Benefit Insights

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First Insurance Agency Inc.

25 West State St. Upper Level
Mason City, IA 50401
www.1stinsurance.com

Phone: (641) 423-8184
(641) 421-8000
Toll Free (Iowa)
(800) 247-0713
Toll Free (out of Iowa)
(800) 367-6907
Fax: (641) 421-1940

Is it Better to Self Fund Employee Health Benefits?

Employee health bills are fluctuating because of uncertainty related to the 2010 healthcare reform bill. Companies are trying to contain the damage by paying employee health claims out of pocket. Joseph Berardo, Jr., CEO of MagnaCare, said that the total savings from doing this could be between 10% and 20%. MagnaCare administers self-funded health insurance plans to municipalities and businesses in New Jersey and New York.

When employers debate whether to adopt a self-funding plan, the possibility of lower monthly healthcare costs should be considered in comparison with the risk of covering employees' healthcare bills. There is no concrete answer for this issue that is right for all situations. The best answer depends on the demographics of employee bases and the company's financial situation. The risk of an employee having an accident or developing a serious illness is a major concern.

Although nearly 93% of companies with more than 5,000 workers have self-funded plans, many smaller companies don't. According to a recent survey conducted by Kaiser Family Foundation, the reason for reluctance among smaller companies is the possibility of being hit with a large employee healthcare bill and not having enough cash to pay it. The survey found that only 16% of companies with under 200 workers had self-funded plans. However, experts in this industry expect interest in these plans to rise in the future.

The Benefits Of Self-Funded Plans

From the data gathered, it's clear that there are some benefits to self-funded plans. However, there are more benefits than those that are apparent on the surface.

1. Quality Of Data

Employers have better access to health claims of employees. In addition to this, they also have more information about their employees' demographic information. Exposure is limited only to employees instead of a broad population. This is a major benefit over regular health plans, which only offer generalized information.

2. Customized Plans

Employers decide what is covered in the plan. This includes benefits, exclusions and eligibility provisions. Employee cost sharing, retiree benefits and policy limits are also decided by the employer. With exemption from state rules, employers are able to decide on specific provisions without state considerations.

3. Control Of Cash

Since coverage isn't prepaid, employers have access to interest and cash income that wouldn't be available under regular insurance policies. Self-funded plans may also delay payment of health plan fees until the services have been charged. However, if claims are lower, the employer is able to retain the savings instead of allowing the insurer to keep that money. Another benefit is that self-funded companies are not under obligation to pay state health insurance premium taxes.

4. Lower Employee Premiums

Workers will enjoy lower premiums for both single and family plans. In addition to this, they also pay less upfront when they're enrolled in complete or partial self-funded plans than they would at a company that is fully insured.

5. ERISA Laws Replace State Regulations

This federal law exempts self-funded plans from the state's regulations. This includes reserve requirements, insurance laws, premium taxes, mandated benefits and consumer protection regulations. Employers must still abide by rules from the following entities:

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A Steady Rise Expected in Retirement Plan Sponsors Relying on Advisers

According to a study conducted by Diversified Investments during the first quarter of 2011, there has been a noticeable rise in the number of U.S retirement plan sponsors who are using a professional adviser to service plans for a retainer or fee. This study was based on a panel of 68 retirement plan experts. They represented trade associations, policymakers, research organizations, academic institutions, consulting firms, investment management firms, financial professionals, trade media and service providers. The study showed that 35% of sponsors switching providers from 2011 through 2015 will use a professional adviser's services. However, 10% of plan sponsors will only change their service providers during that time. One-third will continue to use their individual service providers.

Joe Masterson, Senior VP of Diversified, said that the rise in using professional advisers will have a major impact on business in the following five years. He stated that plan advisers are helpful to plan sponsors in understanding plan compliance, helping participants meet their goals and creating proper funding arrays.

Experts serving on the Prescience study panel are in agreement that there will be additional trends emerging by the year 2015. They believe that advisers will establish professional standards of service in contracting, fiduciary practice, fee disclosure and revenue mixing. They also agree that fee disclosures will bring difficulty for plan sponsors with retirement assets totaling more than $25 million in compensating an adviser without a direct service fee. Lastly, the experts agree that advisers likely won't be eligible to receive compensation unless they take on the fiduciary responsibilities outlined in ERISA Section 3(21).

The Prescience study also showed that pressures placed on pricing will tighten profitability within the entire retirement plan management industry. From the panel of experts, 62% predict that service provider margins will drop below 11 basis points by 2015. Laura White, Marketing VP of Diversified, stated that advisers, like all service providers, will see fee compression as the shift from the asset-based compensation model evolves toward a retainer model. Acquisitions and mergers in both the investment consulting and benefit consulting areas are projected to continue steadily. At least two major service providers are expected by the Prescience panel to spin off their retirement plan service business. They will do this in order to meet corporate revenue targets. Meeting demands for complete open investment architecture is another goal they expect to accomplish.

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Is it Better to Self Fund Employee Health Benefits?

- ADA
- U.S. Tax Code
- Health Insurance Portability & Accountability Act
- Newborns' & Mothers' Health Protection Act
- Pregnancy Discrimination Act
- Mental Health Parity Act
- Women's Health & Cancer Rights Act

The Cons Of Self-Funded Employee Plans

Although there are many benefits to enjoy by implementing self-funded plans, there are also potential downfalls. It's important to consider these.

