

Benefit Insights

Should You Offer Incentives to Keep Your Employees Thin?

The growing problem of obesity is taking its toll in the workplace. Obese employees tend to be less productive and use more sick days because of health issues related to their obesity. It goes without saying that covering the medical needs for obese employees increases already skyrocketing group healthcare coverage costs.

Government statistics estimate that two-thirds of U.S. adults are overweight. Further, one-third of adults would be considered obese. In its publication "Prevention Makes Common "Cents", the U.S. Department of Health and Human Services reports research that obesity may account for as much as a 36% increase in inpatient and ambulatory care cost.

In an effort to combat the problem, employers have turned to a Pavlovian solution to spur overweight employees to lose weight. They are using incentives such as cash bonuses, vacations, and paid days off from work to reward employees who fight the battle of the bulge. It may seem like an extremely expensive bell to ring, but when you compare the cost of the incentives to the amount of money lost because of poor productivity, it doesn't seem so extreme. According to the Centers for Disease Control, obesity is costing American business \$56 billion in lost productivity resulting from disability, illness and death. It is no wonder companies are pushing the envelope in search of a solution.

If you are considering offering this type of program, start by walking a mile in your obese employees' shoes. Overweight people, contrary to popular myth, are not jolly about their condition. They are already sensitized to what people are saying about them, so make sure your program doesn't stigmatize them any further. The program focus should be on progress, no matter how small. And of course, there should be no retri-

bution for employees who fall off the bandwagon.

The program also needs to be grounded in something more substantial than the immediate gratification of a reward. It should encourage overall healthy living and wellness, not just shedding pounds.

America on the Move is a national campaign whose goal is to convince employers to get involved in their employees' eating and exercise habits. It works with employers to offer a 15-week program that encourages employees to work up to walking 10,000 steps each day. They also offer some other suggestions for implementing an effective obesity prevention program:

- Ask on-site cafeterias and vending machine providers to ensure that 60 to 80 percent of food choices are healthy options.
- Make exercise an attractive option: Put a sign near the elevators that asks, "Have you thought about taking the stairs?" Make stairwells attractive with paint or piped-in music.
- Consider sponsoring on-site Weight Watchers meetings.
- Encourage more use of on-site or local fitness centers. Sponsor a "Newcomers to Fitness Day" to encourage those who are new or reluctant to exercise.
- **Contact Lambert & Carney Benefits Group, LLC to arrange a lunch and learn program headed by a qualified dietitian.**

According to the group, implementing these guidelines will result in a 32 percent decrease in sick leave, a 55 percent reduction in healthcare costs and a 50 percent increase in productivity.



We are pleased to present to you Lambert & Carney's Employee Benefits newsletter. This newsletter is designed to give you timely and important information regarding employee benefits, government regulations, new products, and other areas of interest to employers and their employees. We value you, your employees, and your business and continue to strive to provide you with the very best products and service available.

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

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U.S. Chamber Study Finds Employee Benefit Costs Consume 40 Percent of Payroll Expenses

The cost of employee benefits in 2004 reached 40.2 percent of payroll expenses, reflecting a trend of substantial growth in recent years, according to the 2005 Employee Benefits Study recently released by the United States Chamber of Commerce.

“These results indicate that employers continue to strive to offer good benefits packages to workers, even in the face of increasing costs” said Randel Johnson, Vice President for Labor, Immigration & Employee Benefits.

According to the study, retirement and savings plan costs saw the sharpest increase, rising from 6.7 percent to 8 percent of payroll expenses from 2003 to 2004. Medically-related expenses remained the greatest share of employee benefit

costs at 11.9 percent. Payments for time not worked, such as paid holidays and paid time off, represented an additional 10.5 percent of payroll expenditures.

The average dollar amount in benefits received by employees from the participating companies increased from \$18,358 in 2004 to \$20,158 in 2005. This represents a 9.8% increase in benefit costs. Benefit costs, as a percentage of payroll costs, have increased on average close to 1 percent each year since 2000.

More than 720 U.S. companies participated in the study,

Ask **Lambert & Carney Benefits Group, LLC** about providing your employees with a benefit statement detailing the value of the benefits they receive from your company.

