

# Benefit Insights

## **With Overall Member Satisfaction High, Outlook for Consumer-Directed Health Plans Signals Growth**

According to research from the Blue Cross Blue Shield Association (BCBSA) individuals enrolled in high-deductible health plans (HDHPs) with a health savings account (HSA) component are more actively involved with their health care and more satisfied with various aspects of their coverage than individuals in traditional plans. The data was collected in an online survey of enrollees in consumer-directed and traditional health plans.

The consumer directed health plan (CDHP) enrollees represented all age groups and their overall self-reported health status did not differ from that of enrollees in traditional plans. However, members of the CDHP group were more likely to seek out information and use health-support services:

- 33 % of CDHP enrollees sought information on prescription drug costs (compared with 18% of enrollees in traditional plans);
- 27 % used wellness programs (9 %);
- 20 % sought information on the cost of doctor's office visits (14 %);
- 18 % used a nurse hot line (8 %); and
- 15 % used online cost-tracking tools (3 %).

Overall, the two groups displayed similar utilization of many health care services. For example, 41 % of CDHP enrollees asked for a generic brand when needing a prescription, compared with 40 % of enrollees in a non-CDHP plan; 22 % of the CDHP group delayed seeing a doctor or having a medical procedure (25 % non-CDHP); and 18 % of enrollees in both groups delayed filling or decided not to fill a prescription that had been written for them.

The CDHP enrollees also expressed greater satisfaction levels with various aspects of their plan:

- 68 % of HSA-eligible enrollees were satisfied with the overall

performance of their insurer (compared with 56 % of non-CDHP enrollees);

- 71 % were satisfied with their access to preventive care and wellness services (57 %);
- 69 % were satisfied with the health benefits information they received from their plan (55 %); and
- 67 % were satisfied with the responsiveness of their plan's customer service (55 %).

Overall, 61 % of the CDHP group said they were likely or very likely to recommend their plan to others, compared to 47 % of the traditional plan enrollees.

Of the survey respondents who were CDHP enrollees, 12 % had been uninsured in the previous year, compared with 6 % of traditional plan enrollees.

Data such as this can help to dispel certain misconceptions that CDHP plans attract mainly young and healthy participants and that participants may delay or avoid seeking necessary health care services. These results, along with enrollees' expressed satisfaction levels, may lead more individuals and employers to consider the CDHP as a health plan option.

In addition, data from other sources does indicate that this, indeed, is happening. An ongoing census by America's Health Insurance Plans of its member companies—health insurers—found that the number of people covered by HSAs/HDHPs exceeded 1 million (1,031,000) in March 2005, and had more than doubled over a six month period. Kaiser Family Foundation's 2005 Annual Employer Health Benefits Survey found that 20 % of the surveyed employers that offered health insurance provided a HDHP option. Also, a separate survey by Lambert & Carney Benefits Group, LLC found that while 7 % of its surveyed group offered HSAs in 2005, 31 % of groups with over 5,000 employees offer HSAs as an option.



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Please contact Paul Lambert or Sean Carney at (800) 357-1840 if you have any questions.

**Lambert & Carney Benefits Group, LLC**  
1700 Post Road  
Fairfield, CT 06824  
Phone: 800-357-1840

**Paul Lambert**  
[plambert@lcbenefits.com](mailto:plambert@lcbenefits.com)  
**Sean Carney**  
[scarney@lcbenefits.com](mailto:scarney@lcbenefits.com)



## ***Lifestyle Incentives Can Lead Employees Toward Healthier Habits***

Though health care cost increases have moderated, they still are substantial, projected for employers at 9.2% in 2005, according to a survey conducted by the Kaiser Family Foundation/Health Research and Education Trust. The single digit increase is the lowest in 5 years, but is still nearly 6% more than the rate of inflation or the average increase in worker wages. The increase was tempured by a lowering of benefit levels.

Employees have been stung by the rising cost of health care, along with premium contributions, employees have experienced increases in their out-of-pocket costs, in the form of higher copayments, coinsurance rates and deductibles. Overall, employees' total health care costs—including their premium contribution and out-of-pocket costs—will rise 12% to \$3,136 for 2006, according to a Hewitt Associates projection.

