MSI Benefits Group, Inc.

TownPark Ravine One, 245 TownPark Drive, Suite 100, Kennesaw, Georgia 30144
Office: (770) 425-1231 Fax: (770) 425-4722 E-Mail: info@msibenefitsgroup.com

HEALTH INSURANCE

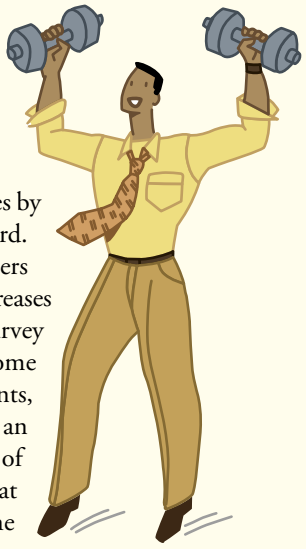
This Just In...

Flexible spending account (FSA) sponsors can modify their plan documents until the end of their plan year to give employees more time to spend their salary deferrals. FSA "use it or lose it" rules require plan participants to spend any pretax contributions to their accounts by the end of the plan year or lose those funds. The IRS issued a new rule earlier this year that allows plan sponsors to give participants a grace period of up to 2 1/2 months. Rules do not require employers to provide a grace period; however, if you do so, your employees will have additional time to spend any pretax contributions made to their FSA account in the current plan year.

The Small Employer Defined Benefit Expansion Act, introduced in the House in September, would create a new type of retirement plan for small employers. It would combine features of a defined benefit pension plan and an individual account, such as a 401(k) plan. Employer contributions to the plan would have to provide a minimum annual benefit. That benefit would be the lesser of 1) 1 percent of the participant's final average pay times the number of years' service with the employer or 2) final average pay times 20 percent. Employees could make elective pretax contributions to the plan, which employers would have to match at 50 percent, up to 4 percent of the employee's compensation.

EMPLOYEE BENEFITS REPORT
Vol. 4, Number 12
December • 2005

Making Employees Pay for Lifestyle Choices



Group health premiums have increased 73 percent since 2000. Experts are predicting another year of double-digit health premium increases in 2006—an average of 12 percent or 10 percent, depending on which survey you read.

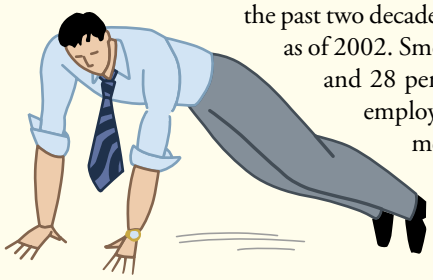
For several years, employers have responded to premium increases by shifting a portion of healthcare costs onto workers across the board. Three-quarters of executives surveyed by PricewaterhouseCoopers this spring said they were considering passing health care cost increases on to employees. But cost-shifting has its drawbacks. Another survey found that about 20 percent of adults, particularly low-income adults, with a chronic condition skipped recommended treatments, procedures or annual check-ups due to costs. This could increase an employer's health care costs over time. For this reason, eight out of 10 employers surveyed by PricewaterhouseCoopers thought that providing financial incentives for healthier lifestyles would be the best way to reduce healthcare costs in the long term.

What lifestyle choices lead to higher healthcare costs?

Three lifestyle factors cause most preventable disease in the U.S.:

✔ **Overweight/obesity:** Being overweight or obese increases the incidence of several diseases, including Type 2 diabetes, heart disease, breast and colon cancer, musculoskeletal disorders and depression. The journal *Health Affairs* (June 2005) reported that obesity-linked medical problems accounted for $36.5 billion, or 11.6 percent, of private (non-governmental) health spending. On a per-person basis, being overweight adds $125 per year to health care costs; obesity adds $395.

✔ **Smoking:** Although smoking rates and per capita tobacco consumption have declined over the past two decades, 22.5 percent of the adult population still smoked as of 2002. Smokers spend 21 percent more on healthcare services and 28 percent more on medications than nonsmokers. For employers, this translated into $75.5 billion in additional medical expenditures between 1994 and 1999, and $81.9 billion in mortality-related productivity loses.



Lifestyle – continued on Page 4

Use Automatic Enrollment to Boost 401(k) Participation, Savings

An increasing number of employers consider a 401(k) plan to be their primary retirement plan — 64 percent in 2005, up from 35 percent a decade ago. Today, 53 percent of American workers had access to a defined contribution plan, such as a 401(k), while only 23 percent had access to a defined benefit retirement plan.

Defined contribution plans put more responsibility for saving into employees' hands. Is the strategy working?

