Employee Benefits Report

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Preparing for an (Almost) Painless Open Enrollment Season

Don't fear "open enrollment" — It's a great opportunity to help employees become better healthcare consumers. The following strategies can make the process easier.

The phrase "open enrollment" can send shivers down the spine of even the most seasoned benefits manager. But the period of time when employees can make changes to their health and benefits plans doesn't have to be a time of stress. Here are some tips for making the best of it.

- **Communicate early and often.** Realize that for employees any benefits change is a big deal, so early in the process you need to develop and implement a strategy to help prepare them for what's coming. Employees need time to digest this information, and you need time to reinforce it.
- **Cover the basics.** At a minimum, ensure employees fully understand the "5 C's of Enrollment"—cost, coverage information, changes to plans, comparisons to the previous year's plans and current options, and check which doctors are in the plan. Be clear with employees about actions you need them to take.
- **Deploy "multi-channel" communications.** Use a strategic combination of printed, Web and face-to-face communication at open enrollment to drive a consistent message. And, hard as it may be, try to avoid information overload. While it's important to communicate thoroughly and introduce new ideas, keep information and choices as simple as possible. Strive to strike the right balance in what, how and when you communicate.

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This Just In

Maximum contribution limits for health savings accounts will increase next year, but only slightly. In 2009, the maximum contribution to an HSA for employees with single coverage will be $3,000 — up from $2,900 in 2008. The maximum contribution for those with family coverage will rise to $5,950 from $5,800.

In addition, the maximum out-of-pocket expense — including deductibles — that employees with single coverage can be required to pay will rise to $5,800, up from $5,600 in 2008. For those with family coverage, the maximum will rise to $11,600 from $11,200.

The minimum deductible of the health plan to which HSAs must be linked will increase to $1,150 next year for employees with single coverage, up from $1,100; the minimum deductible for those with family coverage will increase to $2,300 from $2,200. The catch up contribution for individuals 55 and older has increased to $1,000 for 2009 and all years going forward.

Employer-Sponsored Retirement Plans Too Expensive? Consider IRAs

Many small business owners don't think they can afford employee retirement plans. Sponsoring SEP IRAs or SIMPLE IRAs can have benefits for employers and employees.

Only 28 percent of small and medium-size businesses offer retirement benefits to their full-time employees, according to a study by National Small Business United and Arthur Andersen. And the reason is simple: Many businesses just can't afford to sponsor retirement plans.

However, you might be able to afford an employee a retirement plan. Before you dismiss the idea, consider two popular employer-sponsored IRAs — Simplified Employee Pensions (SEPs) and Savings Incentive Match Plans for Employees (SIMPLE IRAs).

These plans have the dual benefits of higher maximum annual contributions than IRAs that are not employer-sponsored, and they don't require annual reporting for sponsoring employers under ERISA. These two options do require employer contributions and require the employer to offer enrollment to all employees who meet participation requirements. Here's a closer look:

SEP IRA. A Simplified Employee Pension (SEP) plan provides employers a simple way to make contributions toward employees' retirement and their own. Employers make contributions directly to a SEP-IRA set up for each eligible employee. Most employers with one or more employees can establish a SEP.

SEPs have the benefit of low start-up and operating costs and can be established using a two-page IRS Form 5305-SEP. No ongoing reporting is required. While employers must contribute a uniform percentage of pay for each employee, they do not have to make contributions every year, which provides flexibility when business conditions vary. For 2008, employer contributions are limited to the lesser of 25 percent of pay or $46,000.

All SEP contributions must go to traditional IRAs, though these amounts will not affect how much an employee can contribute to a Roth IRA because employers, rather than individuals, make SEP contributions.

Employees who are 21 or over and have worked for at least three of the last five years are eligible to participate, and all those eligible must be included. Employers may be less restrictive with these rules, but not more so. You may not include, for example, a "specific number of hours worked" requirement. One other benefit: A SEP plan may be established as late as the due date (including extensions) of your tax return for the year you want to establish the plan.

SIMPLE IRA. A savings incentive match plan (SIMPLE) IRA is a tax-deferred retirement plan for sole proprietors or small businesses with fewer than 100 employees. Com-

Still more options

401(k). A 401(k) is the most common company-sponsored savings plan. It allows employees to contribute more tax-deferred money toward their retirement than other savings options. However, 401(k) plans can be costly — establishing and administering a plan requires the involvement of a third-party administrator or financial institution, and yearly costs are high.

