

# Benefit Insights

## ***Using Your Health Benefits Package As an Employee Retention Strategy***

Every employer knows it's a jungle out there - a hiring jungle that is. Finding and retaining top-notch employees has become a major factor in keeping a company competitive. But as many employers soon discover, in the employee retention war, salary is not the only factor.

David Sirota, co-author of "The Enthusiastic Employee: How Companies Profit by Giving Workers What They Want," made the following comments during an interview with Knowledge @ Wharton:

"We find there are three basic goals of people at work. First, to be treated fairly. We call that equity. Employees want to know they are getting fair pay, which is normally defined as competitive pay. They want benefits and job security. These days, employees especially need medical benefits, so those have become significant."

However, in spite of the fact that health benefits have become a top priority for employees, the number of small businesses offering employee health care plans has actually declined. In a 2005 study conducted by the Henry J. Kaiser Family Foundation, a non-profit foundation that focuses on the major health care issues facing the nation, the rate of growth of health insurance premiums declined for the second straight year in a row. In fact, when plan changes were factored in, premium growth slowed to a low of 9.2% in 2005. Yet, the percentage of all firms offering health benefits to their employees has fallen significantly from 69% to 60% over the last 5 years.

Further according to a recent Robert Wood Johnson Foundation study, more workers are declining employers' offer of health insurance. Nationally the percentage of eligible private-sector workers that accept their employers' offer of individual health insurance declined five percentage points (from 85.3 percent to 80.3 percent) from 1998 to 2003.

Employee benefits are a key factor in employee retention however; some employers don't see the value in the product. Far from a benefit they see employee health insurance as a necessary evil. These business decision makers are using tunnel vision to evaluate the need for a medical plan, instead of evaluating it from the end users' perspective.

Using the end users' perspective is important when evaluating a new product or service. That's because you can only retain your customers if you give the people what they want. If you cannot provide products or services that respond to their stated needs, they will simply find someone else who can. The same is true for your employees. With the spiraling cost of healthcare, employees need group coverage to ensure their family's health. That is a stated need whether or not it is verbalized during an interview. It makes good business sense to provide a solution to that need via the best medical plan you can offer. If you don't, your employees, like your customers, will find someone else who can.

Even beyond answering employee need, there is another less obvious benefit to offering the best medical plan your firm can afford; it not only helps to retain key employees, it helps to maintain their loyalty. From your employees' perspective, your willingness to help them take care of their families is a sign that they are worth more to you than just extensions of the bottom line. And being valued on the job has been determined to be another important factor in retaining employees.

Lambert & Carney Benefits Group, LLC can help you benchmark your employee benefit plan. Employers with better than average benefits should promote their benefit advantages to their employees as part of a retention strategy. We can help you by preparing employee benefit statements describing the value of your coverage.



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.

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## ***With Many Drugs Losing Patent Protection, Savings Can Be Significant***

Generic drugs long have been recognized as a cost-saving alternative to their brand-name counterparts. The Generic Pharmaceutical Association, citing figures from the National Association of Chain Drug Stores, puts the average price of a generic drug at less than one-third the average price of a brand-name drug. With a number of widely used brand-name drugs soon losing patent protection, plan sponsors should be more motivated than ever to seek ways to encourage plan members to make appropriate use of generic drug therapies.

The statistics for encouraging generic drug use are compelling. An analysis from the Pharmaceutical Care Management Association (PCMA) indicates that, over the next five years, more than \$23 billion in savings could be generated as 14 or more major brand-name drugs are expected to become available in generic form. These include medications commonly used to treat depression (Zoloft), high cholesterol (Zocor and Pravachol), prostatitis (Proscar), heart disease (Norvasc and Lotrel), sleep disorders (Ambien), allergies (Zyrtec), hypertension (Coreg), fungal infections (Lamisil) and other infections (the antibiotic Tequin).