1. Financial Risk

With less employees than a larger company, there is a higher statistical risk of costly claims for illnesses or accidents. Most employers with self-insured plans purchase stop-loss coverage in order to get a reimbursement for claims totaling amounts over a specific dollar level. In a description posted by the Self-Insurance Institute of America, stop-loss coverage is insurance that indemnifies a plan sponsor from claim frequency or severity that is abnormal. Companies such as Zurich, Gerber Life and Arch Insurance, which are all considered large companies, provide this type of coverage.

2. Administrative Risks

The Department of Labor has researched how self-funded employers fail to implement efficient administrative systems. Failure to correctly administer a plan is considered a breach of fiduciary duty. Employers take full legal responsibility for operating the plan, so it's important to realize just how crucial this responsibility is. In addition to worrying about this, there are also strict rules for private claims information. Since employers have access to such information, they must take further measures to protect it and keep it secure. In some cases, this may require hiring one or more security workers.

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How to Engage Employees in Becoming Motivated to Get Healthier

My grandmother once told me that she would save her allowance all month to walk three miles to the soda fountain for a single milkshake. From ready-made foods at the market, to the fast-food drive by, to diet pills purporting instant and effortless weight loss, our culture today is all about instant gratification and results. The basic fact that not everything is obtained without an effort and/or wait seems to be a lost concept.

When it comes to a person changing their mindset to adopt healthy habits and rid unhealthy habits, results and gratification take time. It takes a commitment and constant effort to succeed at losing weight, exercising regularly, tobacco cessation, and other habit changes. If they're to be successful, workplace wellness programs not only need to recognize the above, but also to understand what elements will engage employees over the long-term.

Let's say you've hosted a health benefits presentation on active lifestyles and eating right. The employee turnout is high, and you had a lot of sincere interest from your employees. However, you observe a week later that very few have made any of the recommended changes. Within a few months, even most of those that made an attempt are back to their regular routines.

The above is an all too common scenario that confirms the reality that most people are more well-intentioned than self-motivated. Therefore, motivation should be one of the key elements provided by your wellness initiatives. Here are a few tips to help you inject motivation into your workforce:

- Make the experience personal for employees through offering a health risk assessment that will show an employee their own unique health risks and what steps he/she can take to address each risk.
- Completion of the assessment and any resulting follow-up recommendations should be tied to the health risk assessment incentives you're offering, such as reduced health plan premiums.
- Keeping in mind that an individual must be willing, ready, and able to make a behavior change, you might focus on those that express a desire to make positive lifestyle changes. Aside from offering incentives, you might also help employees see the risks of failing to make positive changes, such as by posting charts with comparative lifespan stats on individuals that are smokers and non-smokers; pre-hypertensive, hypertensive, and of normal blood pressure; and are overweight, obese, and of normal weight.

- Provide/encourage support system structures, such as employee-based walking clubs, sponsoring a biggest loser competition, subsidies for joining certain fitness centers, or newsletter articles featuring health-successful employees.

Change is rarely easy for any of us. Employers must be careful that they don't get so caught up in the black and white of a wellness program that they forget to address what will make or break it–human nature.

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3. Administrative Costs

Self-insured claims can be administered within the company or handled by a subcontracted party, which is commonly called a TPA. These administrators assist employers in setting up self-insured group plans. They also coordinate stop-loss coverage, utilization review services and provider network contracts. However, there are extra costs for these services.

4. Economic Weakness

It may be necessary to keep a self-funded plan for a minimum of three to five years in order to fully enjoy the benefits. This may be extremely difficult for some companies during economic hardship.

Be sure to weigh the benefits and disadvantages of self-funded plans before making any changes. If the task of determining how profitable such a change would be is too difficult, consider hiring the services of a professional analyst.

Knowing What Your Long-Term Disability Dollar Is Buying And Conveying Coverage To Employees

When considering multiple offers of employment, or any employment for that matter, company benefits are usually a major consideration. Workers seeking employment changes based heavily on healthcare coverage availability is a growing phenomenon due to the rising cost of medical insurance and care. Employers are also finding that the overall quality of their benefits is an essential element in keeping existing employees and attracting new employees.

Long-term disability benefits are one area that seems to be especially important to many potential employees. The purpose of long-term disability coverage is to protect a worker should he/she become disabled and are no longer able to work. While this is the premise of any long-term disability plan, employers should understand that all contracts are not equal in quality.

Of course, most employers are usually concerned with cost control. Many turn to the carrier to come up with a plan to manage risk. This most often entails benefit limitations for certain circumstances and/or incentives for the employee to speedily return to work. These two techniques are popular for a reason–they work to effectively control premiums and address risk exposure. That said, restriction and limitation techniques can have disastrous consequences for affected employees. For example, the plan description may read as though benefits are available until the employee reaches 66-years-old. However, if the contract limits the exact condition the employee is suffering from, then benefits could be cut short.

Considering the current economic state, many employers don't have a choice but to keep premiums low if they want to offer coverage. In this case, it's actually more sensible to go with a contract featuring lower plan maximums and benefit percentages, but fewer restrictions. The main concern should be to avoid surprises by making sure that employees know and understand the benefits before they actually need to use them.

One common source of employee confusion about their benefits is in the definitions. Employers should make certain that definitions, especially that of covered income and eligible employee classes, are concisely written. For example, an employer that's planning to only cover certain grades or levels of their management team shouldn't use catchall terms like management to define covered employee classes. This may cause some employees to falsely assume that they're covered. An employer should never make it so that an employee only finds that they're ineligible for benefits at their time of need. The same should be said as far as earnings go. The employer should concisely state exactly what employee earnings are and aren't covered by the plan. For example, will bonus pay, incentive pay, and commission pay be covered?

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(800) 367-6907

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