Employee Benefits Report

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Insuring Small Businesses: Association Health Plans vs. Small Business Plans

Two approaches to making healthcare affordable for small businesses

Statistics show that employees of small businesses are less likely to have insurance coverage than those at larger companies. According to the 2002 Medical Expenditure Panel Survey, only 38.9 percent of workers at firms employing fewer than 50 workers obtain health coverage through their employer. This contrasts sharply with firms employing 1000 or more employees, where 64.4 percent of workers use employer-based health insurance.

As the number of uninsured workers increases, two types of plans have emerged as possible solutions to improving health insurance affordability: association health plans and small business plans.

What are association health plans?

Over the last 10 years, the House of Representatives has passed association health plan legislation seven times. No AHP bill has passed the Senate yet.

Association health plans would permit small businesses to pool their resources to buy affordable coverage through associations. Legislation creating these plans would exempt the plans from state regulation, which would make the policies cost less than traditional group insurance policies (at least in the short term).

Policies exempted from state regulation would cost less because they would not have to cover "mandated benefits." 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, 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 percent to more than 50 percent, depending on the state."

The problems with AHPs

While AHPs might look good at first glance, the long-term view will be quite different, according to the non-parti-

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This Just In

In August, President Bush signed an executive order to increase medical pricing transparency and enhance health information technology. The order directs federal health plans to share with beneficiaries information on provider pricing and quality of service, and directs them to use improved health information systems to facilitate the rapid exchange of health information. It will also direct federal agencies to improve cost efficiency through consumer-directed health insurance products. Although the order affects only federal health care programs, such as Medicare and the Federal Employees Health Benefit Program, the size of federal health care programs means the effects of the order will likely spill over into private-sector plans.

Taking Care of the Caretakers

How can you ease the burden of eldercare—and improve the bottom line?

According to a recent survey by Campbell-Ewald Health, a marketing firm, 13 million baby-boomers are at least part-time caregivers of a sick parent, and almost 25 percent of them actually live with that parent. And a Pew Research survey found that two out of every ten baby boomers provide some form of financial assistance to their parents.

What does this mean for employers? The stress created by multi-generational care can create real productivity problems. One recent study, conducted by the National Alliance for Caregiving and Metropolitan Life Insurance Co., estimated productivity losses due to elder care issues at between $11 and $29 billion annually, or $2,110 for each full-time worker who was also a caregiver. These productivity losses stemmed from absenteeism, leaving early/coming in late, workday interruptions, "eldercare crises," unpaid leave, supervisor time and reducing work hours.

Employees caught between the need to work and the demands of elder care may leave the workforce if they can't arrange the flexible work schedules that allow time for doctors' appointments and making care arrangements. Poorly trained managers can make matters worse, if they resent the worker who is suddenly less productive. Such workplace tension may hasten the worker's departure. After all, the parents aren't going away any time soon, but the job can be expendable.

The cost of eldercare also figures into the equation. Those caring for the elderly face the same types of choices that young parents make. If eldercare becomes too expensive, it might make more sense to designate one person to stay home and care for the household.

Employers know all too well the cost of replacing a trained, productive employee. The general rule of thumb is that employers will spend one and one-half times a position's salary in lost productivity, advertising and hiring efforts to fill the open position once the incumbent leaves. That's a significant cost.

What employers can do to help caregivers

Savvy employers can help retain trained workers through a combination of training managers and supervisors to give stressed workers some slack, and providing benefits that allow workers to navigate this difficult part of life.

Eldercare benefits refer to a wide variety of perks employers offer employees caring for older family members. They include flexible work schedules, resource and referral services, tax-free dependent care spending accounts, subsidized adult day care, paid time-off programs and long-term care insurance, among others.

But no single set of benefits will fit every employer's situation. To ascertain employee needs, employers should survey employees to find out what benefits employees want and would likely use, if offered. Providing a list of suggested benefits can help guide employees through the process. To avoid the "we want it all" scenario, ask employees to rank their choices in order of preference.

Remember not to ask specific questions about employees' families, plans to have children, disabilities or other factors that could run afoul of federal anti-discrimination laws. When in doubt, consult your attorney.

Armed with the survey responses, employers can look at the most popular benefits and start looking at the costs involved in providing them. But before buying in to the specific requested benefit, ask what problem the benefit solves for workers. There may be a more cost-effective way to accomplish the same goal.

