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This Just In...

Workers age 55+ can see whether they're entitled to public benefits, such as prescription drugs, healthcare, utilities and other services, at www.benefitsCheckup.org. Sponsored by the National Council on the Aging, the site provides anonymous help in finding public benefit programs for which elders might be eligible and also provides assistance in applying for benefits.

California's state Senate has approved a bill to create a single-payer, universal healthcare system. SB 840 would create a California Health Insurance System, which would make all California residents eligible for health care benefits under the system. The Lewin Group, a Washington, DC-area consultant hired to study a single-payer system in California, found such a system would reduce administrative expenses, currently about 25 percent of all healthcare costs, to about 4 percent. The study also found businesses would save an average of 16 percent, as compared to their current health insurance costs. Smaller businesses (10 or fewer employees) and larger ones (500+ employees) would save more. Employer groups generally oppose the bill, saying it would create a government bureaucracy with unproven ability to control costs and provide quality healthcare. The Assembly is unlikely to pass the bill.

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PRESCRIPTION BENEFITS

Medicare Part D and Your Benefits Program

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) created a prescription drug benefit, Part D, to make prescription drugs more affordable for the elderly and disabled. Part D benefits will become available to Medicare-eligible individuals on January 1, 2006. Because of the Medicare program's clout, many experts think it will help stem the rising tide of prescription drug cost inflation.

What Medicare Part D means to individuals

Eligible individuals who want to participate in Medicare Part D will choose among competing drug plans and pay the monthly premium of about $37 dollars. Private insurers will provide Part D coverage, either through stand-alone prescription drug plans (PDPs) or Medicare Advantage (MA) plans, which are managed care plans that provide comprehensive benefits.

Medicare beneficiaries who have other sources of drug coverage--through a current or former employer or union, for example--can stay in that plan and not enroll in a Medicare Part D plan. If their other coverage is at least as good as the new Medicare drug benefit (considered "creditable coverage"), beneficiaries can avoid higher payments if they sign up for the Medicare drug benefit in the future.

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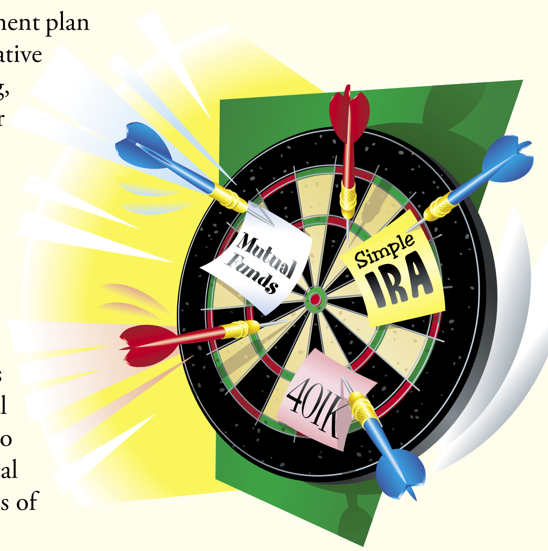
Prescription Prices Keep Going Up

According to the Kaiser Family Foundation, prescription-spending nationwide increased 15 percent between 2001 and 2002. The cost of physician and clinical services rose 8 percent during the same time, while hospital care rose 10 percent.

Three factors contributed to the unusually high rate of prescription drug cost inflation. First, we're consuming more prescription drugs. Between 1993 and 2003, the number of prescriptions per person increased from an average of 7.8 per year to 11.8 per year. Second, retail prescription drug costs have experienced greater cost inflation than the genera l economy—7.4 percent per year, versus an average of 2.5 percent. This stems from price increases for existing drugs and increased use of new, higher-priced drugs. Third, more people are using new, brand-name drugs. These cost more due to research and development costs, advertising expenses and lack of competition from generics.

SIMPLE Plans Make Administration Simpler

If you've been thinking of setting up a retirement plan for your employees, but find the administrative hassles and fees of a traditional 401(k) daunting, you might want to consider a SIMPLE IRA or SIMPLE 401(k) plan.



