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Insurance, Investments, Business & Financial Services

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Reduce Health Insurance Costs – *Is that possible?* Yes.

If you live in Utah, this article was written for you. At Miller & Wade Group (the fourth-largest employee group benefit agency in Utah), we are always looking for cutting edge financial solutions that will provide value to our clients. Guess what? We have found a solution that addresses two major financial problems:

1. How to reduce the costs of health insurance
2. How to get health services if you have been denied or labeled uninsurable. Whether you are a business or sole proprietor, you need this.

The solution is quite simple. For the insured, we retool current health insurance plan deductibles (significant savings), cover this deductible exposure with a supplemental hospitalization plan and then add an innovative health service offered by the Total Health Institute (a local integrative medical clinic) and "voila," you have three times your current coverage, for less. Everyone—insurable or not—can qualify for the Total Health Institute.

Call today. Start saving money and bettering your health!

Step 1: Contact Miller & Wade Group for a consultation at (801) 377-1990.

Step 2: Ask to review the 3 for 1 strategy

Step 3: Implement the program and start saving money

EMPLOYEE BENEFITS REPORT

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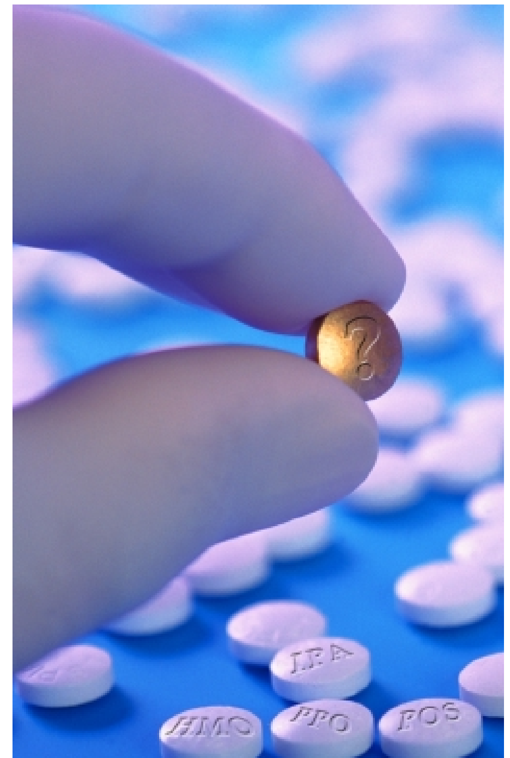
Health Care Plans 101



With a veritable alphabet soup of acronyms—PPO, IPA, HMO, POS – it's no wonder that even benefits professionals sometimes are puzzled when it comes to healthcare options. Imagine how confusing it all might seem to the uninitiated? To help them (and you) remain clear, here's a quick review of the major types of plans and their variations.

When talking about health plans, the two major categories are fee-for-service and managed care. Managed care plans can go by many names, including: health maintenance organization (HMO), preferred provider organization (PPO), individual practice association (IPA), or point of service (POS) plan. The main differences largely revolve around choice of providers, out-of-pocket costs for covered services and how bills are paid.

Fee-for-Service Plans

With fee-for-service, the insurer only pays for part of doctor and hospital charges, while the employee covers the monthly premiums and deductibles. This type of health insurance offers the most choices of doctors and hospitals.

After an employee meets the deductible, most fee-for-service plans pay a percentage of what they consider the "usual and customary" charge for covered services. The insurer generally pays 80 percent of the usual and customary costs and the insured pays the other 20 percent, which is known as coinsurance. If the provider charges more than the usual and customary rates, the employee pays both the coinsurance and the difference.

Most fee-for-service plans include a monetary "cap." The insured reaches the cap when the out-of-pocket expenses (for deductibles and coinsurance) total a certain amount in any one year or specified period. The cap may be as low as $1,000

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Choosing the Right 401(k) Investment Advisor

Many employees want detailed guidance on making asset allocations and selecting specific investment options, but since "investment education" in general doesn't include specific investment advice, plan sponsors must decide whether to offer additional investment advisory services or not. Increasingly, employers are answering "yes."

