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BENEFITS ADMINISTRATION

This
Just
In...



Association health plan legislation returns. Although similar legislation failed in the last congressional session, Rep. Sam Johnson has introduced a bill that would allow association health plans. The Small Business Health Fairness Act would allow trade, industry, professional, chamber of commerce or business associations to offer group health plans to members. Such plans could cover insureds in many different states, so the bill would exempt association plans from state regulation.

Several associations, including the Blue Cross and Blue Shield Association, American Diabetes Association and National Small Business Association, recently released a compilation of studies that indicated association health plans would, "Increase premiums for the vast majority of small employers and their workers; fail to address the problem of uninsured small businesses and workers; lead to widespread plan insolvencies and fraud among these AHPs; make it difficult or impossible for small businesses with older, sicker workers to have access to affordable health coverage." President Bush promotes association health plans as a way to make health insurance more accessible and affordable, but exempting these plans from state regulation would also exempt them from state consumer protection laws and from having to provide state-mandated benefits that other health plans have to offer.

Does Your Sick Leave Policy Need a Checkup?

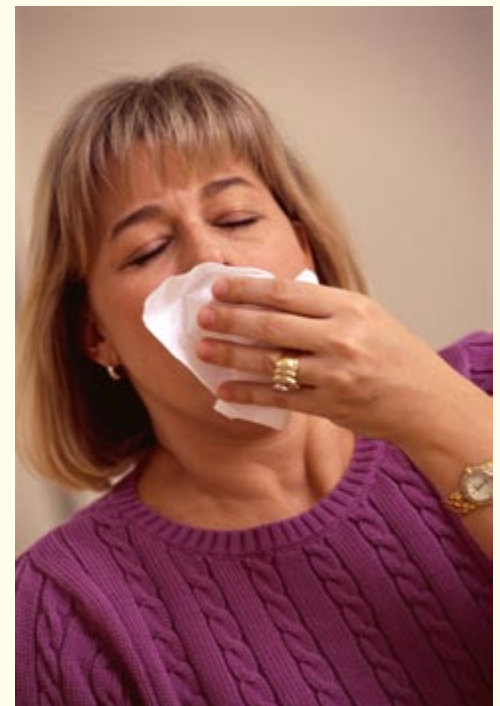
You've probably seen him – the employee with a pile of tissues on his desk, sweating profusely and responding, "I'm fine" when people ask about his health. Then there's the worker who routinely arrives late or leaves early and frequently takes unscheduled days off.

Although federal law does not require payment for time not worked – such as sick days, vacations and holidays – most employers recognize the importance of paid leave programs for employee health and performance. Effective leave policies also help companies retain top people. But are your leave policies effective?

According to a 2004 survey by human resource research consultancy CCH, Inc., unscheduled employee absenteeism costs an average of about \$800 per employee per year. Employers generally tolerate the occasional "sick day" that workers may take for non-health-related reasons. Yet some organizations suffer from sick leave abuse, where employees repeatedly violate the company's attendance policy – and that translates into lost dollars.

Other organizations suffer from the opposite problem—dubbed "presenteeism," where employees come to work when sick. A study by the Cornell University Institute for Health and Productivity Studies found that presenteeism might account for between 18 and 60 percent of employers' health costs. Although its costs are difficult to determine, presenteeism causes lost productivity, the spread of contagious infections and possibly longer illnesses, since workers don't take the time to rest and recuperate. One study found that nearly 20 percent of 25,000 workers surveyed had a cold or flu during the study period.

To get the most of your company's sick leave programs, start by determining how employees use their leave. Is leave usage higher in one department or under a particular supervisor? Are workplace practices or policies affecting causing presenteeism? Do children's illnesses lead to staff absenteeism? Finding the cause of problems allows you to address core issues. If absences



**EMPLOYEE
BENEFITS
REPORT**

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Consumer-Driven Health Plans

Steer a New Course

Consumer-driven healthcare (CDH) is emerging as the “next big thing,” with the potential to change healthcare as profoundly as managed care did 20 years ago. The key to its success is education — of both plan sponsors and participants. Here’s what you need to know about CDH and how it can help reduce your company’s health care bills.

The most distinctive feature of CDH is a high-deductible plan combined with either a health savings account (HSA) or a health reimbursement arrangement (HRA) that makes employees responsible for paying a greater share of their healthcare expenses.

