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**This
 Just
 In...**

RISK MANAGEMENT

Making a Case for Wellness Programs

 Rising health insurance costs are suppressing job growth, according to an article in the *New York Times* (August 19). Although the recession officially ended in 2001, the economy added only 32,000 new jobs in July 2004. Citing government reports, interviews with employers and other sources, the article attributed recent sluggish growth in new jobs to employers' reluctance to add to their rising health insurance costs. Health insurance now costs employers an average of \$3,000 per employee per year.

 More than 70 percent of employers are concerned about the cost of their 401(k) plans—and 60 percent are reducing their investment management fees, found a recent survey by Hewitt Associates. Management fees can account for 70 to 80 percent of 401(k) plan costs. For suggestions on trimming management fees, please see our September 2004 issue.

 Two proposals before legislators would make health insurance more affordable for self-employed. The Equity for Our Nation's Self Employed Act of 2004, S. 2433, would allow self-employed individuals to deduct health insurance costs in computing the tax on self-employment income. The House is considering a similar bill, HR 1873, which would permit as a net earnings deduction the health insurance costs of a self-employed individual.

You have a challenge: to reduce employee medical costs. You've had a managed care plan for years and recently increased employees' share of group medical costs. What else can you do? Maybe it's time to take a closer look at prevention.



Conventional wisdom says that approximately 20 percent of insured employees account for 80 percent of all healthcare costs. Many of these costs result from preventable or controllable conditions caused by lifestyle choices, such as obesity, diabetes, hypertension, etc. For this reason, most employers offer some type of wellness program — according to the American Institute for Preventive Medicine, 91 percent of all employers offered at least one wellness program.

But do these programs pay off? Consider the following facts:

So-called "lifestyle conditions" cost employers billions. The U.S. Department of Health and Human Services blamed overweight and obesity for costing employers approximately \$15.4 billion in sick leave and health, life and disability insurance expenditures. In a more specific example, a University of Michigan study of 23,500 General Motors workers found a direct correlation between weight and health care costs. The 30 percent of workers studied who were of normal weight had health care costs averaging \$2,200 per year. The 45 percent who were overweight had average health care costs of \$2,400 per year, and the obese had costs of \$2,700 per year.

Smoking still causes more preventable deaths than any other risk factor, according to the US Centers for Disease Control (CDC). Smoking raises the risk of cancer, cardiovascular disease, hypertension and possibly even diabetes.



**EMPLOYEE
 BENEFITS
 REPORT**

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GROUP HEALTH

FSA's, HRAs, HSAs, MSAs – What's the Difference?



An employer trying to design an employee benefits program confronts all kinds of options: First there were MSAs, HRAs and FSAs; now HSAs have been added to the mix. What do all the acronyms mean and what do these plans do? We hope the following brief explanations will help make sense of the alphabet soup and make the task of choosing the benefits program(s) that best fit your needs a bit easier.

FSA – flexible spending account

Cafeteria plans, created by Section 125 of the IRS Code, allow employees to choose between cash salary and a variety of nontaxable (qualified) benefits. These can include health care, vision and dental care, group-term life insurance, disability, dependent care, adoption assistance and certain other benefits. Employers offering this type of plan can also offer their employees a flexible spending account, or FSA, to reimburse them for certain qualified expenses. A health care flexible spending account can pay for qualified medical expenses not covered or reimbursed by insurance. This can include deductibles, office visits, vision care, etc. Dependent care flexible spending accounts pay for dependent care expenses that employees or their spouses incur that allow them to work, look for work or attend school full-time.

Under an FSA, an employee agrees to reduce his/her salary by a certain amount. The employer then deposits that pre-tax amount into individual FSAs for each participating employee. Whenever covered employees incur a qualified expense, they submit that expense to the employer (or its benefit administrator) for reimbursement. The FSA thus allows employees to reduce their taxable income by paying for certain qualified expenses with pre-tax dollars.

✓ Pros

Employees: Employees designate pre-tax dollars, thus reducing their taxable income. Plan reimbursements are not taxable income to

employees. Employees can select the benefits that best meet their needs.

Employers: Plans offer great flexibility by allowing employees to use their accounts to pay for the benefits they choose. Funds are employees' own, not the employer's. Employers can save money on these programs, because they are not required to make FICA contributions on untaxed benefits.

✗ Cons

Employees: Plans have a "use it or lose it" provision. Employees forfeit any account balances unused at year-end.