Investment advisors are thus becoming significant players in the 401(k) marketplace. They may be registered investment advisors (RIAs), who often work under a fee-for-service arrangement, or they may be brokers marketed as investment advisors, who typically earn commissions based on sales of investment products. The fee-for-service charge often ranges from roughly 10 basis points to 25 basis points, with large plans getting better deals. Duties can include everything from investment selection and review to education and one-on-one advice for participants.

Smaller Plans and Shrinking Markets

Several factors explain why investment advisors are building a larger presence in the 401(k) market. For one, providers need them now, especially in the small-plan market. Indeed, investment advisors work mostly with small to medium-size plans, since most small firms do not have the resources or expertise to be able to implement and monitor 401(k) plans on their own.

The emergence of the investment advisor's role also corresponds directly to shrinking equity markets. Five years ago, when nearly all stocks were going up, providers generally furnished education materials and fewer participants sought investment advice. In today's environment, those days of satisfaction are gone. When a participant's portfolio begins to suffer, the plan sponsor's office receives more questions and complaints. Many participants feel they need an advocate, someone to give them the peace of mind that there is somebody looking out for their best interests. And with the post-Enron spotlight on fiduciary responsibility, plan sponsors increasingly are seeking independent third parties to advise on fund selection and monitoring.

"The explosive growth of the 401(k) market has brought many new investment advisors into the field with varying levels of qualifications. "

Doing Your Investment Advisor Homework

How qualified is your investment advisor? Use this checklist to find out.

Affiliations & Fiduciary Responsibility. Does the advisor have:

- ✔ Professional designations specific to qualified plans?
- ✔ Experience working with different service providers (and how would it leverage that experience)?
- ✔ Formal affiliations with specific service providers (third-party administrators, mutual fund companies and insurance companies)?
- ✔ Experience helping to manage fiduciary responsibilities (and how would it do so for your plan)?

Investment Experience & Credentials. Is the advisor:

- ✔ Licensed to sell securities or insurance?
- ✔ A registered investment advisor (RIA)?
- ✔ Independent of proprietary products or service platforms?

General Service Capabilities. Ask advisors to explain:

- ✔ Who's on their team, and what are their functions?
- ✔ Tenure with their current organization?
- ✔ Process for conducting enrollment meetings?
- ✔ Process for giving advice to participants?
- ✔ Fee structure for services?

Finally, don't forget to ask for references willing to discuss all these areas.

Beginnings of a Shakeout

The explosive growth of the 401(k) market has brought many new investment advisors into the field with varying levels of qualifications. And, as with any business that undergoes a rapid growth phase, the field of 401(k) investment advisors is

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witnessing a shakeout, as sponsors and investment-product providers begin to weed out the less qualified.

Current financial pressures are also leading sponsors to more likely favor investment advisors who charge no upfront fee and a higher retainer, as opposed to an upfront fee and a lower retainer. And experience counts, of course. Ultimately, providers and plan sponsors are seeking advisors who really know what they are doing.

While the plan sponsor usually handles areas such as 401(k) administration and record keeping, advisors can handle almost anything else. They can work with company executives on provider searches and investment options for the plan. Advisors can explain to plan sponsor clients how legislative changes affect them. They can monitor investments, evaluate plans to make sure they are in regulatory compliance, and help sponsors understand fiduciary responsibilities.

At the participant level, advisors can work with clients on such duties as enrollment, asset allocation and distribution strategies, both in group meetings and one-on-one sessions. In many cases, advisors help communicate to participants everything the plan sponsors have put into place.

Some companies have seen voluntary contributions by employees soar following the selection of a new investment advisor. Participants may have never known they had a particular benefit or did not understand it fully. For many, it's like having a personal financial planner at their disposal.