Profit-Sharing Plan. Profit-sharing plans, which were initially developed to encourage hard work and loyalty, allow companies to set aside money for employees during profitable years. Profit-sharing plans are a good option for small businesses because they offer the greatest flexibility; an employer can contribute to the plan in profitable years and not contribute in lean years. Profit-sharing plans are also relatively easy to administer.

Money-Purchase Plan. Money-purchase plans are similar to profit-sharing plans, except they obligate the employer to contribute a predetermined amount outlined in the terms of the plan. This means a business must contribute even when it doesn't turn a profit. Employees may contribute up to 25 percent of their annual salary, or a maximum of $30,000 a year.

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- **Anticipate busy days.** The most diligent of employees will be calling on the first morning after open enrollment begins. Plan accordingly by having the necessary staff in place to anticipate that first upsurge in calls. But don't slack off later, because 75 percent of all enrollments are completed in the last three days, due to procrastinating employees.
- **Select reasonable enrollment deadlines.** Make sure you're giving employees reasonable business-related deadlines, such as a Wednesday at 5 p.m. This approach will also give you the opportunity to remind them the day before and reduce the likelihood of a last-minute rush. If you set deadlines on a Friday, a holiday or at midnight, get ready for that Monday-morning call center rush of employees calling in with excuses as to why they missed the deadline.
- **Be available.** Even if you have a wealth of self-service options, people still make phone calls and like to talk to a "live person" during open enrollment. Set up and review with staff a set of Q&As or frequently asked questions they'll likely be asked (raised premiums, new plan offerings, etc.). If you are conducting classes or holding webinars to communicate benefit options to employees, make sure to copy any outsourced call center staffers so they can reinforce these messages.
- **Personalize.** People relate much better to examples relevant to their situations than to abstract concepts. It helps to provide testimonials from other people in similar circumstances or to offer tools that allow employees to model and make decisions based on their own circumstances.
- **Expect complaints and questions.** In many companies, a successful enrollment means one in which "noise"—questions, complaints and calls — was minimized. If your benefits options are changing dramatically this year, expect noise. Think of it this way: If all is quiet, you haven't done your job.
- **Be honest and direct.** Be frank, particularly when costs are increasing or benefits shrinking. In response to continued double-digit healthcare cost increases, you may be preparing to communicate aggressive benefit changes to employees this enrollment season. Sugarcoating the changes will only add to the resentment.
- **Analyze your data.** This year's enrollment information will help you to properly plan for 2009. It will help you learn about employees' desires and predispositions — by job title, region, etc. — as well as to understand where the employees see value from their benefits plans. Use this data by conducting decision-support analysis for next year's open enrollment. Even if you don't have sophisticated data analysis tools, you can still review data and spot trends. Did the HMO gain in popularity? Did employees sign up for plans that offered more choice? That's powerful information for future action.

Remember, also, that enrollment is only part of the equation. Because open enrollment is the one time each year you can be assured of a captive audience, it's also a great time to introduce new tools and resources that will help employees be better healthcare consumers throughout the year. ■

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panies that do not maintain or contribute to other retirement plans can set up SIMPLE IRAs.

SIMPLE IRAs allow employees to contribute a percentage of their salary each paycheck and require employer contributions. Under SIMPLE IRA plans, employees can contribute up to $10,500 in 2008, with additional catch-up contributions up to $2,500 for participants over age 50.

Employers must either match employee contributions dollar for dollar, up to three percent of an employee's compensation, or make a fixed contribution of two percent of compensation for all eligible employees. SIMPLE IRAs are easy for employers to set up by using IRS Forms 5304-SIMPLE or 5305-SIMPLE, and no ongoing reporting is required. The form you choose depends on whether you or your employees select the financial institution that will receive the contributions.

After adopting a plan and determining eligibility requirements, notify each eligible employee of the new plan, the requirements an employee must meet to receive an allocation, and the basis upon which the employer's contributions will be allocated.

Finally, set up an IRA account for each employee. As you search for the right financial institution for you and your employees, you may need to have an idea of what sort of investment options your plan's IRAs should include and what level of service to expect. Educate yourself about the basics of investing funds for retirement, and encourage your employees to do the same.

Never too late

Now is a great time to get started, so you don't have to rush the process of setting up your plan to take a tax deduction in the current year. Although you can later change the financial institution holding the IRA accounts, a strong start with the right company can help give your employees confidence in their new retirement plan.

