

# Benefit Insights

## **Medicare Part D: Consequences for Employers of New Prescription Drug Benefit**

In January 2006, Medicare-eligible individuals will have a new voluntary prescription drug benefit available under Medicare Part D. Employers that currently provide retiree health coverage will be impacted by Medicare Part D. In addition, employers who have active employees that are Medicare-eligible and are covered by employee group health plans will also be affected.

Medicare Part D provides for outpatient prescription drug coverage. It does not cover prescription drugs that would be covered under Medicare Part A (hospital services) or Medicare Part B (physician services), nor does it cover over-the-counter drugs. Medicare Part D design provides that the amount that a covered individual will pay for prescription medications varies, based on the accumulated dollar amount of claims filed to date. Specific dollar amounts of claims are as follows:

- Until the claims amount reaches \$250, the individual will pay 100% (the Medicare Part D deductible).
- After the claims amount reaches \$250, the individual will pay 25% and Medicare will pay 75%, until claims reach \$2,250.
- For claims between \$2,250 and \$5,100, the individual pays 100% (this gap in coverage is referred to as the "donut hole").
- After the annual claims amount has reached \$5,100, the individual pays a co-payment which is \$2 for generics and the greater \$5 or 5% for brands, with Medicare paying for the remainder of the cost. Therefore, an individual covered by Medicare Part D will have paid \$3,600 in out-of-pocket costs (\$250 [deductible] + \$500 + \$2,850 [donut hole]) before reaching this level of catastrophic coverage.

Benefits under Medicare Part D will be provided through

commercially established plans, either standalone prescription drug plans (PDPs) or Medicare Advantage-Prescription Drug plans (MA-PDs), which are medical plans with included prescription drug coverage.

As indicated above, coverage under Medicare Part D is voluntary; eligible individuals choose whether or not to enroll. Once eligible, an individual must enroll on a timely basis or pay a penalty for late enrollment, unless he or she has maintained "creditable" prescription drug coverage in the interim. Employers are required to advise employees who would be eligible for Medicare Part D and as to whether any employer-provided coverage qualifies as "creditable" coverage. (Essentially, coverage is "creditable" if its actuarial value is at least equal to the standard Medicare Part D coverage.) A 'Notice of Creditable Coverage' must be provided prior to an individual's initial Medicare Part D enrollment period and at other specific intervals.

It is important to recognize that this notice requirement can affect not only employers that offer prescription coverage to retirees, but also employers that offer such coverage in a plan for active employees, if any of the individuals covered by the active plan are Medicare Part D-eligible. For example, individuals are required to be provided with the Notice of Creditable Coverage if they continue to work past age 65, are therefore eligible for Medicare, but continue to be covered under the employer health plan.

Employers that do offer prescription drug coverage to retirees have decisions to make concerning their response to the availability of Medicare Part D. To discourage employers from dropping such coverage, the law provides a financial subsidy

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### **Welcome to Our Newsletter!**

Your employee benefits package is important—not only because of the cost you incur in offering it—but also because of the role it plays in recruiting and retaining quality employees. Besides developing the best benefit plan at the best price for our clients, we also use technology to communicate the value of your benefit plan to your employees. If you're not a client and would like to learn more about our services, visit us on the web at [www.chbenefitsgroup.com](http://www.chbenefitsgroup.com).

We hope that you find this newsletter informative. Please contact us with any questions or comments. We sincerely appreciate your business.

Steve Nadeau



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## **Employers Discovering Wellness Programs Help Rein in Health Care Costs**

While employers continue to use cost shifting to control their health care plan expenses, many also are making wellness programs part of their health care cost control strategy and are seeing these programs as a long-term investment in a healthier workforce.

A survey of 365 companies by the ERISA Industry Committee (ERIC) and the Deloitte Center for Health Solutions found that 62 percent have implemented wellness programs to improve employees' health. Of these companies, 64 percent cited rising health care costs as a "major factor" in the decision to sponsor a wellness program, and 34 percent said that health care costs played "some role" in the decision. In a separate survey by PricewaterhouseCoopers, 80 percent of surveyed business executives said that the best option for reducing health care costs was to provide financial incentives for employees to lead healthier lifestyles.