Statistics from AARP on drug price trends also make a persuasive case for generics. AARP looked at 75 widely used generics and 193 widely used brand-name drugs and found that, while the annual rate of increase in manufacturers' prices for brand-name drugs continued to exceed the rate of inflation in 2005, with a 6.0% increase, manufacturers' list prices for generics actually fell, by 0.8%.

Generic medications account for about 56% of all drugs dispensed in the United States, according to the Generic Pharmaceutical Association. Plan sponsors and prescription drug plan vendors that succeed in increasing this rate can realize significant cost savings.

Both benefit plan provisions and patient and physician education play important roles in influencing generic utilization. Educating plan members on the safety, effectiveness and affordability of generics is essential. Many individuals may not realize that a generic drug has the same active ingredient as its brand-name counterpart, but costs less because the generic drug maker does not have the research, development and advertising costs associated with brand-name drugs. Communications should repeatedly make this point, in order to balance the brand-name message that individuals get from the extensive direct-to-consumer advertising that appears in magazines and on television.

Plan provisions that make generics an immediately more cost-effective choice for the members by reducing their out-of-pocket payments can have a great impact on generic utilization. For example, an Express-Scripts study found that use

of generic drugs (as defined by the generic fill rate) steadily increased as the difference in the required plan member copayment between generic and brand-name drugs increased. For every \$10 difference in generic versus preferred brand copayments, a plan can expect an increase in its generic fill rate of three to four percentage points, the study found.

Copayment differentials usually are seen in tiered formularies, which assign medications to one of two, three or four different tiers, with each tier having a different copayment (or, in some plans, a different coinsurance requirement). Other plans require that generics be tried as a first step in drug therapy, and coverage of a brand-name alternative is allowed only if the generic does not achieve the desired result (this is called step-therapy).

With a large number of brand-name drugs coming off patent in coming years, now is an excellent time to review your prescription drug plan provisions and communications to take advantage of this cost-saving opportunity.

### **Note of Interest**

In a novel approach in the long battle between brand name drugs and their generic rivals: Merck & Co. is slashing the price of its cholesterol drug Zocor so low for one insurance plan that members will actually pay less for the original pills than for the generic.

Under the deal, members of UnitedHealth Group Inc. will pay around \$10 for a month's supply of brand name Zocor and \$40 for a generic alternative. Both Merck and UnitedHealth say the arrangement demonstrates how market competition drives down costs, and that's good for patients.

Tim Heady, the CEO of UnitedHealth's pharmacy benefit management arm, said this is the first time a generic has ever cost more than a brand but expects more such deals in the future.

Other health plans have spurned Merck's offer of low-cost Zocor. Some industry experts fear the practice may lead to confusion among benefit plan participants and reduce the overall impact of generic pricing.



## Know What You're Getting for Your Long-Term Disability Dollar

The benefits a company offers are normally a significant consideration when an applicant is weighing multiple job offers. As the cost of medical insurance continues to rise, instances of employees changing jobs for better medical coverage are becoming more of a reality. As the work force continues to age, however, employers will find that the overall quality of a benefit package is the real issue in attracting and retaining valuable employees.



Of particular importance to most prospective employees is a group long-term disability (LTD) plan. Though all long-term disability contracts have the same objective of providing benefits when an employee is disabled and unable to work, not all contracts are created equal.

Typically, most employers are interested in controlling costs, so they will look to their carrier to devise a plan to manage risk. Managing risk usually means

either providing incentives to return to work quickly, limiting benefits for certain conditions, or some combination of the two. While these techniques may be efficient in handling risk exposure and controlling premiums, they can have disastrous

effects on your employees.

If you select a plan with benefit restrictions and/or limitations, your employees could be impacted in ways that are not always immediately apparent. Outcomes may affect different employee classes in different ways. For example, the summary plan description may state that benefits are available through age 65, but if the specific condition for which the employee suffers is limited by the contract, benefit payments could cease after a shorter period of time.