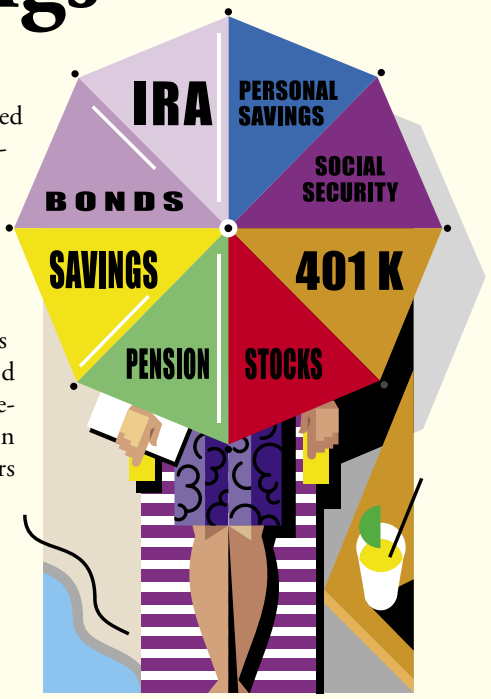
401(k) plan participants held a total of $2.1 trillion in assets at this time last year. But don't let that number fool you. Although it sounds high, American workers are ill-prepared for retirement. At year-end 2004, the average 401(k) account held a balance of $51,569; the median account held $19,926, according to a study by the Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI).

Younger and lower-income eligible workers are much less likely than older, higher-income workers to participate in 401(k) plans — 37 percent versus 90 percent. For this reason—and to avoid running afoul of nondiscrimination rules — nearly 20 percent of employers now incorporate automatic features in their 401(k) plans, up from 4 percent in 1997.

Automatic features encourage retirement saving by removing the work and decisions that can intimidate some would-be participants. Automatic features include:

1 **Automatic enrollment.** The most common feature, it enables plan sponsors to automatically enroll new employees, unless they specifically opt out. Employers set the initial contribution rate as well.

2 **Putting investments in a "default account."** Plan sponsors are finding that having too many investment choices can lead to confusion. Automatically putting salary deferrals into a life-cycle fund, money market fund or index fund can provide a one-size-fits-most solution to retirement savings.



3 **Life-cycle funds.** So-called life-cycle funds are becoming more popular for retirement plans. These funds automatically change the types of investments in an account based upon the participant's current age and planned retirement age and, sometimes, retirement goals. In general, younger investors want to invest more aggressively and so should have a higher percentage of their savings in stocks; investors nearing retirement age want to maintain liquidity and safety and should have a higher proportion of savings in bonds. Investors might neglect to update their savings portfolio periodically to ensure it fits their situation; life-cycle funds make this automatic.

"Defined contribution plans put more responsibility for saving into employees' hands."

For more information on other things you can do to boost participation and savings in your company's 401(k), or to set up a retirement plan for your organization, please call us. ❑

IRS announces the following pension changes for 2006, effective Jan. 1: maximum annual benefit under a defined benefit plan – up $5,000, to $175,000; the maximum annual contribution under a defined contribution plan – up $2,000, to $44,000; the annual compensation limit under a qualified plan increases $10,000 to $220,000 (except for certain governmental plans); and the compensation threshold for an employee to be considered a "key employee" increases $5,000 to $140,000.

Tax deduction for employer-provided health insurance under attack? In October, President Bush's tax advisory commission said it would recommend limiting tax deductions for employer-provided health insurance to the average cost of premiums the government pays for federal workers. That equals about $11,000 annually for family coverage. The commission did not agree on whether employers or employees would pay taxes on premiums over this amount. Currently, employers can deduct benefit expenses from taxable income, and employees receive these benefits free of income tax. The commission has an advisory-only role; any changes to the tax code would need approval from Congress.

Employers with retiree health plans can legally coordinate benefits for Medicare-eligible retirees …at least for now. In April 2004, the U.S. Equal Employment Opportunity Commission (EEOC) approved a rule that would permit