SIMPLE IRAs

An IRA, or individual retirement account, is the most basic type of retirement plan. Although many individuals establish their own IRAs, employers can also help their employees set up and fund their IRAs. Where a traditional 401(k) can cost between $1,000 and $2,000 to set up and another $2,000 to $3,000 in annual administrative fees, you can set up some kinds of IRAs for no cost at all.

Any employer with 100 or fewer employees that has no other retirement offering currently can offer a SIMPLE IRA. A SIMPLE IRA plan is one of the easiest retirement plans to set up and administer. It allows employees to contribute a percentage of their salary each paycheck and requires employer contributions. Under SIMPLE IRA plans, employees can contribute up to $10,000 in 2005 by payroll deduction. Employee contributions are pre-tax—that is, employees pay no taxes on the income deferred into a SIMPLE IRA.

Employers must either match employee contributions dollar for dollar – up to 3 percent of an employee's compensation – or make a fixed contribution of 2 percent of compensation for all eligible employees.

Advantages of SIMPLE IRA plans

1. Employers might have less responsibility for fund investment performance. In recent years, employees and others have criticized employer retirement plans that held too many funds in employer stock, along with plans that offered participants too few investment options. In a SIMPLE IRA-based plan, however, participants can move the IRA to another institution without penalty, giving them more control—and responsibility—for investment returns.
2. SIMPLE IRAs have no compensation cap on matching contributions, so employers can make matching contributions to plans of highly compensated employees.
3. Compliance is simpler than with some other plans, as SIMPLE IRAs require no nondiscrimination, ADP, ACP, top-heavy or coverage tests.
4. Reporting requirements are minimal. Employers do not have to file a Form 5500.
5. Administrative costs are low.

Disadvantages

1. SIMPLE IRAs have lower salary deferral limits than a 401(k)—a maximum of $10,000 for 2005, plus an additional $2,000 in "catch up" contributions for participants age 50+. This compares to maximum deferred-salary contribution limits of $14,000 in a 401(k) for plan year 2005, plus catch-up contributions of $4,000.
2. SIMPLE IRAs are available only to small employers (those with 100 or fewer employees) that do not have another retirement plan.
3. The plan requires employers to make matching contributions each year, regardless of other financial considerations.

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Payroll-Deduction IRAs: The No-Cost Retirement Plan?

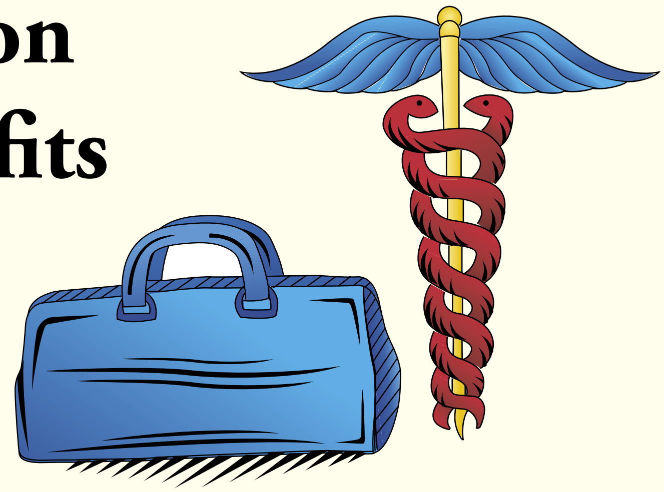
If even the matching requirements of a SIMPLE IRA are more than your budget can handle, you still have options. The least expensive type of IRA-based plan is a payroll deduction IRA. Strictly speaking, it is not an employee benefit, because an employer does not contribute to these IRAs—it simply allows employees to contribute to an IRA account through payroll deductions.

Although the employer makes no contributions to a payroll-deduction IRA, it is providing a service to employees by making retirement saving easy and automatic. Many individuals eligible to contribute to an IRA do not. They wait until the end of the year to set aside the money and then find that they do not have sufficient funds to do so. Payroll deductions allow individuals to plan ahead and save smaller amounts each pay period. Payroll deduction contributions are tax-deductible by an individual, to the same extent as other IRA contributions.

