Employee Benefits Report

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Health Benefits | July 2014 | Volume 12 • Number 7

The ACA and HSAs

A number of trends are boosting the popularity of Health Savings Accounts (HSAs) linked to high-deductible health plans.

Health Savings Accounts were created in 2003 so individuals covered by high-deductible health plans could receive tax-preferred treatment of money saved for medical expenses. Although the concept was slow to take off, a number of trends have converged to make employers and individuals take another look at HSAs. Between 2008 and 2013, the number of health savings accounts grew nearly tenfold, from 1.3 million to 11.8 million accounts with assets of $23.8 billion.

To be eligible to enroll in an HSA, your employees must have a high-deductible health plan and no other health insurance. Either the employer or employee or both can contribute to an HSA. Employer contributions do not count as taxable income to the employee, while the employee can take an above-the-line deduction for any contributions he/she makes. If you offer employees a flexible spending account or cafeteria plan, they can make contributions to their HSA with pre-tax

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This Just In…

The percentage of employees experiencing high or overwhelming financial stress grew to 23 percent in 2013, found a recent survey. Financial Finesse, a financial education provider, also reported that stress levels varied by demographic group. People with incomes lower than $60,000, members of Generation X (ages 30-44), and women with minor children in the household were more likely to report financial stress. Among low-income women of ages 30-44 with minor children in the household, 58 percent reported high or overwhelming financial stress.

Stress levels increased between 2011 and 2013, despite improvements in investor and retirement confidence. Researchers

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dollars through their FSA (flexible spending account).

With an HSA, account holders can carry funds over from year to year so employees don't have to worry about any 'use it or lose it' policy. They can use money in their HSA for any qualified medical expense, including medical expenses in retirement.

Trends Fueling Interest in HSAs

Cost control: Today, preferred provider organization (PPO) plans cover more groups than any other type of health plan. PPOs developed as managed care plans that were supposed to control medical costs by steering group members toward preferred, or network, providers. In reality, though, PPOs often insulate employees from the true cost of their medical care by allowing them to access healthcare whenever they want for a low annual deductible and flat fee per office visit or prescription.

So-called consumer-driven health plans (CDHPs) emerged as a way to give employees more incentive to consider and control their healthcare decision-making. CDHPs link a high-deductible health plan (HDHP) to a HSA. As the name implies, high-deductible health plans require higher deductibles and out-of-pocket expenses than other types of health insurance policies, but the premiums generally cost less per month, making these plans appeal to employers that want to cut expenses.

Many employers switching their group coverage to an HDHP contribute to employees' HSAs to take some of the sting out of the higher out-of-pocket costs employees will experience. Contributions are optional on the part of both the employer and employee. Because HSAs have no "use it or lose it" provision and funds can earn interest, employees have incentive to control medical spending so HSA funds can grow to cover future catastrophic healthcare costs or healthcare costs in retirement.

Employer mandate: When the "employer shared responsibility" provision under the Affordable Care Act kicks in for employers with 100 or more full-time-equivalent employees in 2015, some employers will be providing employee health coverage for the first time. All new HDHP plans must comply with the ACA, so these lower-cost plans will appeal to many smaller employers. Whether they choose to contribute or not, employers with qualifying HDHP plans should encourage their employees to open Health Savings Accounts.

The "Cadillac tax": Section 9001 of the ACA will impose a non-deductible excise tax on high-cost plans, or so-called Cadillac health plans, beginning in 2018. It sets the "high-cost" threshold at $10,200 for single-only coverage and $27,500 for family coverage for 2018. The 40 percent tax will apply to amounts exceeding the high-cost threshold. The threshold will adjust for cost of living increases in following years. The tax applies to any premium (or contribution) amount over the threshold, calculated on a monthly basis.

Please note that Section 9001 applies to all employer-sponsored health coverage that is excludable from the employee's gross income under section 106, whether insured or not. It defines a high-cost plan on the basis of total premiums (or costs, for a self-insured plan) "without regard to whether the employer or employee pays for the coverage." This includes employer contributions to an HSA.

Employers contributing to an employee's HSA will want to be careful to avoid triggering the Cadillac tax. However, the HDHP/HSA combination often appeals to higher-income workers. The HSA's tax advantages give these workers another vehicle they can use to cut income taxes and build retirement savings. They can also make tax-free withdrawals after retirement (for qualified healthcare costs), something they cannot do with many other types of retirement accounts.

For more important information on Health Savings Accounts, please see the related article on P. 4 or contact us for more information.

noted: "…fewer employees cite external factors like the stock market and U.S. economy as the main cause of their financial stress. Instead, more employees are citing internal factors like not having control over their finances or thinking that they will be unable to meet their future financial goals."

Employer-sponsored benefits and financial education can help employees better manage financial stress. As any HR manager knows, a stressed employee is not a productive employee. For more information on what a sound benefits program can do for your organization, please contact us.

Hybrid Pension Plans Offer Viable Alternative

"The number of employer-sponsored hybrid pension plans insured by the federal Pension Benefit Guaranty Corp. nearly tripled between 2001 and 2010," reported *Business Insurance* magazine in May. A hybrid pension plan combines features of both defined benefit (DB) and defined contribution (DC) plans, which can benefit both employers and employees.

