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RISK MANAGEMENT

On-Site Healthcare Keeps Costs Down and Employees Healthy

In February of this year, Coors Brewing Company, the third-largest U.S. brewer, opened an on-site primary care and occupational health facility at its headquarters in Golden, Colorado.

The Coors Medical Center, as it's called, serves approximately 6,800 employees, retirees and their dependents. The facility is staffed with a physician, a nurse practitioner, two medical assistants, a physical therapist, a hearing specialist, a practice administrator, a certified case manager and three administrative personnel.

Years ago, employers scoffed at the notion and cost of providing on-site medical support, but today more and more large and mid-sized businesses are seeing significant savings and healthier employees as a result of employer-sponsored healthcare programs designed to augment — not replace — existing managed care or pharmacy benefit management plans.

On-Site Healthcare Gets Good Marks

A recent study by the Washington Business Group of 120 organizations with more than 1,000 employees found that of companies with on-site medical clinics:

- 68 percent say that the facilities effectively improve employee health;
- 59 percent say that the facilities manage costs effectively;
- 56 percent say that the facilities effectively improve employee satisfaction;
- 54 percent say that the facilities effectively increase employee productivity.

In Coors' case, the facility is operated by CHD Meridian Healthcare, an I-Trax company. CHD Meridian provides the on-site professional staffing and management of the facility, which addresses the occupational health, workers' compensation and minor illness needs of the Coors workforce.

"Aggressively shifting employees to less-expensive, non-hospital service settings for many outpatient procedures is a top priority for employers in 2005 and represents an employer's greatest tool in battling rising hospital costs," says Jack Scanlon, senior vice president of research at Sacramento, Calif.-based First Health Corp., another provider of on-site health facilities.

Employer-sponsored programs are designed to address two pervasive yet unrelated challenges faced by large employers:

✔ The rapid escalation of healthcare costs (particularly pharmaceutical benefits costs) and

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This Just In...

A newly released federal guidance report is designed to help you comply with an upcoming Medicare requirement. The new regulation requires that employers notify Medicare-eligible workers to explain how the employer's group prescription drug coverage stacks up against the new Medicare prescription drug benefit.

If your company falls under the requirement, you have until Nov. 15 to provide every participant in your health care plans who is eligible for Medicare—chiefly those age 65 and older—with a notice that tells those individuals whether the prescription drug benefits your company provides are at least equal to the drug benefits that will be available under Medicare Part D.

Coverage that is equal to Part D is considered "creditable" coverage. If the employer's coverage is creditable, individuals can delay enrolling in Part D from the time they first become eligible without incurring a late-enrollment penalty.

The guidance also provides model notices, which employers can adopt virtually verbatim, for informing Medicare-eligible employees whether their employer-provided prescription drug benefit program is creditable coverage. For more information visit http://www.cms.hhs.gov/pdps/SpecGuidnc-Materials.asp

EMPLOYEE BENEFITS REPORT

Vol. 4, Number 9
September • 2005

Is Your Company Ready for a Self-Funded Health Plan?

It used to be that self-funded health plans were the domain of big business and big business only. But due to continued double-digit increases in insurance premiums, many midsize companies are taking a second look at self-insurance and liking with they see.

In a self-insured, or "self-funded," group health plan, the employer assumes the financial risk for providing health care benefits to its employees. Self-insured employers pay for each claim, out of pocket, as it is incurred. This differs from a fully insured plan, in which the employer pays a fixed premium to an insurance carrier, which pays covered claims on the employer's behalf. Typically, a self-insured employer will set up a special trust fund to earmark money to pay incurred claims and purchase special insurance for catastrophic or unusual losses.

This year, companies that fully insured their health benefits through an insurer saw costs climb by an average of 15.6 percent, compared with a 12.4 percent increase for self-insured companies, according to a survey conducted by the Kaiser Family Foundation and the Health Research and Educational Trust.

While self-funded plans are not for every company, they do offer a number of benefits. The following are the most common reasons why employers select a self-insured plan:

- You can customize the plan to meet the specific health care needs of your workforce, as opposed to purchasing a "one-size-fits-all" insurance policy.
- You maintain control over health plan reserves, enabling you to maximize interest income — income that would otherwise go to an insurance carrier, through the investment of premium dollars.
- You don't have to pre-pay for coverage, improving cash flow.
- Your company is not subject to varying state health insurance regulations/benefit mandates, because self-insured health plans are regulated under federal law (ERISA).
- Your company is not subject to health insurance premium taxes in most states. These generally equal 2-3 percent of the premium amount.
- You can contract with the providers or provider network best suited to meet the health care needs of your employees.