The idea is simple: If people spend their own money, they will be more frugal consumers of health care, thinking twice before running to a specialist for a minor complaint. If consumers have information about treatment risks and prices — something few patients know today — they will take their business to providers who give better care at lower cost. CDH plans allow providers, instead of insurers, to set prices for their services and reap the benefits of innovation. And that, proponents argue, will significantly lower employers’ health care costs.

More than 3.2 million people are expected to be covered by an account-based CDH plan in 2005, according to a recent survey by healthcare information provider AIS, Inc. Employer-funded HRAs continue to be the dominant form of CDH coverage, with more than 2.6 million members expected this year, while another 580,000 people will be covered by a high-deductible health plan compatible with a tax-exempt HSA.

Web-based education

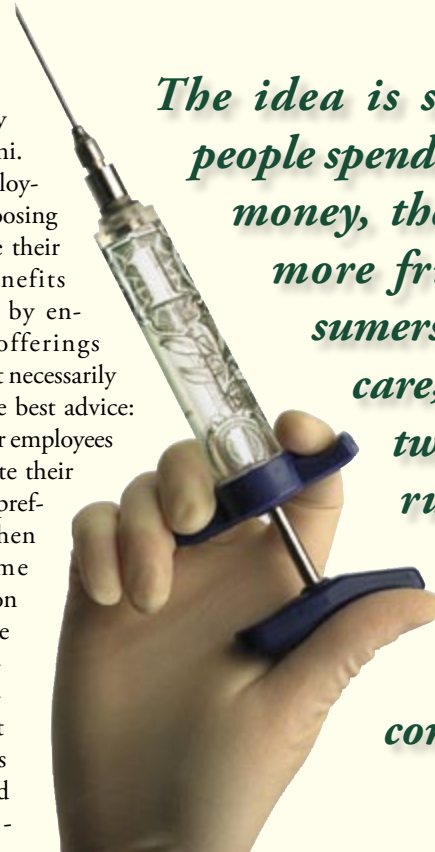
The growing availability of CDH plans has made employer-focused Web sites increasingly important. The Internet provides a way to guide employees through the benefits maze as options become more numerous and complex. Insurers are beefing up their sites as companies provide their employees more choices about deductible levels, coinsurance and co-pay amounts, provider networks and referral requirements.

Many CDH plans offer member Web sites where consumers can search for doctor and hospital data. This may include comparative prices, interactive cost calculators for brand vs. generic drugs, quality ratings, disease protocols, evidence-based guidelines and even malpractice records. Plan selection and cost estimator tools allow participants to input basic utilization information to estimate future out-of-pocket costs, compare plan offerings and understand the expenses associated with different plans. Participants can also compare the employer’s contribution and the individual’s costs — including the contribution per pay period, deductibles, co-pays and coinsurance — for different plans.

These online resources, while expanding, have by no means replaced paper-based tools and information. This year, only 40 percent of insurers offer interactive Web functions for CDH products, according to a report by

healthcare consultancy Cap Gemini. Some employers are choosing to improve their health benefits education by enhancing offerings that are not necessarily online. The best advice: Survey your employees and evaluate their needs and preferences, then select some combination of online and paper-based resources that maximizes informed decision-making by plan participants.

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Long term sustainability?

Critics of CDH argue that consumers aren’t informed enough to make decisions for themselves. While insurers are relying on consumers to use Web site data to make choices, shop online for the best deals and engage physicians in dialogue, some clinicians are skeptical about whether participants are sophisticated enough to “interview” doctors online, whether before or after an office visit.

Critics also assert that only healthy consumers will opt for personal health accounts, reducing the cross-subsidy often found in traditional risk pools. Another common complaint is that high-deductible plans will prompt patients to forego needed medical care because they have to pay for more of it out of their own pockets. If CDH plans are not feasible for low-income workers, they will essentially function as a tax shelter for the healthy and wealthy.

Employers must look to CDH plan providers and insurers to demonstrate that CDH is sustainable and valuable — and that it works. They will need to back up their claims with a sustained track record of cost savings and measured customer satisfaction. In the meantime, CDH plans offer companies the chance to control escalating health care costs by combining

The Dilemma of Early Retirement Plans

It was a win-win situation: Early retirement incentives gave workers facing layoffs a chance to transition to retirement, while companies saved money and ushered in a younger generation of workers. But changing workforce demographics require employers to rethink their benefit plans and talent management strategies. It might be against your company's best interests to encourage productive older workers to retire early.