Virtually all pension plans fall into two categories: defined contribution plans and defined benefit plans.

Defined benefit plans: Defined benefit plans are what most people think of when they think of a "traditional" pension plan. And when you hear in the news about pension plans being in trouble, pension negotiations or governmental bodies seeking to change pension agreements with retirees, the plans in question are probably defined benefit plans.

Funded by the employer, a defined benefit plan promises participants a specific monthly benefit at retirement. The plan may state this promised benefit as an exact dollar amount, such as $100 per month at retirement. Or, more often, it may calculate benefits through a formula that includes factors such as salary, age and the number of years worked at the company. For example, an employee could earn a pension benefit equal to 1 percent of average salary for the last five years of employment times total years of service.

Employees often prefer defined benefit plans because they know what they will receive in retirement. On the employer side, businesses can generally contribute (and therefore deduct) more each year than in defined contribution plans. Defined benefit plans are also more complex to establish and maintain than defined contribution plans. Because the employer promises to provide a set amount for the life of the pensioner, defined benefit plans require complex actuarial calculations to ensure that the employer sets aside enough money to meet its pension obligations far into the future. All investment and funding risk lies with the employer.

Defined contribution plans: Over the past 20 or 30 years, the number of new defined contribution plans formed has far outstripped defined benefit plans, as employers seek to control their retirement benefit costs and reduce administrative expenses. Defined contribution plans include 401(k) plans, SIMPLE IRAs, employee stock ownership plans (ESOPs), and profit-sharing plans.

Defined contribution plans do not promise participants a specific benefit amount at retirement. Instead, the employee and/or the employer contribute money to an individual account in the plan. In many cases, the participant chooses how these contributions are invested and decides how much to contribute from his or her paycheck through pretax deductions. The employer may add

to an employee's account, in some cases by matching a certain percentage of employee contributions.

The value of the account depends on how much is contributed and how well the investments perform—the employer has no investment risk. At retirement, the employee receives the balance in his or her account, reflecting the contributions, investment gains or losses, and any fees charged against the account.

Hybrid, or cash balance, plans: Although it is technically a defined benefit plan, a cash

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balance plan shares some features with defined contribution plans, and shares some of the advantages of both.

As with defined contribution plans, the benefits an employee receives at retirement are defined in terms of the balance in his/her account. But as with a traditional defined benefit plan, the employer makes contributions for participants. In a typical plan, the employer credits a certain percent of the employee's pay each year, plus an interest credit, to the employee's account. The employer can invest these amounts as it sees fit, and increases and decreases in investments do not directly affect participants' benefits.

Traditional defined benefit plans define a retiree's benefit as a series of monthly payments for life to begin at retirement, while cash balance plans define the benefit in terms of a stated account balance. These accounts are often referred to as "hypothetical accounts" because they do not reflect actual contributions to an account or actual gains and losses allocable to the account. When participants are entitled to receive benefits under a cash balance plan, he or she can convert the account balance into an annuity or (under some plans) take a lump sum distribution.

Employers bear the investment risk with a cash balance plan, unlike with a defined contribution plan. However, cash balance plans do not require the complex actuarial calculations that a defined benefit plan requires, They also present somewhat less investment risk to employers, if the employer selects a conservative interest credit.

We can help you determine which type of retirement plan best fits your company's needs. For information, please contact us.

Escalating Prescription Costs Worrying Patients and Payers

A new drug called Sovaldi has an 80 percent cure rate for certain types of Hepatitis C infection when taken in combination with a drug called ribavirin. That's good news for the approximately 3.2 million Americans with chronic Hepatitis C. The bad news is the drug costs $1,000 per pill, or about $84,000 for a course of treatment.

Although Sovaldi actually cures Hepatitis C—potentially preventing those infected from developing cirrhosis or cancer of the liver—insurers are balking at its price. In a blog post, America's Health Plans (AHIP), a health insurer trade group, said, "Sovaldi has shown tremendous results…Unfortunately, the drug's maker…has priced it at an astronomical level that is not sustainable for consumers, innovation or society."

Prescription drug spending in the U.S. grew by 3 percent in 2013, after a decline of 1 percent between 2012 and 2013, according to IMS Health, a consulting and data firm. Increasing costs—particularly for new drugs—is likely affecting your employees' health.

Many of the most costly drugs treat various types of cancer. Spending on cancer drugs worldwide reached $91 billion in 2013, a 28 percent increase in just five years. It's no wonder that a cancer diagnosis makes a person 2.65 times more likely to file for bankruptcy than people without cancer.

Employers' Balancing Act

Some insurers are dealing with costly drugs by passing a larger portion of costs on to patients. Some employers have turned to pharmacy benefit managers (PBMs) to control their prescription drug costs. They "carve out" prescription drug benefits from their health plan and provide drug benefits through the PBM. Volume buying allows PBMs to give participants retail and mail-order drugs at deep discounts. They also contract with manufacturers to obtain rebates that can be passed on to clients.