Such data should make employees more motivated to be open to ideas that have the potential to reduce their health care cost outlay. Most people understand intuitively—though their actions might not indicate it—that eating a nutritionally sound diet, exercising, not smoking, not drinking in excess, and undergoing preventive exams and screenings all enhance one's chances of staying healthy and, in turn, the likelihood of having lower health care costs. And, if the fact that "it's good for you" isn't reason enough, financial incentives from an employer or health plan can provide an added push to encourage employees to develop healthier habits, and to get them into programs that help them to learn and live a healthier lifestyle.

Lifestyle incentive programs sweeten the pot for employees to take steps toward and engage in healthier habits. In an online survey of health care industry professionals—employers and health plans—conducted by the Health Intelligence Network, 43% had lifestyle incentive programs in place and of the remainder, 47% planned to implement such programs in the future.

What behaviors do lifestyle incentive programs encourage? Some of the most common include undergoing health risk assessments, participating in smoking cessation programs, joining fitness programs (nutritional counseling, weight loss, exercise), and participating in disease management programs for chronic conditions such as asthma, diabetes, hypertension or high cholesterol. The incentives that provide the added push to get employees into these programs might include cash, gift cards and reduced health care premiums. Or, some employers and health plans try to nudge employees toward healthier behaviors with a stick instead of a carrot, such as by assessing surcharges for employees with an unhealthy behavior who fail to participate in an available program (for example, smokers who decline participation in a smoking cessation program). However, the attitude toward the use of negative incentives is split. In a survey of large U.S. companies from PricewaterhouseCoopers Health Research Institute, 48% said that employees who exhibit unhealthy behaviors should be responsible for paying a larger share of their health benefit costs, but only a slightly smaller percentage (42%) disagreed.

According to the Health Intelligence Network online survey, the behaviors that earned incentives most frequently were proper nutrition (44% of the employer and health plan respondents had incentives in place for this), smoking cessation (34%), and adequate exercise (20%). The incentives used most were a reduced health care benefit cost for participants (43% of the employer and health plan respondents utilized this as an incentive), merchandise and certificates (24%), and cash (21%).

Employers considering healthy lifestyle incentives (or unhealthy lifestyle disincentives) need to be aware of any applicable laws governing benefit plans that might limit implementation of such initiatives. Consultation with a benefits professional or legal counsel can help ensure that provisions of the Health Insurance Portability and Accountability Act of 1996 (which prohibits discrimination on the basis of health status) and other applicable state or federal laws are not violated in designing and implementing healthy lifestyle incentives.

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## ***HealthCare Trends***

In November we asked the medical insurance companies that we work with to provide us with their projected medical cost increases for next year. On average these carriers were projecting increases in prescription drugs of 13.4% with the lowest prognostication being 8% and the highest being 17%. The average cost increases anticipated for the medical portion

of healthcare plans varied by type of plan. For HMO's carriers are predicting an average increase in costs of 13% with a low of 10% and a high of 16%. For PPO's they are predicting increased costs of 15.3% with a low of 12% and a high of 16.2%.

## Find the Right Retirement Plan for Your Small Business

For smaller companies to compete successfully in recruiting and retaining top talent offering a solid retirement plan is a must. The good news is that in recent years retirement plan options have been developed with the small business in mind, making them easier and more affordable than in the past. Here's a short overview of the retirement plan options available to small businesses:

### SEP IRA – Simplified Employee Pension Plan

The SEP IRA is a low-cost retirement plan option that is relatively easy to set up and requires less paperwork than many of its alternatives. The plan is funded with tax-deductible employer contributions only. Employee contributions are not allowed. All employees age 21 and over who have worked for the employer in at least three of the last five years and who have earned an annually adjusted minimum amount (\$450 for 2005) must be covered. The employer may set less restrictive requirements.

The IRS limits for all retirement plans increases annually in most instances to keep up with inflation. Currently you can contribute up to 25 percent of your salary to a SEP IRA with a maximum contribution of \$42,000 for 2005. You can vary your contribution percentage from year to year. A potential downside to the SEP IRA is that you must contribute the same percentage to your employees' plans as you do to your own. Also, employees are vested immediately so the money you contribute to an employee's account is theirs if they later leave the company.