This Just in – continued on Page 4

Benefit Changes for Hurricane Katrina Victims

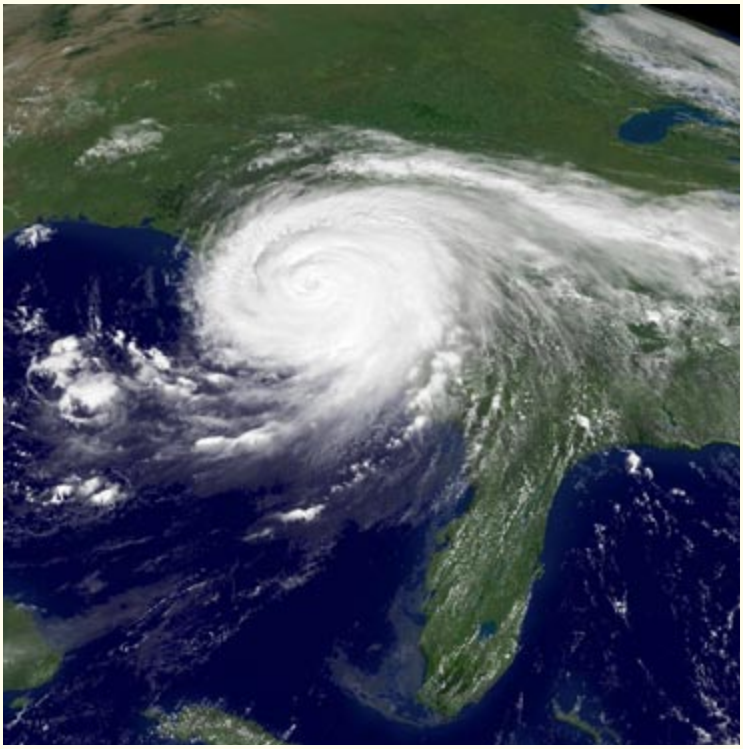
The Department of Labor and the Internal Revenue Service have extended certain deadlines applicable to group health, group disability, other welfare plans and pension plans for victims of Hurricane Katrina. These include participants, beneficiaries or claimants who resided, lived or worked in one of the disaster areas at the time of the hurricane, or if the benefit plan providing the individual's coverage was directly affected.

The rules direct plan sponsors, administrators and insurers to disregard the period from August 29, 2005 through January 3, 2006 when determining these deadlines:

- The 63-day limit on gaps for previous health coverage to be considered continuous "creditable coverage" for HIPAA purposes. HIPAA, the Health Insurance Portability and Accessibility Act, prohibits qualified group health plans from placing pre-existing condition exclusions on new enrollees who had continuous coverage before enrollment. Ordinarily, HIPAA considers breaks in coverage of less than 63 days as continuous, creditable coverage.
- The 30-day period in which plan participants can secure coverage without preexisting condition exclusions for newborns, or children newly adopted or newly placed up for adoption.
- The 30-day special enrollment period for health plans.
- The 60-day time period COBRA provides individuals to notify plan administrators that a "qualifying event" has occurred. A qualifying event, such as divorce, legal separation or a child's ceasing to be covered as a dependent under plan rules, entitles a qualified beneficiary to elect COBRA coverage.
- The 60-day period a qualified beneficiary has after a "qualifying event" to elect COBRA continuation coverage.
- The 30-day COBRA payment period. COBRA rules consider payments timely if they are not later than 30 days after the first day in the period for which payment is being made.
- Deadlines for filing claims (determined by plan rules).
- The 180-day period an individual has to appeal an adverse benefit decision under ERISA.

The rules also provide relief to group health plans, sponsors and administrators and insurers directly affected by Hurricane Katrina. It allows them to disregard the period from August 29, 2005 through January 3, 2005 when determining dates for providing automatic certificates of creditable coverage and providing COBRA election notices.

The Katrina Emergency Tax Relief Act of 2005 (KETRA), which became law on September 23, also eases some tax and benefit rules for victims of Hurricane Katrina, including benefit sponsors.



The rules direct plan sponsors, administrators and insurers to disregard the period from August 29, 2005 through January 3, 2006 when determining [benefit] deadlines

Of most interest to employers:

- Plan sponsors and administrators in the declared disaster areas have until January 3, 2006 to file the Form 550 and 5500-EZ originally due August 29 or later (August 24 or later for Florida). The extension also applies to plan sponsors and administrators outside the disaster area that cannot obtain required information from insurers, banks and service providers located in these areas.
- Employers generally must make tax-deductible contributions to qualified retirement plans by the date their federal tax return is due (including any extensions). For taxpayers in Louisiana parishes, Mississippi counties and Alabama counties designated as disaster areas eligible for individual assistance, the IRS has extended the deadline for contributions due on or after August 29, 2005, to January 3, 2006.
- Qualified retirement plans, 403(b) annuity plans, governmental 457 plans and IRAs can make special distributions of up to $100,000 to individuals whose principal residence on August 28, 2005 was located in a declared Hurricane Katrina disaster area who suffered economic losses due to the disaster. The law exempts "Qualified Hurricane Katrina Distributions" from the usual 10 percent penalty for early withdrawals. Individuals can repay these distributions. Employers are not required to offer these withdrawals.
- KETRA also allows eligible individuals to take an additional amount from their qualified employer plan as a loan and to defer repayments for a period of up to one year. Loan limits are increased to the lesser of $100,000 or 100 percent of the vested accrued benefit, up from $50,000 or 50 percent. ❑

In addition to causing lung cancer, emphysema, heart disease and stroke, smoking can magnify the effects of exposure to toxins in the workplace, increasing incidence of certain cancers and other serious illnesses. The Centers for Disease Control has linked smoking with a 61 percent increased risk of "occupational traumatic death."