Health risk assessments lead the list of wellness initiatives used by the ERIC/Deloitte-surveyed employers, followed by smoking cessation programs. Specifically, the surveyed companies offered the following wellness initiatives—

- Health risk assessments—61 percent
- Smoking cessation programs—56 percent
- On-site workout facilities—50 percent
- Employee diet groups—48 percent
- Adding healthier foods to the cafeteria menu—48 percent
- Subsidized gym programs—43 percent
- Allowing employees to use time during the workday to exercise—27 percent
- Diet counseling—27 percent
- Other initiatives, such as free flu shots, healthier vending machine choices, wellness Web sites, and on-site massages—32 percent

Almost half (47 percent) of the companies with wellness programs offered employees incentives to participate, including cash payments, reduced medical co-payment costs, rebates on wellness program costs, gift certificates and prizes.

While the surveys cited above focused on large companies, small and midsize businesses are also offering wellness initiatives. Data from the Small Business Administration cited by the National Federation of Independent Business indicates that more than 80 percent of businesses with 50 or more employees have implemented some type of wellness program.

Most companies with wellness programs understand that it will take some time to see the payoff from these programs. When companies in the ERIC/Deloitte survey were asked the question—"Do you believe that helping employees lead healthier lifestyles will make a noticeable difference to the company's health care costs?"—80 percent said "Yes, but it will take a while to see results." Only four percent expected immediate improvement. Another 14 percent thought an impact on health care costs was only a possibility, and that "there are other reasons we wanted to do this."

The actual financial payoff any company reaps from a wellness initiative is impossible to predict, and will depend on the type of program and extent of employee participation, the latter of which can vary, driven by such factors as the availability of participation incentives, employee awareness, and the extent to which the employer stands behind the program. However, wellness programs can do more for a company than help contain its health care costs. Healthier employees are likely to be more productive, have fewer absences, and have a better overall attitude toward the business. Sponsorship of wellness programs also can enhance a company's recruitment efforts, and improve its image in the community.

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to employers with plans that are actuarially equivalent to the Medicare Part D coverage. Such plans can receive a 28 percent subsidy that reimburses allowable drug costs between \$250 and \$5,000 with respect to individuals who do not enroll in Medicare Part D.

If the employer plan does not qualify for the subsidy, options may include providing coverage that supplements or wraps around Medicare Part D; contracting with a PDP or MA-PD to offer prescription benefits to retirees; or dropping the retiree coverage.

Any employer sponsoring or considering sponsoring prescription coverage for retirees will need to individually weigh their options and consider what is their best choice. In a survey conducted by the Deloitte consulting firm, 90 percent of employers that currently offered prescription drug coverage to retirees intended to continue to offer the coverage after Medicare Part D becomes available, with 55 percent of these having either decided on providing actuarially equivalent coverage and taking the subsidy, or are inclined to do so.

## Communications Improve Employee Perception of Benefits Package Value

At most companies, employee benefits represent a significant portion of an employee's overall compensation. According to the Bureau of Labor Statistics, employee benefits' costs account for almost 30 percent of an employee's total compensation. Yet this significant outlay often gets overlooked, or undervalued, by employees. For example, according to data from MetLife, 28% of surveyed full-time employees thought their employer's contribution toward health insurance was less than \$1,000 per employee annually, and almost half—49 percent—put this figure at less than \$2,000. This perception significantly underestimates what is likely to be an employer's actual contribution.

The average annual employer contribution for health coverage during 2004 was \$3,137 for individual coverage and \$7,289 for family coverage, according to the Kaiser Family Foundation and Health Research and Educational Trust 2004 Employer Health Benefits survey. According to the Bureau of Labor Statistics March 2005 National Compensation Survey, employees pay only 18 percent of the health care plan premium for single coverage and 31 percent of the premium for family coverage, with employers covering the rest of the cost.

Effective communications can go a long way toward bridging this gap between perception and reality. Too often, employee benefits' communications are limited to the annual enrollment period, when most employees' focus will be on what their benefits are costing them, and not on what their employer contributes to the total benefits package. Furthermore, research from MetLife shows that the amount of time most employees take to make decisions about their benefits is small, 57 percent spend only 30 minutes or less, with the average running just over one hour.