Of course, if you must keep premiums low in order to offer any coverage, it is more prudent to choose a contract with fewer restrictions, but with lower benefit percentages and plan maximums. This will ensure your employees have a clear understanding of their benefits before the need arises to help avoid any unpleasant surprises down the road.

It is equally imperative to spell out exact definitions of eligible employee classes and what types of income are covered. When you define employee classes, never use catchall terms, such as "management," if you only intended to cover specific classes within your management structure. Never let an employee find out they are ineligible for certain benefits at the time of need. Likewise, state exactly what earnings are covered. If commissions, special incentives or bonuses will not be considered when payments are determined ensure this is clearly indicated.

### ***continued from page 4...USERRA Obligates Reemployment, Benefits Continuation for Employees Called to Military Service***

continue—or to offer continuation of—certain employee benefits. Health care coverage, for example, can be continued for up to 24 months on terms that are similar to COBRA; that is, employees electing this continuation coverage can be required to pay up to 102% of the health plan premium. However, unlike COBRA, which does not apply to employers with fewer than 20 employees, USERRA applies to employers of all sizes, meaning that small firms need to offer health coverage continuation when one of its employees is called to military service.

For pension benefits, USERRA requires that the period of military service (up to five years) count as service with the employer for benefits accrual, vesting and eligibility. The period of the leave cannot be considered a break in service, and accruals earned prior to the leave cannot be forfeited. For plans to which employees contribute, such as 401(k) plans, the employee must be allowed to make up any missed contributions after returning from military leave; if the employer normally matches employee contributions, it must match any made-up amounts.

When the employee's term of service ends, he or she must inform the employer of the intent to return to work. The timing of this notice depends on the length of the

military leave. Assuming that the employee has been honorably discharged, the employer is obligated to reemploy the employee, in the same job that he or she would have had but for the military leave, and at the same pay, seniority, status and benefits. If the employee has become disabled as a result of the military leave, reasonable accommodations must be made. Limited exceptions apply for employers in unusual circumstances or for undue hardship.

USERRA also places limits on an employer's right to terminate, for reasons other than for cause, employees who have been reemployed following military leave.

As noted above, employers must provide employees with notice of USERRA's rights and obligations. The Department of Labor has developed a poster, which can be downloaded from its Web site ([www.dol.gov/vets/programs/userra/USERRA\\_Private.pdf](http://www.dol.gov/vets/programs/userra/USERRA_Private.pdf)) and posted in the area of the workplace where the employer normally posts notices.

USERRA's provisions are extensive and complex, and what is described above is intended only as a brief summary. Consult with a legal or benefits/human resources professional to make sure that your practices are in compliance with this important law.

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## ***USERRA Obligates Reemployment, Benefits Continuation for Employees Called to Military Service***

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In recent years, large numbers of individuals have left active employment for temporary stints of military service. Since September 11, 2001, more than half a million members of the National Guard and Reserve have been mobilized. This reality makes it imperative that employers become familiar with—and assure that they are in compliance with—the Uniformed Services Employment and Reemployment Rights Act (USERRA).

Enacted in 1994, USERRA created job and benefits protections for individuals called to military service. It creates obligations for employers, including the obligation to notify employees of their rights under the law. USERRA's coverage is broad: its protections apply to individuals in the Army, Navy, Air Force, Marine Corps, Coast Guard, Reserves, National Guard and Public Service. Furthermore, its obligations apply to all civilian employers, regardless of size.

An employee called to duty is required to notify his or her employer of the impending service, and this notice triggers that employee's USERRA rights. The notice can be written or oral. The law does not specify how long in advance of the service reporting date that the notice should be given. The employer may ask for a copy of the employee's service orders.



Once USERRA rights are triggered, its protections apply to military leaves that last up to five years, so long as the individual is honorably discharged when the service duty ends.

During the time of the military leave, the employer is not obligated to continue the employee's pay, but it is required to

*continued on page 3*



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