While PBM pricing is often more transparent than insurance company pricing, a PBM's financial interests may not always align with those of their clients. Some PBMs retain the difference between the discount applied to the client's invoice and the actu-

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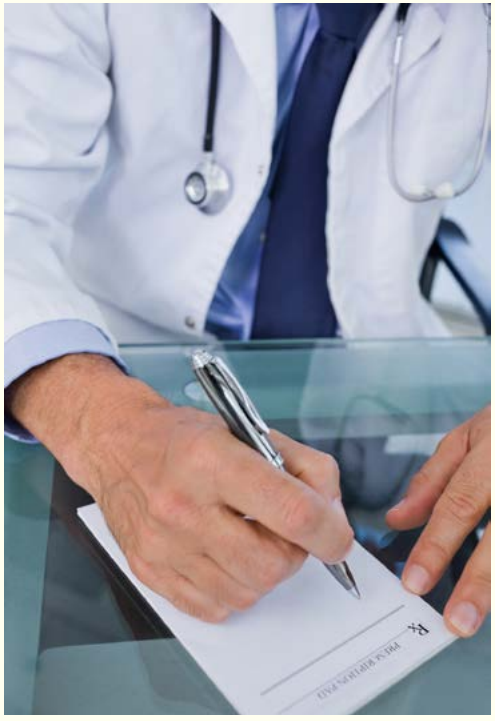
al amount reimbursed to the retail pharmacy. With mail-order purchases, certain PBMs rely on their market power to generate revenue by purchasing volume-based brand and generic drugs at a deeper discount than the prices clients pay. And sometimes they refuse to reimburse for certain high-cost drugs.

Bloomberg News Service reported that Express Scripts, a pharmacy benefits manager, might stop reimbursing for Sovaldi once other new hepatitis C therapies are on the market, which is expected to occur next year. For a pharmacy benefit manager, refusing to reimburse patients for expensive drugs like Sovaldi means a better bottom line. But for employers, steering patients away from drugs that are proven effective could prove penny wise and pound foolish.

Although a Sovaldi costs $1,000 per pill, Gilead, the drug's manufacturer, points out that the cost of a liver transplant can exceed $300,000. When looking at the cost of a drug, sometimes a benefits manager has to look at the bigger picture. If a drug such as Sovaldi can cure a disease or prevent chronic conditions from worsening, how much is it worth to an employer that will likely have to pay for additional medical and disability costs?

Your organization, if it's typical, might be able to save on prescription drug costs by



cutting waste and increasing compliance. A 2012 report funded by the U.S. Agency for Healthcare Research found that 20 to 30 percent of medication prescriptions are never filled, and that approximately 50 percent of medications for chronic disease are not taken as prescribed. This has tragic consequences, leading to approximately 125,000 deaths, "… at least 10 percent of hospitalizations, and a substantial increase in morbidity and mortality." The cost? Between $100 billion and $289 billion every year.

As with many benefits programs, an integrated approach works best to increase prescription drug compliance and reduce waste. A comprehensive disease management program will help identify those with or at risk of developing chronic conditions, develop appropriate treatment or prevention plans and then help people comply with their treatment plans. In short, disease management programs help people learn to take better care of themselves. They usually involve a combination of nurse counseling, behavior modification programs, communications and support, along with involvement by the participant's physician.

In order to use their benefits wisely, employees need to know how they work. Do your plan materials provide them the information they need in a clear and understandable manner? Does your plan provide a way for employees to comparison-shop for their drugs?

For suggestions on controlling your organization's prescription drug and other employee medical costs, please contact us.

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OOPs: Double-Check Plan Limits in 2015!

Oops…did someone forget to look at HDHPs when determining maximum out-of-pocket expenses (OOPs) under the Affordable Care Act?

Through 2014, the out-of-pocket maximums for ACA-compliant health plans have matched the out-of-pocket maximums for the high-deductible health plans (HDHPs) that allow individuals and families to open and contribute to a Health Savings Account (HSA). But in 2015, out-of-pocket maximums required for HSA-compatible HDHPs will differ from out-of-pocket maximums set by the ACA for the first time.

For 2015, HSA-compatible HDHPs will have out-of-pocket maximums of $6,450 for individual coverage and $12,900 for family coverage. In 2015, the ACA will allow plans to have higher out-of-pocket maximums, of $6,600 for individual coverage and $13,200 for family coverage.

This occurs because the IRS sets maximums for HDHPs based on inflation rates. But the ACA requires the U.S. Department of Health and Human Services, which administers the ACA, to adjust deductible and out-of-pocket "cost-sharing" maximums each year using a premium adjustment percentage, or the estimated change in average insurance premiums. Health insurance costs are increasing faster than the general inflation rate, so the gap between out-of-pocket maximums allowed under the ACA and out-of-pocket maximums allowed for an HDHP to be linked to a health savings account will likely increase as years pass.

The takeaway for employers? Remember that a plan that meets the criteria for a high-deductible health plan under the ACA might not qualify your employees to enroll in an HSA. For more information on setting up or administering a consumer-driven health plan for your employees, please contact us. ■

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