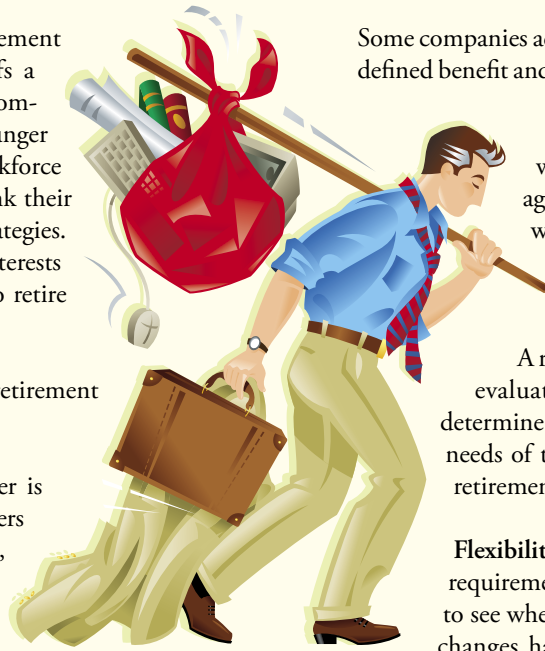
Here's why, and how to adjust your early retirement benefits accordingly.

The number of workers age 50 and older is growing, and the number of younger workers is shrinking. And as baby boomers retire, workforce growth will slow dramatically, making older workers an increasingly valuable resource. In past years, early retirement incentives provided a more meaningful benefit than short-term severance packages to older workers who were leaving the company and served as an attractive alternative to firings and layoffs, especially when a company was struggling financially. As a result, many companies reduced their workforce costs significantly.

Now employers are finding the workers they have pushed out the door at 55 or older are still productive. Some of them have left with generous retirement benefits and are now working for competitors. Companies must now look more closely at how they handle workforce management, so they are not caught short over the longer term. At a minimum, employers should compare the cost of their subsidies to the benefit objectives they serve.

Changing the deal. There are a number of ways to handle the early retirement dilemma, say pension consultants. Companies can change plan design by paying the actuarial equivalent of early retirement subsidies to current employees and using only special early retirement subsidies as needed in the future. This approach controls plan costs and can align benefits with company objectives. However, early retirement subsidies cannot be retroactively eliminated, so any design changes may complicate plan administration and communication.

Other employers are choosing to freeze their pension plans and adopt defined contribution plans, such as 401(k)s, to eliminate early retirement subsidies. These plans provide an incentive for employees who have lost the security of their defined-benefit pensions to work longer and build their nest eggs. Plan sponsors with defined benefit plans are examining early retirement provisions to see how they will impact future efforts to attract and retain talent.



Some companies adopt a cash-balance plan, a hybrid of the traditional defined benefit and defined contribution plans, even if it involves legal and regulatory uncertainties. One way or another, companies might need to figure out ways to entice workers to toil later in life. Other ways to encourage older workers to stay on the job include flexible work schedules and phased retirement that allows them to reduce their workload gradually before full retirement.

A review of early retirement benefits is part of a broader evaluation companies should conduct periodically to determine whether their retirement plan is still fulfilling the needs of the company. Take a look at these aspects of your retirement plan:

Flexibility and compliance. Examine areas such as eligibility requirements, vesting schedules and contribution structures to see where you can make improvements. Recent legislative changes have given employers the ability to enhance their retirement plan so that it's more attractive to both existing and potential employees.

Communications and education. Companies must educate workers about the provisions of the company plan and the significance of retirement savings. Information on portfolio managers, fund performance, objectives and other details helps make employees feel more secure about their retirement plan and investment choices. Continuing education for those employees who already understand how critical it is to save can help them maximize their investment. Be sure to offer educational programs for both the novice and the savvy investor.

Administration and fiduciary responsibility. Employers need knowledgeable representatives available to you and your employees to assist with day-to-day tasks and questions about the plan. And in today's business environment, the role of plan fiduciary has never been more important. Your plan provider should be a valuable resource in understanding what your fiduciary role is, and how you can best manage that responsibility to minimize any risk to yourself or your company.