Why Self-Insureds Need Stop Loss

No discussion of self-insurance would be complete without an examination of stop loss reinsurance. Self-insured employers can buy stop loss reinsurance to protect themselves when claim costs exceed their expectations.

You can buy two types of stop loss reinsurance: individual stop loss, or specific deductible stop loss, protects you from large claims from an individual insured or dependent. If an individual's claims reach a specific dollar amount, the reinsurance kicks in and the reinsurer will pay the claims for the rest of the plan year.

Aggregate stop loss limits the employers' total liability to a specified dollar amount during a specified period, usually either a plan year or month. If your claims reach the "attachment point," the reinsurer will pay claims over that amount.

Stop loss reinsurance protects self-insured employers' cash flow. To discuss stop loss or self-insurance with us, please call.

Half of all workers in the U.S. from companies with 200 to 1,000 employees have self-funded health coverage this year, according to the Kaiser study. And 10 percent of employees in companies with fewer than 200 workers are covered under a self-funded plan, the study showed.

In fact, mid-sized businesses have a significant self-funding advantage: self-insured businesses with 200 employees have a 14 percent probability that actual claims will exceed the projected budget, according to Milliman USA. Companies with 1,000 employees have a 26 percent chance of surpassing their health-insurance budgets. The discrepancy comes because the larger the number of employees, the more likely that one or two will incur catastrophic health-care costs.

Still, self-funded programs are not for every company. First, you will incur start-up costs for plan design and administration. Self-insuring will also consume more management time than buying coverage from an insurer. Do you have the staffing resources to handle this?

Since a self-insured employer assumes the risk of paying its employees' claims, it must have the financial resources and cash flow to meet this obligation, which can be unpredictable. If you have poor loss experience, the better experience of other organizations cannot offset your losses, as might occur under a fully insured plan. Therefore, we do not recommend self-funded programs for small employers and employers with poor cash flow. Please note, however, that companies with as few as 25 employees do maintain viable self-insured health plans.

Self-insured employers can either administer claims in-house, or subcontract this service to a third-party administrator (TPA). TPAs can also help employers set up their self-insured group health plans and coordinate

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What Type of Retirement Plan is Best for Your Employees?

Here's a bit of pension trivia. In what year was the first private pension offered by a major US corporation?

The answer is 1875 by the American Express Company. American Express was soon followed by utilities, banking and manufacturing companies that offered pensions of their own. Almost all of the early pension plans were traditional pension plans — known as defined benefit plans — that paid workers a specific monthly benefit at retirement.

Today, even though many types of pensions exist, virtually all fall into two categories: defined contribution plans and defined benefit plans. Here's a review of these two types of plans.

Defined contribution plan

A defined contribution plan provides each participant with an individual account. Benefits paid depend on the amount contributed to that account, and how the contributions are invested. If investments perform well, benefits will be higher than if they perform poorly. A defined contribution plan can be either a profit-sharing plan or a money purchase pension plan. 401(k)s are a very popular example of a defined contribution plan.

Defined benefit plan

A defined benefit plan is any plan that is not a defined contribution plan. These so-called "traditional" plans promise participants a specific benefit at retirement, which could be expressed as an exact dollar amount (for example, $100 per month) or as a formula (for example, $10 per month for every year of service with the company, or a percent of a worker's salary times years of service). Generally, a company funds the pension plan and plan assets are invested, usually by a professional money manager.

Defined Benefit vs. Defined Contribution: Pros and Cons

Advantages of Defined Benefit Plans
- Guaranteed retirement income security for workers
- No investment risk to participants
- Cost of living adjustments
- Not dependant on the participant's ability to save
- Tax-deferred retirement savings medium

Disadvantages of Defined Benefit Plans
- Difficult to understand by participant
- Not beneficial to employees who leave before retirement

Advantages of Defined Contribution Plans
- Tax-deferred retirement savings medium
- Participants have some control over how much they save
- Can be funded through payroll deductions
- Lump-sum distributions may be eligible for special 10-year averaging
- Participants can benefit from good investment results
- Easily understood by participants

Disadvantages of Defined Contribution Plans
- Difficult to build a fund for those who enter late in life
- Participants bear investment risk
- Annual employee salary reduction contributions limited to $14,000 for 2005.

Trends to watch

While the number of workers covered by traditional defined benefit pensions has remained relatively level, participation in defined contribution pension plans, especially 401(k) plans, has grown considerably. Some employers offer both a defined benefit plan and a 401(k) plan. Other employers offer only 401(k) plans.

Recently, many larger employers have converted traditional defined benefit plans to "hybrid" pension plans, such as cash balance plans. These hybrid plans are defined benefit plans.