Small and Large Health Plans Alike Must Comply with HIPAA Security Rule

As part of the Health Insurance Portability and Accountability Act (HIPAA), the HIPAA security regulation focuses on protecting the health information of individuals that is in electronic form, such as that contained in e-mails or on CD-ROMs, networks or the Internet. The HIPAA security rule requires covered entities to take steps to safeguard such electronic protected health information (e-PHI). “Covered entities” are defined as health care clearinghouses, health care providers and health plans—which includes, of course, employer-sponsored health plans.

Though the final security regulation was issued in 2003, health plans were given some time to take the necessary measures to come into compliance. For most plans, compliance was required by April 20, 2005. However, small plans—defined as those with annual receipts of \$5 million or less, as measured by premiums paid for fully insured plans and claims paid for self-insured plans—were given an extra year, with a compliance date of April 20, 2006. Regardless of these deadlines, the continually changing nature of electronic technologies means that compliance with the security regulation will be an ongoing effort for employers.

The general requirements of the security rule state that a covered entity must—

1. Ensure the confidentiality, integrity and availability of all e-PHI that it creates, receives, maintains or transmits.
2. Protect against any reasonably anticipated threats or hazards to the security or integrity of e-PHI.
3. Protect against any reasonably anticipated uses or disclo-

tures of e-PHI that are not permitted or required.

4. Ensure compliance with the security rule by its workforce.

The rule includes specifications for administrative, physical and technical safeguards. The administrative section requires implementation of policies and procedures designed to prevent, detect, contain and correct security violations. A risk analysis is required, along with assignment of responsibility to an identified individual for development and implementation of the required policies and procedures. Other standards in the administrative section cover workforce security, information access management, security awareness and training, and plans for dealing with security violations and emergencies (such as system failures).

The physical safeguards section includes standards that ensure authorized access to e-PHI, while deterring improper access or unauthorized disclosure, modification or destruction. Standards address access to, along with the control and security of, facilities and workstations, in addition to the hardware and electronic media that contain e-PHI.

The technical safeguards section requires implementation of policies and procedures that maintain access control for the systems that contain e-PHI (for example, user IDs, emergency access provisions, automatic log offs, and encryption and decryption). This section also includes standards for transmission security, data integrity, user authentication and audit controls.

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Do You Know the Six Types of COBRA Notices?

The Consolidated Omnibus Budget Reconciliation Act (COBRA) was passed in 1986 to provide opportunity for continuation of group health coverage that would otherwise be terminated when a worker loses their job. The law covers group health plans maintained by employers with 20 or more employees. It applies to private sector plans as well as those sponsored by state and local governments. The only organizations with 20 or more employees whose plans aren't covered by this law are those sponsored by the Federal government and certain church-related organizations.

The law provides for six types of continuation coverage notices that employers must comply with:

1. **General COBRA Notice** – A general written notice of COBRA rights and responsibilities must be given to each covered employee and spouse, if applicable, within 90 days of the date the individual first becomes eligible for coverage. It must contain the name of the plan and the name, address, and telephone number of the person who can provide more information about the plan. It must explain the plan's requirements regarding the responsibility to notify the plan administrator of certain qualifying events and the necessity for keeping the administrator informed of address changes for participants and beneficiaries. It should also contain a statement that the general notice does not provide a full coverage description and that more information is available from the plan administrator and in the Summary Plan Description.
2. **Employer's Notice of Qualifying Event to Plan Administrator** – The employer must notify the plan administrator in the event of qualifying events such as a covered employee's death, termination of employment for any reason other than gross misconduct, reduction in hours, Medicare entitlement, or Chapter 11 bankruptcy proceeding. If loss of coverage occurs on the date the qualifying event occurs, the notice must be given within 30 days of the qualifying event. If loss of coverage occurs after the qualifying event, the notice must be given within 30 days after the loss of coverage.
3. **Qualified Beneficiaries Notice of Qualifying Event** – A covered employee/qualified beneficiary may be required

to notify the plan administrator about certain qualifying events such as a divorce or legal separation that results in a loss of coverage, a child's loss of dependent status, a second qualifying event, or Social Security Administration determination of disability. In general, such notice should be provided within 60 days of the later of the qualifying event date or the loss of coverage due to the qualifying event. Plans must establish reasonable procedures for the furnishing of the listed notices to the plan administrator.