The Right Fit

Utilizing investment advisors has its complexities but, when it works right, can make a big difference. So how does a firm go about selecting an investment advisor? Most of the time, a company's top executives meet and come up with a list of names based on personal and business contacts at brokerages, banks and the like. The best sales pitch gets the job, often with little further scrutiny by the plan sponsor. But digging deeper is the key to hiring a good investment advisor.

Essentially, picking an investment advisor should be like hiring an employee. On-point experience is essential. First, find out about advisors' background in working with retirement plans; ask how long they've been in the business, and how much of their business is with plans that are similar to your industry and size. For new plans, experts advise selecting someone willing to suggest and spend adequate time helping to design a customized plan, not just an "off-the-shelf" 401(k). The time spent carefully recruiting an advisor who can best meet the needs of you and your plan participants will be well worth the effort. ❑

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or as high as $5,000. Then the insurance company pays the full amount in excess of the cap for the items the policy covers. The cap does not include the amount of the premium.

But wait, there's more. The two kinds of fee-for-service coverage are *basic* and *major medical.* Basic protection pays toward the costs of a hospital room and care while in the hospital. It covers some hospital services and supplies, such as x-rays and prescribed medicine. Basic coverage also pays toward the cost of surgery, whether it is performed in or out of the hospital, and for some doctor visits. Major medical insurance takes over where basic coverage leaves off. It covers the cost of long, high-cost illnesses or injuries. Some policies combine basic and major medical coverage into one plan, sometimes called a "comprehensive plan."

Managed Care Plans

In contrast to fee-for-service plans, managed care plans have agreements with certain doctors, hospitals and health care providers to offer a range of services to plan members at reduced cost. In general, managed care-type plans involve less paperwork and lower out-of-pocket costs for employees. And there are a number of managed care options available:

✹ **Health maintenance organization (HMO)**. HMOs are the oldest form of managed care plan. HMOs offer members a range of health benefits, including preventive care, for a set monthly fee. There are many kinds of HMOs. If doctors are employees of the health plan and practice at central medical offices or clinics, it is called a *staff* or *group* HMO. Other HMOs contract with physician groups or individual doctors with private offices. These are called individual practice associations (IPAs) or networks. Other HMOs, like Kaiser Permanente, the nation's largest, employ all their own providers.

> **"After an employee meets the deductible, most fee-for-service plans pay a percentage of what they consider the *usual and customary* charge..."**

HMO plans may vary from no co-payment at all to co-payments rivaling fee-for-service plans. But virtually all plans cover care provided only by HMO providers, with exception for emergencies or when otherwise medically necessary.

Many HMOs offer an indemnity-type option known as a point of service (POS) plan. The primary care doctors in a POS plan usually make referrals to other providers in the plan. But in a POS plan, members can refer themselves outside the plan and still get some coverage. If the doctor makes a referral out of the network, the plan pays all or most of the bill. If the employee refers herself to a provider outside the network and the service is covered by the plan, the insured will have to pay coinsurance.

✹ **Preferred provider organization (PPO).** Like all managed care plans, a PPO has pre-established agreements with doctors, hospitals and other care providers to accept lower fees for their services. But a PPO shares some characteristics with a fee-for-service plan because patients can, for an additional cost, go outside the network of providers if needed. As a result, costs stay lower but flexibility remains high. Of course, if a plan member chooses to go outside the network, he or she will have to meet the deductible and pay coinsurance based on higher charges. In addition, the employee may have to pay the difference between what the provider charges and what the plan will pay.

To discuss which type of plan may best meet your employees' needs, please call us. ❑

Split-Dollar Arrangements Prove Unattractive for Employees

The IRS has issued final regulations on so-called split-dollar life insurance arrangements. "Split dollar" isn't a specific type of life insurance but rather a technique where one party helps another to purchase life insurance. It's called split dollar because that's what the parties do—split premiums, cash values and death benefits. These arrangements are often used for executive compensation or for gifts among family members. The regulations apply to arrangements entered into or materially modified after September 17, 2003.