If you have plans in place, it's wise to conduct an annual checkup of operations. You can reap significant tax benefits by keeping your retirement plan running smoothly. The IRS website offers lists that cover some of the basic requirements for keeping your plan healthy (www.irs.gov/pub/irs-pdf/p3998.pdf). For more information on establishing or reviewing your IRA-based retirement plan, please contact us. ■

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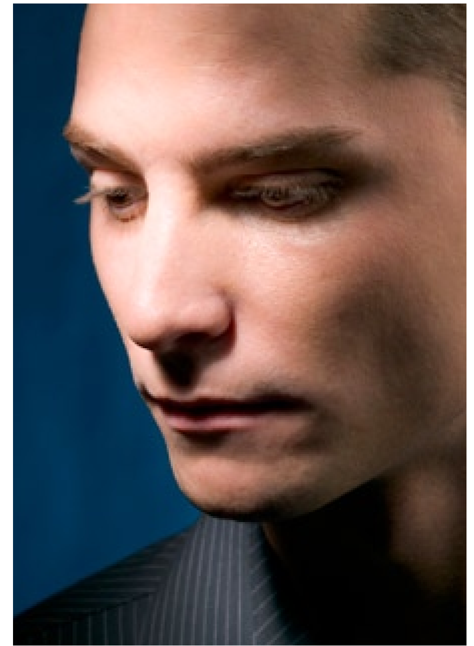
Please recycle this newsletter

The Unseen Costs of Depression in the Workplace

Cutting back on employee mental health benefits may hurt the bottom line in the long run.



Employees with depression are twice as likely to miss work due to health problems than those without depressive symptoms, and they are seven times more likely to suffer decreased effectiveness at work, according to a study published recently in the *American Journal of Psychiatry*.

And the cost to you as an average employer? About $3,000 per year due to lost work days and reduced productivity.

Despite the finding, over the past several years the percentage of employers offering mental health benefits via employee assistance programs has actually declined from 84 percent to 76 percent, reports the Society for Human Resource Management (SHRM). With health insurance premiums expected to rise significantly again next year, employers who currently provide behavioral health coverage may be tempted to reduce or eliminate these benefits.

But scaling back may in fact increase health costs in the long term for the 22 percent of adults in the U.S. who suffer from a diagnosable mental health disorder, according to the National Institute of Mental Health. That's because mental problems often present themselves as physical problems, and employees are more likely to seek assistance for a physical problem.

And studies have shown that if workers don't get the help they need, they use a lot of services they don't need. Medical doctors may not be able to determine what is wrong and will do a battery of expensive tests because they don't want to miss anything. Physical health care can cost a whole lot more when mental health care is not available.

When an employee has ready access to good mental health benefits, he or she is less likely to be out on disability leave. Employees on behavioral health disability tend to stay out longer than those with any other condition, says the SHRM. And workers in plans with high deductibles, preexisting condition exclusion periods, or "carve-out" benefits that provide separate mental health coverage are less likely to return to work after suffering a mental disability, according to a recent analysis by Johns Hopkins University.

Untreated behavioral illnesses can have other consequences as well. Not only is there loss of productivity, but mental illnesses such as depression also can compromise employee safety.

For all these reasons, experts urge companies to look at the whole picture. While decreasing coverage may save money in the short term, if disability claims skyrocket and employee turnover surges as a result, those savings will be minimal in comparison. The bottom line: There's no difference between workers with physical health problems and those with mental health problems.

Does Your Company Provide Adequate Mental Health Benefits?

How do you know if your plan is or is not making the grade? Experts cite the following signs — and risks — of inadequate mental health care benefits:

- **Ample therapy sessions. Even where plans cover therapy, they may place arbitrary limits on the number of sessions allowed. Removing these limitations allows the therapy to work most effectively, preventing more serious problems — and higher costs — later.**
- **Choice of providers. Since a good relationship with a mental health provider is crucial for treatment success, participants need plenty of choices. The plan should allow visits to out-of-network providers for slightly higher out-of-pocket costs. The network should also include a sufficient number of experienced mental health specialists to deal with a wide range of disorders.**
- **Broad and confidential access. Employees may be reluctant to seek needed mental health care because of a perceived stigma attached to behavioral illnesses. Employers can reduce that risk by making access to benefits quick, simple and confidential.**
- **Adequate medication coverage. Employees routinely obtain medications from their primary care physicians under their prescription benefit. But they may not receive the best medication in the proper doses from non-mental health specialists, and studies show that a combination of medication and therapy is often the fastest way to recovery.**
- **Diagnoses from psychiatric professionals. Without the correct diagnosis, an employee cannot obtain the most effective treatment. An employee with a significant emotional problem should be evaluated by a psychiatrist or psychologist, who can determine which psychotherapy or medication is appropriate. Doing it right the first time saves money down the line.**