Employers: Plans must be in writing and involve a fair amount of administration. The employee's entire election for medical expenses is available to the employee from Day One of the plan.

HRA – health reimbursement arrangement

Only an employer can provide an HRA and only an employer can make contributions into an HRA. The employer determines the maximum reimbursement amount for a coverage period; there are no laws setting these levels. Amounts unused at the end of a coverage period may carry forward to the next period, giving participants more funds to draw down in subsequent periods.

✓ Pros

Employees: Employees do not have to use their own pre-tax dollars; reimbursements for qualified expense are not classified as taxable income; unused balances can accrue. An HRA may continue to reimburse former employees or retirees for medical expenses after termination of employment or retirement.

Employers: Plans are simpler to administer than an FSA. HRAs can help cash flow, because funds remain under employer control until the employee submits an expense for reimbursement.

| Account | Contributions from | Taxation | Requirements | Carryover | Administered by |
|---------|--------------------------|---|--|--------------------------------|-----------------|
| FSA | Employee only | Employee contributes pre-tax dollars. No tax implications for employer (administrative expenses deductible) | Employer must set up Section 125 plan. Funds reimburse qualified medical or dependent care expenses, depending on account type | No | Employer |
| HRA | Employer only | Employee: contributions not included in taxable income Employer: deductible as qualified benefit expense. | Employer must set up plan. Funds reimburse qualified medical expenses only. | Yes (if plan documents permit) | Employer |
| HSA | Employer and/or employee | Employer contributions deductible as qualified benefit expense Employee contributions excluded from taxable income. Distributions not taxable unless used for non-medical needs, then penalty applies. | Employee must be covered by high-deductible health plan (employer- or self-provided). | Yes | Employee |

✗ Cons

Employees: Provides reimbursement only; employees must pay costs out of pocket and wait for reimbursement. Must be used for qualified health care expenses only; cannot be set up to pay for dependent care.

Employers: Employers or their benefit administrators must substantiate every medical expense submitted for reimbursement. Plans cost more than an FSA or HSA (see description following), because only employers fund accounts.

HSA – Health Savings Account

The newest health care account, the HSA became available beginning January 1, 2004. Only individuals with an eligible high-deductible health plan (HDHP) can open an HSA. Either an employer or employee can fund an HSA—in 2004, up to \$2,600 for someone with individual coverage, or \$5,150 for family coverage. With an HSA, the account holder's funds can accumulate from year to year.

✓ Pros

Employees: Employer contributions to an HSA are not considered taxable income; employee contributions are tax deductible. Withdrawals used for eligible medical expenses are not taxable to the employee; employees can also withdraw funds for other purposes (subject to a tax penalty). Funds accrue year to year and are owned solely by the employee.

Employers: Employees open and manage their own accounts, relieving employers of administrative duties. Employers or employees may deposit funds into the account (subject to maximums), giving employers flexibility. An HDHP might cost less than the employer's existing group health plan.

✗ Cons

Employees: Must be covered by an HDHP. Existence of any other health care coverage, except for dental or vision care plans, voids eligibility. Many insurers now offer qualified HDHPs, but it might be more difficult to find an account administrator. Plans give responsibility for managing health benefits to employees, which may put less educated employees at a disadvantage.

Employers: Employers have no control over employees' HSA accounts and how they use them, possibly minimizing their effectiveness as a recruiting/retention tool.

MSA – Medical Savings Account

The Health Savings Account has essentially replaced the Archer Medical Savings Account (MSA), whose pilot program expired on December 31, 2003. After that date, you can only participate in an MSA if you were an active MSA participant before January 1, 2004, or if you become covered by a high-deductible health plan of an MSA-participating employer.

For more information on which type of health plan best meets your firm's needs, please call us. ☐

“Sidecar IRAs”

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) added deemed IRAs to the tools employers have to encourage employees' retirement savings. Although deemed IRAs, also known as “sidecar IRAs” became available on January 1, 2003, few employers have taken advantage of them. A final regulation published in July that removes some administrative barriers might change that.



With a deemed IRA, an employee can make voluntary contributions to a separate account or annuity under the employer's qualified retirement plan. If the separate account or annuity otherwise meets the requirements of a traditional IRA or Roth IRA, it is “deemed” a traditional IRA or Roth IRA. A deemed IRA is subject to IRA rules and not to qualified plan rules.