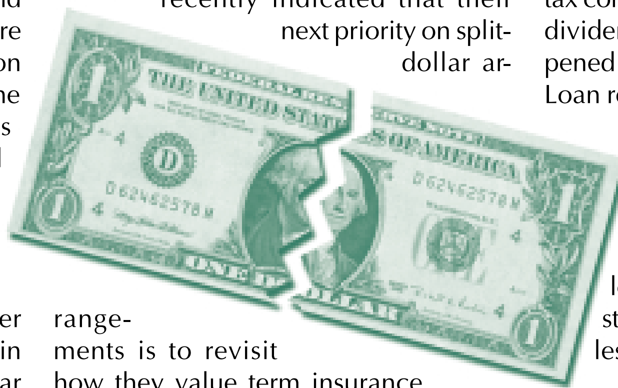
Many companies are disappointed to learn that the final regulations remain substantially similar to earlier proposed versions. This means that, in most cases, new executive split dollar arrangements will be financially unattractive. The final regulations provide that the tax treatment of split-dollar life insurance arrangements be determined under one of two sets of rules, depending on who owns the insurance policy.

Under the *economic benefit regime*, the employer owns the policy. The employer's premium payments are treated as providing taxable economic benefits to the employee. If the employee owns the policy, the *loan regime* applies. Then the employer's premium payments are treated as loans to the employee.

Economic benefit regime

Here, the employee will be taxed based on the total value of **(1)** her current life insurance protection, **(2)** her interest in the policy cash value and **(3)** any other economic benefits provided. Any employee contributions, or amounts under (2) and (3) taken into account in a prior tax year, will reduce the total. The value of the life insurance protection is measured using a published premium table.

The rates in the table are substantially higher than those for split-dollar arrangements in the past. In fact, the IRS has recently indicated that their next priority on split-dollar arrangements is to revisit how they value term insurance costs for tax purposes. It appears that even if rates drop, split dollar-arrangements will be significantly more expensive for employees than in the past, which may limit their use.



Loan regime

With an employee-owned policy, the employer's premium payments are treated as a series of loans. A payment will be considered a loan under one of three scenarios: **(1)** the employer makes the payment directly or indirectly (i.e., premium paid to the insurance company); **(2)** the payment is a loan under federal tax law, or full repayment would reasonably be expected; or **(3)** repayment is secured by the insurance policy (death benefit or cash value).

The final regulations retain many complex rules regarding loan arrangements, depending on whether they are considered demand or term loans, and whether payments are fixed or contingent. Essentially, unless the employee is required to pay the employer market-rate interest on the loan, the employee will be taxed on the difference between market-rate interest and the actual interest.

These provisions can have significant tax consequences for the employee when dividend levels are not met, as has happened with many current arrangements. Loan repayments can be less than anticipated, generating potentially significant tax bills for unsuspecting split dollar participants. Like arrangements under the economic benefit regime, split-dollar loan arrangements will now be substantially more expensive and much less attractive for employees.

Look for changes in two areas. In the regulatory context, the Sarbanes-Oxley Act appears to prohibit the use of loan-type split-dollar plans in publicly traded corporations (but not in closely held corporations). On the tax law side, further proposed regulations deal with the amount and timing of the taxation of beneficiaries of various split-dollar arrangements.

Although in most cases, new split-dollar arrangements won't make good financial sense, it may be possible to structure insurance arrangements to meet some of the corporate benefit objectives addressed by traditional programs.

Unfortunately, there is no "one size fits all" solution, since every split-dollar arrangement is different. And, of course, the parties' objectives will greatly influence the steps to be taken. If your firm provides split dollar as an employee benefit, obtaining sound advice of counsel on these issues is essential.

For more information on the uses of life insurance as an employee benefit, please call us. ❑

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