✔ **Alcohol abuse:** More than 14 percent of Americans employed full- and part-time report drinking heavily, defined as five or more drinks on five or more days in the past 30 days. The Robert Wood Johnson Foundation estimates that lost work time due to alcohol-related illness, premature death and crime costs employers $134 billion a year. Alcohol plays a role in an estimated one-quarter of emergency room visits—alcohol abuse can cause or contribute to accidents and illnesses.

Few studies have calculated alcohol's direct impact on employer's health costs—one of the most recent (from 1999) estimated untreated substance-abusing employees cost employers an estimated $640 million annually in health care expenses.

Employer initiatives

About 41 percent of companies have programs to encourage healthy behavior, up from 34 percent in 1996, according to consulting firm Hewitt Associates. Health promotion programs can be simple and inexpensive — such as providing information on health or encouraging employees to start a fitness program.

However, many employers have found that simply promoting healthy behavior produces little in the way of quantifiable results. Programs that lack incentives often can't overcome employee inertia to bring about lasting behavior changes.

Building financial incentives into your health promotion program can boost its effectiveness. Here are some examples of incentives other employers have used:

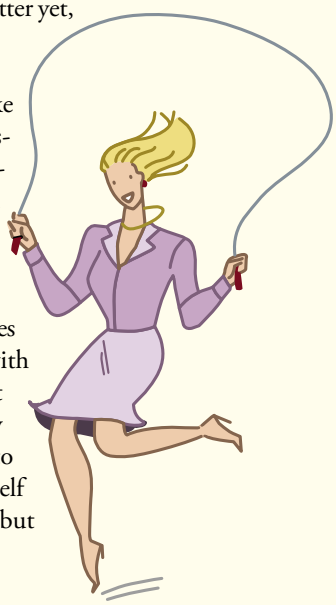
Offering free health screening and evaluation programs during work hours. Employees are more likely to participate if you make it easy and free.

Ensuring your health insurance covers an annual physical exam — and promoting that benefit.

Rewarding positive behaviors, such as stopping smoking or exercising. The most effective programs reward employees for achieving specific health goals, such as remaining smoke-free for one year, monitoring blood sugar levels daily or meeting a goal of miles run, walked, biked or swum. Paid days off, discounts on insurance premiums or rebates on health club membership fees make effective rewards.

Tying premium payments to completing health risk assessments. Some employers give employees who complete a health risk assessment and agree to see a health counselor two times a year a 100 percent discount on their health insurance premiums. The health risk assessments help counselors tailor programs to help at-risk employees improve their health. In essence, the employer is penalizing employees who refuse to complete a health assessment and see a health counselor.

Surcharging employees who make unhealthy lifestyle choices, such as smoking. Some employers charge smokers an additional $25-50 per month for their health coverage. If you use surcharges, note that smoking rates are higher among people with less income and education—those least likely to have access to or to be able to afford smoking-cessation programs. Out of fairness, if you will be surcharging smokers for their health coverage, make sure you cover the costs of smoking-cessation programs. Better yet, offer free programs at the workplace.



If you do impose premium surcharges, make sure they are actuarially sound, nondiscriminatory and part of a bona fide wellness program. Premium surcharges should reflect actual increased costs linked to the behavior. And beware any programs that penalize employees for being obese or having specific health conditions, such as diabetes or high blood pressure. The Americans with Disabilities Act applies to employee benefit programs—singling out a specific disability or disability-causing conditions can lead to charges of discrimination. Overweight by itself does not qualify as a protected disability, but severe obesity might.

For more information on designing incentives into your group medical program, please call us. ❑

THIS JUST IN **– continued from Page 2**

employers to coordinate retiree health benefit plans with Medicare or a comparable state plan without running afoul of the ADEA (Age Discrimination in Employment Act). However, in early 2005, a judge for the U.S. District for the Eastern District of Pennsylvania blocked implementation of the rule, saying it would allow employers to discriminate against older, Medicare-eligible retirees by offering younger retirees richer health benefits.

The judge reversed her decision in September, citing a U.S. Supreme Court ruling in June. The high court ruled in a different case that a federal court must defer to an agency's interpretation of law, if the law falls within the agency's purview, the point of contention is ambiguous, and the agency's interpretation "reasonable." ❑