benefits costs. For the month of March 2006 (the most recent data available) private sector employer compensation costs averaged \$25.09 per hour, with wages and salaries constituting \$17.73 of the total (70.7%) and benefits \$7.36 (29.3%). The benefits costs further break down as follows: legally required benefits \$2.15; insurance benefits (including health benefits, see the next paragraph) \$1.85; paid leave \$1.71; retirement and savings \$0.91; and supplemental pay \$0.73.

Health benefits in private industry averaged \$1.72 per hour worked, or 6.9% of total compensation costs. The average was up from \$1.16 per hour in 2001, for a 48% increase over five years.

Health benefits costs varied by industry, occupational group and geographic region. For example, costs for union workers averaged \$3.52 per hour, compared to \$1.51 per hour for non-union workers, and costs in goods-producing

industries averaged \$2.47 per hour, compared to \$1.54 per hour in services industries. Health benefits costs were lowest in the South (averaging \$1.49 per hour) and highest in the Northeast (\$1.92). Health benefits costs increased, both in dollar amount and as a percentage of total compensation, with company size: \$1.15 per hour (5.7% of total compensation) for small businesses (fewer than 50 workers); \$1.47 per hour (7.0%) for businesses with 50-99 workers; \$1.92 per hour (7.4%) for businesses with 100-499 workers; and \$2.72 per hour (7.6%) for large firms (500 workers or more).

Compensation and benefits data such as these can be useful to employers in benefits planning and budgeting, in employee communications, and in negotiations with insurers and carriers. Keeping up to date on cost trends provides information critical to compensation and benefits planning.

## Data Details Latest Compensation and Benefits Costs

Employee benefits costs for private sector workers rose 0.7% in the second quarter of 2006, compared with a 0.4% gain in the previous quarter, according to statistics released on a regular basis by the Department of Labor's Bureau of Labor Statistics. Overall private sector compensation costs rose 0.8%, up from 0.6% in the first quarter.

These figures translate to a 12-month percentage change increase for the year ending June 2006 of 2.8% for private sector compensation costs and 2.7% for private sector benefits costs. Though employers still continue to feel the pressure of employee benefits costs—particularly health benefits—the BLS figures reflect a significant slowdown in this area. The 2.7% increase in private sector benefits costs for the year ending June 2006 compares with these figures from recent years:

Year Ending	12-Month % Change
June 2006	2.7%
June 2005	4.7%
June 2004	7.3%
June 2003	5.8%
June 2002	4.8%
June 2001	4.9%

The 2.7% benefits cost rise was modest not only in comparison to increases of recent years, but also to the 5.5% increase for state and local government workers.



The BLS considers both legally required (Social Security, etc.) and other benefits in its calculations. In separate reports,

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