Under a payroll-deduction IRA, employees decide whether to contribute, and when and how much to contribute. For tax year 2005, individuals can contribute up to $4,000 or 100 percent of earned income, whichever is less, to a traditional IRA. Married couples can generally contribute up to $8,000 combined, provided one spouse has earned income of at least that amount. Individuals age 50+ can make an additional "catch up" contribution of up to $500.

A financial service provider can help you set up a payroll-deduction IRA. ❑

How State Regulation Affects Health Benefits



Each state regulates the insurers that are licensed to do business within its borders.

If your employee health plan is fully insured, you are therefore dealing with a state-regulated plan, while self-insured employers fall under ERISA, the federal benefit law.

States often require group health plans sold within their borders to cover certain treatments, such as mammograms, fertility treatments, well-baby care, and the like. The Council for Affordable Health Insurance (CAHI), an association of insurance carriers active in the individual, small group, medical savings account (MSA) and senior markets, has identified more than 1,800 mandated benefits and providers throughout the nation. It says, "…mandated benefits currently increase the cost of basic health coverage from a little less than 20% to more than 50%, depending on the state."

Some advocates say that if state mandates unnecessarily drive up the cost of health insurance, eliminating state regulation will result in lower health insurance costs. The Small Business Health Fairness Act of 2005, HR 525, would exempt association health plans from state regulation. This would, in general, allow associations to offer members "bare bones" (and therefore more affordable) health plans. However, it would also remove state consumer protections from these plans. The U.S. Department of Labor would presumably regulate association plans, under the federal ERISA law. However, the Labor Department, unlike state insurance departments, does not have the expertise in handling insurance regulation and consumer complaints.

HR 525 has passed the House. At press time, it awaited action in the Senate. A similar bill failed during the last congressional session.

Another bill, the Health Care Choice Act of 2005, or HR 2355, would allow insurers to designate a primary state, whose laws would apply to individual health insurance coverage offered by the insurer in that state and any other state. It would have no effect on group coverage.

Proponents say the Act would allow uninsured individuals to find cheaper coverage by opening up other states' markets, including online markets, to them. Critics say it would allow insurers to avoid regulation and consumer protections by designate a state with weaker regulatory oversight as their "primary state."

Further, some economists (including Uwe Reinhardt, a professor of economics and public affairs at Princeton University) doubt the bill will greatly affect healthcare affordability. In a letter to the editor of the *Wall Street Journal,* Reinhardt said the bill "…by itself will not reduce…variations" in health spending throughout the U.S. Reinhardt and colleagues noted that Medicare, which has uniform benefits and similar fees across the nation, experiences wildly different rates of per-capita health spending by county, even when adjusting for age, practice costs and case mix. He attributed variances not to mandated coverages, but instead to "differences in the practice style preferred by physicians." For example, in areas where malpractice claims rates are high, physicians might order more diagnostic tests than in other areas. Other social and economic factors can also affect a physician's practice style.

We will keep you informed of these and other bills that could affect your health care coverage. Meanwhile, for information on what you can do now to control health care costs, please call us. ❑

What coverages does your state mandate?

The Council for Affordable Health Insurance published a state-by-state list of mandates in effect as of December 2004. See it on their Web site, www.cahi.org/cahi_contents/resources/pdf/MandatePubDec2004.pdf

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4 Employer and employee contributions are immediately vested 100 percent, so you can't use a SIMPLE IRA to reward employee longevity.

5 You cannot set employment criteria for participation, such as full-time only, for participation. Employers must offer the plan to all employees who have earned income of at least $5,000 in any prior two years, and who are reasonably expected to earn at least $5,000 in the current year.

Other options for smaller employers

If the SIMPLE IRA doesn't provide the features you want, smaller employers can consider a SIMPLE 401(k). This type of 401(k) plan is available to employers with 100 or fewer employees who received at least $5,000 in compensation from the employer for the preceding calendar year.

Advantages of the SIMPLE 401(k):

- Plan is not subject to the discrimination rules that everyday 401(k) plans are.
- Straightforward benefit formula allows for easy administration.

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Medicare Part D plans will pay benefits as follows:

- Deductible: $250
- Basic benefits: The program will pay 75 percent of drug costs up to $2,250.
- Coverage gap: The program pays nothing for drug costs between $2,250 - $5,100. This is the so-called "donut hole."
- Catastrophic coverage: When an insured's drug costs reach $5,100+, the program will pay up to 95 percent of costs. (The insured will pay a $2 copayment for generic drugs, a $5 copayment for brand-name drugs, or a 5 percent coinsurance, whichever is greater.)