Cash balance plans generally describe retirement benefits in terms of a balance in a hypothetical account. In this hypothetical account, a worker accumulates pay credits (usually a percentage of pay) and interest credits (usually a percentage of the total account balance). The interest credit is frequently based on the interest rate on a U. S. Treasury security. The pay and interest credits, specified in the plan, resemble the actual contributions and earnings a worker accumulates under a 401(k) plan. Because cash balance plans are hybrid defined benefit plans, they offer a predictable benefit at retirement.

Cash balance plans contain many of the important advantages of traditional defined benefit plans:

- Benefits do not depend on how much a worker is willing or able to contribute.
- The employer bears the investment risk.
- Plans must offer an annuity with a survivor benefit.
- Benefits are insured by the PBGC.

Cash balance plans also have advantages of defined contribution plans:
- Workers can know the value of their

***RETIREMENT* – continued on Page 4**

***ON-SITE** – continued from Page 1*

✔ The growing trend among employers to outsource support services and focus on core competencies.

On-site doctors, nurses and nurse practitioners aren't motivated to see a certain number of patients daily, so they can spend more time with patients to ensure better outcomes, according to proponents.

When these services are combined in either the fully integrated model or in an à la carte fashion, employers enjoy specific benefits:

✔ Reduced employee health costs
✔ Improved quality of care
✔ Increased worker productivity
✔ Lower absenteeism rates.

Companies like outsourcing services because cost benefits can be documented, measured and reproduced. There are four types of on-site care available from a number of healthcare outsourcing firms:

- **Primary Care** – The healthcare operator designs, builds, staffs and manages employer-sponsored health centers that service a single employer, or several mid-sized employers. The health centers do not replace existing managed care plans, but instead work within an organization's current benefit structure. Dedicated physicians, nurses, pharmacists and additional healthcare staff provide faster, higher-quality and more cost-effective care to employees and their dependents.
- **Pharmacy** – The operator designs, builds, staffs and manages employer-sponsored pharmacies that offer, on an exclusive basis, prescription services directly to a company's covered population. The company purchases pharmaceuticals with discounts of 30 to 50 percent greater than those available through many pharmacy benefit managers.
- **Occupational Health** – The operator provides on-site professional staffing and management for large and mid-sized employers or organizations that have existing medical facilities to address the occupational health, workers' compensation and minor illness needs of their workforces.
- **Corporate Health** – The operator provides on-site corporate health facility management that combines preventive care, occupational health, travel medicine and health education. Additional services can be arranged, including health therapy, on-site yoga, meditation, reflexology, massage therapy and stress management assessments. Companies can build a resource library that includes Internet access and encourage patients to research everything from parenting to herbal medicines.

As firms run out of short-term options to counter rising health care costs, such as restructuring benefits and shifting costs to employees, on-site healthcare facilities will likely continue to increase in popularity. For more information, please contact us. ❑

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stop-loss insurance coverage, provider network contracts, utilization review services and pharmacy management.

As with a fully insured plan, the employer's payroll department handles any employee premium contributions. However, instead of sending them to an insurance company, the employer holds these contributions until claims become payable. If using these contributions as reserves, the employer can put them in a tax-free trust account that is controls.

The best way to determine if self-funding is right for your company is to ask a benefits consultant, preferably one that will assess your situation impartially without attempting to sell administrative services. The consultant will analyze your situation, develop alternative plan designs, compare these with insured plans available in your community and suggest whether self-insurance might be appropriate for you.

For small businesses

Small businesses might find other health plans, such as high-deductible health plans or health reimbursement accounts (HRAs) more attractive and simpler to administer than a self-insurance program. We can discuss these options with you. For more information on any of your health benefit concerns, please call us. ❑

***RETIREMENT** – continued from Page 3*

benefits and tend to understand them better when expressed as a hypothetical individual account.

- Younger workers and shorter-service workers, who are often women, can receive higher benefits.
- Workers who do not spend their full careers with one employer have more portable benefits that can be transferred to another plan.

However, cash balance plans also:

- frequently offer a single, lump-sum payment, which workers often spend rather than rolling it over and saving for their retirement; and
- generally do not offer subsidized early retirement benefits, making it harder for workers to retire early.

Many cash balance plans are conversions from traditional defined benefit plans. Conversions generally involve a change from a traditional final average pay plan, where benefits are based on workers' average pay at the end of their careers when their earnings usually are greatest, to a career average cash balance plan, where benefits are based on workers' average pay for their entire career. In these cases, longer-service workers might receive less under a cash balance plan than they would have received under a traditional defined benefit plan, unless the employer provides transition protections.

We can help you evaluate your organization's goals and budget for its retirement plan and recommend an appropriate plan design. For more information, please call us. ❑