In fact, any new benefit should be analyzed to determine its costs, benefits and long-term consequences. For instance, if your company already offers an employee assistance program (EAP), offering eldercare information and referrals through the EAP should cost nothing extra. Employers merely need to talk to their EAP to make sure it provides these services, then make sure employees know they can use their EAP for this purpose.

Similarly, your EAP probably already provides counseling or referrals to counselors. Those who need emotional support for their eldercare tasks need to know that they can turn to the EAP for assistance. Having someone to talk to can be of great benefit to a stressed caregiver, and may help to keep him or her focused on the job.

Employers can arrange flexible hours, job sharing (where a worker who needs a reduced schedule trains a part-time worker to handle some of his/her responsibilities), and telecommuting.

Flexible hours plans vary extensively. Employers can choose simply to allow workers to make their own schedules with minimum weekly hour requirements. Some employers designate core hours that each employee must work, and then allow flexibility in the rest of the schedule.

So how well do flexible hours and other work/life balance policies work? A recent survey by *HRFocus* magazine reveals that most employers who have implemented work/life policies are pleased with them. However, very few have actually measured their results.

Most of the respondents to the *HRFocus* survey offer leave in excess of what the federal Family and Medical Leave Act (FMLA) provides. The FMLA entitles eligible employees to up to 12 weeks per year of unpaid leave for assisting parents or other dependents suffering from a serious health condition. The law does not provide leave to care for in-laws.

Employers can also offer long-term care

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san Congressional Budget Office (CBO). In its analysis of an association health plan proposal from 2000, the CBO found that AHP premiums would average approximately 13 percent less than the group health premiums small firms were currently paying. However, it's not an apples-to-apples comparison. Since the AHPs are free of state regulation, many of the benefits workers at small firms currently enjoy would be dropped. The CBO says small firms will be "paying less money for less insurance."

AHPs would also not be required to insure everyone. The CBO model showed that some "cherry-picking" would occur. As a result, traditional plans would experience a 2 percent rise in premiums to cover groups that AHPs refused to cover. States where health insurers are heavily regulated currently would experience the low-cost AHP/higher cost traditional plan phenomenon more than lightly regulated states.

AHPs would be primarily regulated at the federal level. What regulations the federal government would make if AHPs were established are not clear. The libertarian Cato Institute, for one, believes AHPs' premiums will remain lower for only a few years. Once federal regulatory mandates kick in, AHP premiums would be comparable to those we see now in the traditional, state-regulated market.

What are small business health plans?

In this session, the Senate has been considering a bill that would create a new type of plan, a small business health plan (SBHP). Senate Bill 1955, officially known as the Health Insurance Marketplace Modernization and Affordability Act, has also been referred to as the Small Business Health Plan bill, and sometimes as a type of association health plan legislation.

SBHPs have the potential to help make insurance more affordable. However, the bill's supporters recently failed to overcome a filibuster.

The bill's detractors say that while it requires insurers to offer employers at least one plan that provides similar benefits to a plan covering state employees in any one of the five most populous states, the bill does not actually require employers to offer this plan to their employees. It also does not require the plan to provide comprehensive benefits, such as cancer screenings and other benefits the states have deemed important enough to mandate.

Small business health plans, as proposed in S. 1955, would differ from AHPs in several important ways. As with AHPs, the bill would allow associations and similar organizations to offer health plans to their members. However, the bill has significant differences:

1. It would require the Secretary of Health and Human Services to promulgate Model Small Group Rating Rules. These "harmonized standards" would apply across state lines and provide for uniformity of state rating laws. This change is directed largely at states with community rating, which has driven up the cost of insurance for small employers. The standards would limit the extent to which insurers could vary the premiums they offered in the small group market and limit allowable rate increases when policies renew.
2. It would exempt insurers from state regulations that interfere with their ability to sell or market policies that comply with the Model Small Group Rating Rules. It does not exempt them from state licensing and other consumer-protection rules. In other words, the bill would eliminate state-mandated coverage requirements, but not eliminate state oversight.
3. Although it would allow plans with "limited mandates" to be sold across state lines, it would require insurers that offer these to also offer an "enhanced option." Benefits under the enhanced plan would have to be equivalent to a state employee coverage plan in one of the five most populous states.

The CBO estimates that if S. 1955 passed, it would result in about 600,000 more people having health insurance coverage by 2011 than under current law. The majority of those newly insured would be employees of small firms and their dependents enrolling in employer-sponsored coverage. If no further action is taken on S. 1955, it will die at the end of the legislative session.