What Part D means to employers

The authors of the MMA knew that offering a federally subsidized prescription drug plan would tempt many cash-strapped employers to drop their own prescription drug programs. Therefore, MMA offers subsidies to employers to encourage them to continue providing drug coverage to their eligible retirees. Firms whose coverage is at least as generous as that under Medicare Part D qualify for tax-free subsidies equal to 28 percent of retirees' prescription drug costs between $250 and $5,000, per retiree, in 2006. The Centers for Medicare and Medicaid Services estimate the subsidy will average $611 per eligible retiree.

Although drug plan sponsors can offer alternatives to the standard benefit design, any variant offered must be at least "actuarially equivalent." That means, on average, the plan must provide the same value. Sponsors can offer plans that have a value that exceeds the standard benefit.

Employers' responsibilities

Employers that want the tax-free subsidy for benefit years ending during 2006 should have applied to the U.S. Centers for Medicare and Medicaid Services (CMS), part of the Department of Health and Human Services, by September 30. (The CMS will be publishing information on applying for a 30-day extension of the deadline; complete information was not available at press time.) Applications must include certification of the plan's actuarial equivalency to Medicare Part D benefits.

Many employers plan to seek the subsidy, according to a survey by Mercer Human Resource Consultants. Among larger employers surveyed (1,000+ employees), 64 percent will seek the subsidy. Only 36 percent of smaller employers will seek the subsidy.

By Nov. 15, employers that sponsor prescription benefit programs must provide Medicare-eligible plan participants—primarily those age 65 and older—with a notice that tells them whether prescription drug benefits in their current plan are at least equal to the drug benefits available under Medicare Part D. If your plan is fully insured, your insurer can provide you with the required forms. The CMS also provides model notices at www.cms.hhs.gov/medicarereform/CredCov-BeneDsclsreNtc.pdf. Plan sponsors must provide these notices regardless of whether they plan to apply for a subsidy!

Employers' concerns

Advertising for Medicare Part D plans will begin in October. If you plan to apply for the subsidy, you will want to encourage most Medicare-qualified beneficiaries to remain in your plan. Employers will not be able to claim the 28 percent subsidy for eligible drug costs for employees who enroll in a Medicare Part D plan instead of or in addition to your plan. Subsidies are also reduced or eliminated low-income individuals who qualify for low- or no-cost Medicare Part D coverage.

Education will play a key role in determining whether Medicare-eligible retirees will remain in your plan. Many plan participants will want to stay with in a familiar plan, particularly if you reassure them that their benefits are at least equivalent to Medicare Part D.
Employers whose plans are not actuarially equivalent to Medicare Part D can consider redesigning their plan to coordinate with Medicare Part D. In this way, they can provide retirees with greater benefits and might save money.

For more information on Medicare Part D and prescription plans for Medicare-eligible employees and retirees, please call us. ❑

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- Optional participant loans and hardship withdrawals add flexibility for employees.

Disadvantages

- As with the SIMPLE IRA, employees are fully vested in all contributions.
- No other retirement plans can be maintained.
- Withdrawal and loan flexibility adds administrative burden for the employer.
- Employee pretax contribution limits are the same as for SIMPLE IRAs. Other 401(k) plans offer higher limits.
- Employees covered by a SIMPLE 401(k) cannot receive contributions or benefit accruals under any other plans sponsored by the employer.

The safe harbor option

Large and small employers alike might want to consider a safe harbor 401(k) plan. A safe harbor 401(k) is similar to a traditional 401(k) plan, but employer contributions must fully vest when made. However, the safe harbor 401(k) is not subject to many of the complex tax rules that are associated with a traditional 401(k) plan, including annual nondiscrimination testing. This type of plan can be combined with other retirement plans to give you maximum options for your retirement benefits. Setup costs are similar to that of a traditional 401(k), but the elimination of discrimination testing will lower your administrative costs and hassles.

For more information on setting up a retirement plan that meets your needs, please call us. ❑