4. **Election Notice** – The plan administrator must provide a written election notice to each qualified beneficiary within 14 days of receipt of a qualifying event notice or 44 days of the qualifying event if the employer is also the plan administrator. This notice must outline specific information as demonstrated by the Department of Labor's model election notice: (www.dol.gov/ebsa/modelelectionnotice.doc).
5. **Unavailability Notice** – If the plan administrator receives a notice of a qualifying event, second qualifying event or Social Security disability determination, and determines that the individual is not entitled to continuation coverage, the administrator must give the individual written notice that continuation coverage is unavailable. This notice must explain why the individual is not entitled to continuation coverage. The deadline for this notice is the same as the deadline for sending an election notice.
6. **Early Termination Notice** – A written notice to the individual that continuation coverage will end earlier than the end of the applicable maximum period of continuation coverage. It must explain why coverage is being terminated early, the date of termination, and any rights the individual may have to elect alternative group or individual coverage.

Lambert & Carney Benefits Group, LLC is pleased to announce its expanded Human Resources Compliance Web capabilities. In the next few weeks clients will receive login names and passwords to gain access to this new feature on our website.

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The security rule also contains provisions for business associate contracts, amendment of group health plan documents to incorporate security measures, and documentation of security procedures (and the time period for which such documentation must be maintained).

The security rule adopts a somewhat flexible approach, permitting covered entities to take into account their size and capabilities, along with cost, in implementing the required security measures. Also, while some of the steps

outlined to maintain compliance are required, others are characterized as "addressable," which means that each organization can evaluate how to best achieve implementation of the standard. That said, any organization that is subject to the security rule must take steps to implement and maintain adequate security of e-PHI. And, as noted above, this includes large and small employers alike that sponsor health care plans.

CMS Announces Indexed Medicare Part D Amounts for 2007 & Provides New Model Notices

On April 5, 2006, the Centers for Medicare and Medicaid Services (CMS) updated the statutory parameters for the standard Medicare Part D drug benefit for 2007. The Medicare Modernization Act (MMA) requires CMS to announce indexed Medicare amounts each year that reflect the increase in drug costs. The parameters for the standard benefit are indexed to the increase in average total drug expenses of Medicare beneficiaries. As a result, the actuarial value of the drug benefit increases along with any increase in overall drug expense, so that the standard Part D benefit continues to cover a constant share of drug expenses from year to year.

As required by statute, the parameters include the standard deductible, initial coverage limit, out-of-pocket thresholds and other related factors. For 2007, CMS's Office of the Actuary estimated annual increases were 6.86 percent, reflecting both higher utilization among seniors and reduced prescription drug costs negotiated by Part D prescription drug plans. The increase was based on two indexing methods: (1) the annual percentage increase in average Part D drug expenses per Medicare beneficiary and (2) the annual percentage increase in the Consumer Price Index.

In 2007, the standard benefit deductible will be \$265 (up from \$250 in 2006), with coinsurance of 25 percent after the deductible up to an initial coverage limit of \$2,400 (up from \$2,250). Participants then pay 100% of drug costs from \$2,400

to \$5,451.25 (up from \$5,100), after which the plan pays 95 percent. Total out-of-pocket costs before reaching the 95 percent catastrophic coverage threshold will be \$3,850 in 2007 (up from \$3,600 in 2006).

In the release, CMS indicated that most Medicare Part D participants are not covered by the standard benefit, but instead are in plans with lower deductibles and no gap in coverage.

The update is available on the CMS website at: http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/downloads/2007_Part_D_Parameter_Update.pdf

In a related matter CMS released updated guidance regarding letters of creditable coverage. As you know the original letters made reference to Medicare eligibles having until May 15, 2006, to enroll in a Part D plan without penalty. The new model notice removes this reference to an open enrollment period. This model notice should be used after May 15, 2006, to notify new participants of your plan's prescription drug benefit status.

To view the revised model notices go to the newsletter portion of our website at <http://www.lcbenefits.com/newsletters.php> and click on the appropriate Newsletter Brief.

To view the entire updated CMS guidance go to: <http://www.cms.hhs.gov/CreditableCoverage/Downloads/041206CCGuidanceUpdated-FinalOMB.pdf>



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