### SIMPLE IRA – Savings Incentive Match Plan for Employees

The SIMPLE IRA was designed as a simpler and lower cost alternative to the 401(k) for businesses with less than 100 employees. Both employees and employers can contribute to a SIMPLE IRA. Contribution limits for 2005 are \$10,000 or 100% of one's salary, whichever is less, unless you are older than 50 in which case it jumps to \$12,000 plus whatever the employer contributes.

The employer must make an annual contribution according to one of the following formulas:

- A dollar-for-dollar matching contribution, up to 3% of each

employee's compensation. May be less than 3% - but not less than 1% - for two out of every five years.

- A nonelective contribution equal to 2% of compensation for all eligible employees who have earned at least \$5,000 in compensation for the current year, whether or not they participate in salary deferrals.

As with the SEP IRA, vesting is immediate, but less painful to your bottom line because the required matching is usually much smaller. Eligible employees are those who have earned in excess of \$5,000 in any previous two years and expected to earn at least \$5,000 in the current year. The employer may set less restrictive requirements.

### Defined Benefit Plan –

Defined Benefit Plans provide the highest savings limit of all retirement plans. This type of plan may be suited for you if you can afford to put away more than 25 percent of income from your business for at least 3 years and are looking for a way to rapidly build your retirement savings. Annual contributions are determined by an actuary based on your age, the average of your three highest years of income and the number of years until your retirement. High income earners over the age of 50 may be able to contribute 3 or 4 times more to a Defined Benefit Plan than with other retirement plan options. The downside of a Defined Benefit Plan is that contributions to your employees' accounts are also required. Depending on your age and those of your employees, however, the contribution percentage to your employees' plans may be significantly lower than your own. These types of plans can be more expensive to administer and less flexible.

### Profit-Sharing Plan –

A profit-sharing plan allows business owners to share company profits with employees. These plans are flexible, allowing you to adjust the contribution percentage annually or even skip a year depending on your company's performance. Vesting schedules can be attached to reward those employees who stick around the longest. As with SEPs and Defined Benefit Plans, employees cannot make contributions themselves. For 2005 the maximum employer contribution limit is 25% of eligible payroll. The maximum allocation per participant is the lesser of \$42,000 or 100% of eligible compensation.

### 401(k) –

If you're looking for the most flexible retirement plan for your business, setting up a 401(k) may be the best option. Many financial institutions are beginning to offer 401(k) packages at lower price points to attract smaller companies. Still, the administration of the plan can be significantly more expensive when compared to other available options. Both employees and employers can contribute to a 401(k). The maximum employer contribution limit for 2005 is 25% of eligible payroll. Salary deferrals equal to 100% of an employee's compensation up to \$14,000 are permitted. Those age 50 or older may contribute an additional \$4,000 in catch-up contributions.

As you can see there are many retirement benefit options that can both help you build your nest egg and also help you recruit and retain top talent. A financial consultant can help you determine which plan is right for your small business.

## IRS 2006 Cost of Living Adjustments for Retirement Plans

Qualified Limits	2005 Limit	2006 Limit
401(k) Salary Reduction Limit IRC-402(g)	\$14,000	\$15,000
Defined Contribution Annual Plan Limit under 415(c) (1) A	\$42,000	\$44,000
Defined Benefit Annual Plan Limit under 415(b) (1) A	\$170,000	\$175,000
Annual Compensation Limit under 401(a) (17), 404(1), 408(k) (3) (c)	\$210,000	\$220,000
HCE-Highly Compensated Employee	\$95,000	\$100,000
Catch-Up for 401(k), 403(b) and 457	\$4,000	\$5,000
SIMPLE Plans Salary Deferral Limit	\$10,000	\$10,000
Social Security Taxable Wage Base	\$90,000	\$94,200



**Lambert & Carney Benefits Group, LLC**  
1700 Post Road, Suite B-1  
Fairfield, CT 06824

**Paul Lambert**  
[plambert@lcbenefits.com](mailto:plambert@lcbenefits.com)  
**Sean Carney**  
[scarney@lcbenefits.com](mailto:scarney@lcbenefits.com)