As workforce demographics change, your retirement plan should, too. Evaluating your retirement offerings and working closely with your provider can help assure that your plan continues to meet the needs of your company.

A plan that truly fits should be cost effective and also provide flexibility in plan design, offer a range of employee communications, present a diversity of investment options, and offer reliable support for both you and your employees. If you have questions about early retirement and your company's benefit options, please feel free to give us a call. □

stem from a personal problem, you can recommend counseling or refer the employee to your EAP/employee assistance program (EAP).

Consider whether the structure of your paid leave programs is working for your firm and its employees. Options include:

✱ **Traditional plans.** For years, employers have provided workers a set number of paid sick leave and vacation days per year. The amount varies by company and industry, but new employees get an average of 17 or 18 days off per year, allocated evenly between sick and vacation days. Professional, long-term employees may accrue 30 or more days off annually. To learn more about the norms in your industry, check with trade associations or chamber of commerce salary and benefits reports for your area.

This type of leave plan is easy to institute and administer. Simply decide how many sick and vacation days to give employees per year, put it in writing — your employee manual is a good place to start — and let everyone know. While this system works well for many companies, alternatives can give your employees more respect and autonomy, without costing your company considerably more.

CDH PLANS – continued from Page 2

choice and flexibility while promoting behavior change through cost awareness. Ultimately, providing broad health care education — in a variety of forms — is the best way to help your company maximize CDH's benefits. □

Consumer Healthcare Web Sites

WebMd (www.webmd.com) offers consumers information on diet, exercise, diseases and more. Users can ask questions of medical professionals and review studies of clinical trials.

Healthwise (www.healthwise.org) can help individuals evaluate the appropriate time to see a doctor and what type of treatment is most suitable. It has health-related material on more than 5,000 topics. The site offers self-care guides, nurse call centers and a search engine for medical information.

The Agency for Healthcare Research & Quality (www.talkingquality.gov) provides basic information on the quality of health care. The government-sponsored site helps consumers develop a strategy to assess quality and understand the complex healthcare delivery system. □



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✱ **Paid time off programs.** Some companies combine different types of leave into one unified bank of “paid time off” (PTO) hours. A recent survey of employers with 100 or more employees found that 42 percent of respondents—up from 30 percent in 2000—offered paid time off banks. Instead of ten vacation days and five sick days a year, these employers provide 120 hours of PTO for workers to use as they see fit —for vacation, personal time or illness. A “leave account” means employees won't feel cheated when they're not eligible for certain types of leave (for example, childless workers who can't

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take advantage of time off for a sick child). You can build in even more flexibility by allowing employees to redeem unused days off for cash or to accumulate unused sick days from year to year, or match it with a short-term disability program.

PTO banks can reduce unscheduled absences by allowing employees to use paid time off, rather than sick leave, to take care of personal business.

✱ **Attendance incentives.** To encourage employees to use leave programs properly, many organizations structure attendance policies to reward rather than punish. Some give employees a half-day off for every quarter in which they have perfect attendance and let it accumulate. Employees who use two days or fewer of sick leave during the year may earn the equivalent of one day's pay. A note of caution: employers considering establishing an attendance incentive program should ensure that the program does not violate the Family and Medical Leave Act.

Critics suggest that incentives indirectly punish employees who have legitimate reasons for absence. Parents of young children may resent the perceived inequity vis-à-vis childless co-workers who don't need to take time off to care for sick children.

Some analysts say attendance incentives send the wrong message about taking leave, which has become increasingly important in today's high-stress work environment. If workers perceive that using leave is the wrong behavior, employers risk encouraging employees to overwork to the point of serious illness, which could result in increased health care costs in the long run.

The bottom line: Examine current policies, leave trends and your firm's management style, and then establish a program that meets your needs. For questions about leave policies that make sense for your employees and your business, please contact us. □



Companies with employees on military leave must provide an additional six months' health care coverage, as a result of recent changes to the Uniformed Services Employment and Reemployment Rights Act (USERRA). The revised USERRA significantly strengthens and expands employment rights for all uniformed service members. Employees who elect to continue health coverage during a military leave on or after December 10, 2004, are entitled to as much as 24 months of coverage, compared to the 18 months previously required. For details about the informational USERRA poster you may be required to post at the workplace, go to www.dol.gov/vets.