Insurance and the role of state regulation

AHPs and SBHPs would create new types of insurance plans, designed to increase competition. Representative John Shadegg (R-AZ) has introduced a bill, HR 2355, the Health Care Choice Act, introduced in the Senate as S. 1015. Instead of creating a new type of policy, it would allow insurance to be sold across state lines, allowing consumers to choose among health insurance plans from all 50 states. Each policy would be regulated by the issuing state, so consumers would still have the protection of state regulation.

State regulation of insurance helps consumers, by licensing and overseeing insurers and agents and by giving consumers somewhere to turn in cases of disputes with their insurer. But every situation differs: in some states with less competitive markets, allowing consumers to purchase coverage from other states might improve consumer choice and spur positive change in the market. In others, however, it might disrupt the market. Detractors say that insurance companies will sell products from the states with the fewest consumer protections, lowering premiums for the young and healthy, but leaving older, sicker members without comprehensive care and at much higher premiums.

We will continue to monitor small business health plan and other health insurance-related legislation closely and notify you of any changes that will affect your coverage. ■

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policies on a payroll deduction basis or as part of a Section 125 cafeteria plan. These policies can help employees prepare for the future needs of parents or older spouses. However, some illnesses or disabilities will disqualify an applicant from coverage, so this type of insurance will not likely help someone already dealing with an eldercare situation.

When faced with a workforce containing a significant portion of "sandwich generation" workers, open lines of communication to put together benefits that will keep these valuable workers on the job and help them through this stressful period in their lives. The right benefits can help reduce turnover costs and build employee loyalty. ■

Matching Contributions= Free Retirement Money

They add up...do the math!

The money employees contribute to their 401(k) can be the best-spent money of their lives. This is especially true when employers match employee contributions.

Sadly, most employees who could take advantage of matching employer contributions don't. According to a study by Hewitt Associates, only one in three American workers maximize their matching employer contributions.

Take two employees working for the same employer that provides a 401(k) program where the employer matches contributions at 50 cents on the dollar on contributions in excess of 3 percent of salary, to a maximum of 6 percent. Sherry Shortrange, age 35, only puts 3 percent of her $4,000 monthly salary into the 401(k). Linda Longterm, also age 35, maximizes her contribution to get the full matching funds from her employer. Sherry Shortrange contributes $1,440 the first year. Linda contributes $2,880 plus the $1,440 in matching employer funds.

Assuming each employee receives a 4 percent raise each year and earns a 7 percent return on their money over the next 30 years, Sherry will have a balance of $224,384.52 at age 65. Linda, on the other hand, will have a balance of $673,153.57.

Sherry will have benefited from having the $80,762 in lower contributions to spend during those 30 working years. But the price of keeping that money is $468,959.62 in higher taxes and lower retirement income.

Most experts advise employees to save as much as they can as soon as they can. Then compounding interest can build that nest egg longer. Matching employer contributions are then icing on the cake.

For employees who just can't squeeze out that extra contribution, remember this tip: Take your next raise and contribute it or a portion of it to your 401(k). You will continue taking home just as much, but retirement savings will grow. If your employer matches the contribution, so much the better. ■

Increasing Participation

Are you looking to increase participation rates for your company's 401(k)? A recent study by the TIAA-CREF Institute found a 100 percent employer match increased participation rates about 13 percent. Lower-income workers (making $20,000 or less) responded particularly well to employer matches, increasing participation rates by 19 percent.

Plan Sponsors Have Until Nov. 15 to Provide "Creditable Coverage" Notices

Beginning January 1, 2006, Medicare beneficiaries have the opportunity to receive subsidized prescription drug coverage through the new Medicare Part D program. Beneficiaries who choose not to sign up at the first opportunity may have to pay more if they wait to enter the program after the open enrollment period. Employers that provide prescription drug coverage (or their insurers) have until November 15 to provide Medicare-eligible individuals "creditable coverage notices," which say whether prescription drug coverage is at least as good as the new Medicare drug benefit. With this "creditable coverage," the beneficiary can continue to get the high-quality care they have now and avoid higher payments if they sign up later for the Medicare drug benefit. A disclosure is required whether the employer's coverage is primary or secondary to Medicare.

Employers that contract with Medicare directly as a Part D plan or that contract with a Part D plan to provide qualified prescription drug coverage are exempt from the disclosure requirement. Thus, for example, an employer or union that provides prescription drug coverage to retirees through a Part D plan does not have to provide disclosures.

For more information, see the Centers for Medicare and Medicare Services Web site's discussion of creditable coverage at www.cms.hhs.gov/creditablecoverage. ■