Employee benefits' communications should continually reinforce the value of the benefits package. In addition to the significant contribution most companies make toward health insurance, there are other items such as employer contributions to a pension plan or profit sharing plan or matches to a 401(k) plan; employer premium contributions toward other health and welfare benefits (e.g., life, disability, dental insurance); savings employees realize through purchasing any voluntary benefits at a group rate; the salary—in dollars—represented by paid vacation days; and employer contributions to mandatory benefits, such as Social Security and Medicare.

Beyond annual enrollment, communications should use a variety of media throughout the year to explain the value of the benefits package. This might include an annual total compensation statement that shows the employer's actual outlay—in salary and benefits—for the employee; "Did you know?" emails, placards and posters, each highlighting the actual cost of, and employer contribution, toward a specific benefit; and items in newsletters discussing benefits cost issues in understandable terms.

A company's employee benefits package is important—not only because of the cost the employer incurs in offering it, but insofar as the role it plays in recruitment and retention efforts. Effective year-round communications help ensure that the investment the employer has made in the benefits package produces the highest return in terms of employee recognition, and understanding of the true value of their total compensation.

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to their best advantage. As noted in the survey report, "companies wanting to implement HSAs to slow rising health care costs will need to thoroughly educate their employees regarding the potential rewards of this new approach."

And what's the most effective way to do this? Fidelity Workplace Services examined some early HSA adopters to see what was significant in achieving a successful HSA rollout. Fidelity identified three key factors:

- Communicating plan information early (as much as six months before changes were to take effect), and in stages;
- Providing education support to help employees evaluate their choices (such as cost calculators that help employees see how a specific choice could impact them on a personal level); and
- Changing health plan designs (beyond just adding the

HSA option) and requiring an active enrollment with employees who did not make an active enrollment decision being defaulted into the HDHP/HSA option.

Beyond these three, other factors that influenced successful HSA rollout included some level of employer contribution; support from senior and frontline management; development of a strategy that identifies how HSAs fit with the company's long-term plans; an understanding of how new plan designs could affect different employee groups gained through modeling of contemplated designs; and working closely with the health plan carrier to ensure an understanding of administrative issues.

Taking the time to carefully plan for an HSA rollout and engaging in early and thorough communications with employees will ensure that the plan will succeed in meeting the goals of the business and can attract strong numbers of eligible employees at enrollment.

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## Considering an HSA? Get an Early Start on Planning and Communications

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Industry surveys indicate that enrollment in health savings accounts (HSAs) is surging. According to figures from America's Health Insurance Plans; a national trade association, more than 1 million people were covered by HSAs as of March 2005, doubling the enrollment figures from six months earlier.

Employers considering adding an HSA shouldn't let these figures make them complacent about implementation and communication strategies. HSAs are both complex and different from the type of health insurance coverage employees are used to, and require a more consumer-conscious attitude toward the use of health care services. Employers introducing HSAs must realize this, and plan their implementation timetable and communications accordingly.

According to research conducted by Watson Wyatt Worldwide, more than half—61 percent—of adults have not heard of HSAs, 29 percent have heard of them, and 10 percent are unsure. Of adults who have heard of HSAs, only a third say they completely or mostly understand them, while another third say they “somewhat” understand them.

Furthermore, those surveyed have mixed reactions to HSA features. After receiving an explanation about how HSAs work, the surveyed adults expressed extremely positive

reactions to the control one has over HSA funds (60%), the lower health plan premiums for the high deductible health plan (HDHP) paired with the HSA (55%), the tax-free accrual of HSA money (45%), and the independence of health care decision making associated with HSAs (43%). However, large numbers were concerned about the higher out-of-pocket costs associated with HSAs; for example, 86 percent found the higher deductible of the HDHP “extremely undesirable” or “somewhat undesirable.”

This concern about out-of-pocket costs takes on more importance in light of another survey finding—36 percent of the surveyed adults said that the most influential factor in their decision of whether or not to enroll in an HSA would be the maximum out-of-pocket cost. The maximum out-of-pocket cost factor outranked all other choices as the most influential factor in HSA enrollment, including scope of services covered under the health plan, premium reduction, and amount of employer HSA contribution.

This data underscores the importance of HSA communications, not only in informing employees about the mechanics of HSA operation, but in overcoming any negative impression about HSAs and helping employees that do enroll to use HSAs

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