The regulations published in July removed the requirement that deemed IRAs be maintained in a separate trust from other retirement plan assets, making administration simpler for employers. Both of these factors make deemed IRAs fairly simple to administer.

Also, the deemed IRA and contributions to it are not taken into account in applying qualified plan rules to any other contributions under the plan. Voluntary employee contributions must be designated as such by employees covered under the plan. They are includible in income. If you want to provide for a deemed IRA, you will have to amend your existing retirement plan.

Benefits of deemed IRAs

The deemed IRA offers benefits to the employer and employee:

- ✦ Employers can offer a broader range of retirement plans to their employees.
- ✦ Employers can “commingle” both qualified and non-qualified assets, making administration simpler.
- ✦ Employers do not have to meet complicated rules for qualified plans for the deemed IRAs.
- ✦ Employees get “one-stop shopping.” They can use the investment options offered by the employer to contribute their after-tax dollars as well, subject to IRA rules. (Any contributions will be included in their income.)
- ✦ Employees can participate or not as they choose: a deemed IRA must be a voluntary plan.

For more information on setting up a deemed IRA within your qualified retirement plan, please call us. ☐

Wellness programs cost very little. Even if you have a minimal budget, you can provide some type of wellness program for as little as \$5-10 per employee per year. This represents less than 1 percent of the cost of providing health insurance for an employee — now averaging \$3,000 per employee each year.

Wellness programs return \$2.30 to \$10.10 for every \$1 spent, according to a study published in the *American Journal of Health Promotions*. Not only did employers save money on medical claims, they reduced absenteeism and improved productivity.

Where do you start?

A full-scale wellness program can include:

- * Individual health assessments by trained professionals
- * Health promotion education (both group classes and self-help materials)
- * Disease management classes and follow-up for chronic conditions
- * Fitness promotion
- * Smoking cessation classes and support
- * Weight management classes and support
- * Prenatal education and well-baby services
- * Mental health programs. This could range from fully insured mental health benefits to employee assistance programs (EAPs) to stress management classes.
- * Communications to publicize the program
- * Incentives to encourage participation
- * Regular follow-up to assess program effectiveness.

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With a limited budget, however, it pays to put your resources where they will do the most good. To determine this, examine your organization's group health and workers' compensation experience for the last several years. What preventable problems keep recurring? An older worker population is likely to experience different health problems than a younger one; a blue collar workforce probably has different claims experience than a primarily white collar workforce.

Once you've spotted any problem areas, you can begin to address them. Involving employees will help ensure that programs meet their needs—and that they'll participate. Some effective ways of getting em-

ployee input include surveying them to identify their barriers to better health, creating a wellness focus group and including employees on a wellness committee. A committee will be more effective if it includes both those who participate in wellness programs and those who choose not to. The committee can help select programs that employees are likely to participate in, brainstorm ideas to encourage participation, come up with incentives and evaluate communication materials for relevance and understandability.

The importance of goals

To determine whether your wellness program investment is paying off, start with some goals. Whether it's decreasing claim costs for diabetes, hypertension or other lifestyle-related diseases; preventing

new claims or decreasing absenteeism, know your starting points and set some goals. Check your progress against these goals regularly, at least once a year. Tweak programs as needed to help you meet your goals.

If it sounds overwhelming, we can help. For more information on starting a wellness program

or making an existing program more effective, please call us. □

Easy things you can do to create a healthier workplace...

* Ban smoking. According to a study recently released by the Stanford University School of Medicine, between 1999 and 2000, 31 percent of American workers still worked in non-smoke-free workplaces. Studies have shown that nearly 15 percent of smokers would quit if they could not smoke at work. Further, banning smoking in the workplace would protect non-smokers from the hazards of exposure to second-hand smoke. A study published in the journal *Circulation* reported that constant exposure to second-hand smoke (at work or at home) almost doubled the risk of heart attack, while "occasional" exposure increased the risk by 58 percent.

* Encourage walking. Slow down elevators, if possible, to make taking the stairs a faster alternative. Keep stairwells well-lit and brightly painted. Reserve parking spaces nearest the doors for visitors and the disabled.

* Replace high-fat or high-sugar offerings in the company cafeteria and vending machines with healthier options.

* Check your health and pharmacy benefits. Do they encourage or discourage prevention? A poorly designed pharmacy benefit can discourage insureds with chronic conditions from continuing to take needed medication. We can help evaluate your pharmacy benefits to make sure they encourage compliance. We can also help you examine your medical benefits to make sure they encourage prevention.



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