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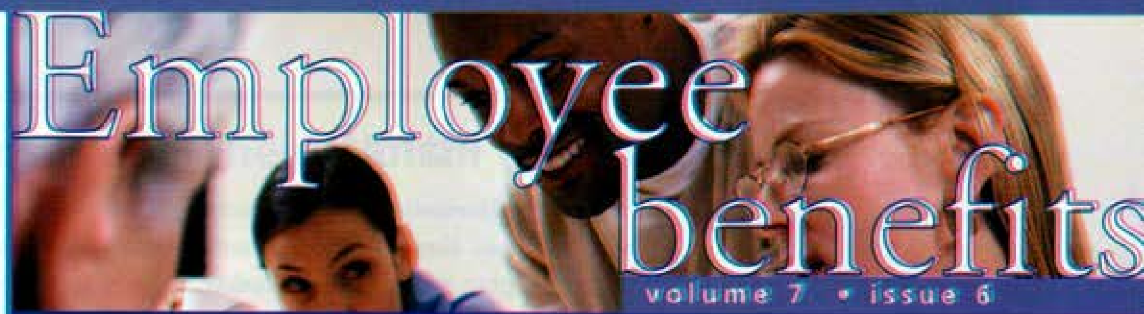


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## Contraceptives Must Be Covered

Women's advocacy groups won a major decision from a U.S. District Court that will require companies to offer payment for prescription contraceptives. The groups alleged that most health plans today have selective exclusions of prescription contraceptives from generally comprehensive prescription plans and that this constitutes discrimination on the basis of sex. The court agreed.

U.S. District Court Judge Robert Lasnik ruled that employers' health plans must cover birth control prescriptions and related services. Judge Lasnik said employers must cover each of the available options for prescription contraception to the same extent and on the same terms that it covers other drugs. In reaching the decision, the judge was guided by his determination that contraceptives are considered preventatives.

While the overall cost impact of this decision on employers has yet to be determined, Buck Consultants has provided an estimate. The additional cost for adding a full range of prescription contraceptives would be $1.43 per month, a Buck study found. While most indemnity insurance plans, as well as preferred provider organizations cover prescription drugs, only about half currently cover prescription contraceptives, the study found.

If you're reviewing your company's medical plan, it may be time to consider adding prescription contraceptives. We'll be happy to provide details on the additional cost to offer this benefit to your employees. Just give us a call.

## Emergency Room Visits Rise

Several of the nation's largest medical carriers point to a recent trend that could spell some trouble for company health plans. Aetna U.S. Healthcare, CIGNA Healthcare and Humana report there have been double-digit increases in the use of emergency room visits. This is a trend that has been going on for the past two years.

While there are several causes for this trend, by far the most compelling is the abandonment of prior authorization requirements for emergency visits. The shift to PPOs, which don't traditionally require patients to select a primary care physician, has added to the number of emergency room visits.

Another factor: Thirty three states have added "prudent layperson" laws. These laws require health insurance carriers to pay emergency room bills if the patient is either in great pain or believes that they are experiencing a medical emergency.

Finally, many employees complain about scheduling difficulties at their primary care physician's offices as a reason for the use of the emergency room.

Employers should watch this trend for their health plans. With normal emergency room care costing about six times as much as care provided in a doctor's office, these expenses can add to the overall cost of the plan.

## New Tax Rules for 401(k) Plans

Earlier this year, Congress passed the Bush Administration's tax plan. There is more to this tax plan than the refund check to taxpayers. In fact, some of the biggest winners under the new tax law were 401(k) participants.

While there are many aspects to this new law that employers and employees should review, some of the more beneficial sections that apply to retirement programs include the following:

- Individual, annual, pretax contribution limits for 401(k) plans will increase to $11,000 for FY 2002 and will increase another $1,000 per year thereafter (maximum $15,000 in 2006).
- Elimination of the percentage of pay limit, which frequently hampers a low-income worker's ability to save.
- New rules that allow workers to make "catch-up" contributions after age 50 (contribution up to an additional $1,000 per year).
- Ability to roll 401(k) balances into 403(b) or 457 plans, if participants change jobs.
- Faster vesting of the employer matching contributions (time to completely vest will be reduced from five to three years).

The new tax law will have a profound impact on numerous aspects of retirement plans. As a result, 401(k) plans should become an even more attractive option for employees. If your firm doesn't offer a 401(k) option, this is an excellent the time to consider it. If you do offer this retirement option, let us show you how the tax plan has changed the playing field. ■

## Can't Get No Satisfaction

A major change in the way one HMO is operating could spell policy modifications for others that could result in greater satisfaction among patients. In a move applauded by many, Blue Cross of California has changed the way it pays bonuses to physicians from cost-based to satisfaction-based.

Historically, healthcare providers have based the payment of bonuses to physicians on the amount of cost savings the doctors can achieve. But Blue Cross of California followed the lead of United Healthcare, which changed the method it used to pay bonuses to its doctors. Very simply, these plans now are paying based on patient satisfaction.

Pressure from employer groups and from individual members has caused HMOs to consider a new approach to compensation. At this early stage, the results look good. As established by Blue Cross, various factors will be taken into account when evaluating physician groups: patient surveys, exit interviews and the quality of preventative care. Groups that perform well can receive up to 10% of their quarterly payments as a bonus.

The dynamics of this system are quite simple. If the doctor raises the satisfaction level of patients, those patients won't want to leave the system. This will allow the core preventive care aspects of the HMO approach to work and should result in lower costs for employers and for patients. This is certainly a step in the right direction. If your plan hasn't adopted this bonus system, you may want to suggest that they do so. ■

## Job Changers Pay the Price

Putnam Investments recently completed a study called "Retirement Savings in an Unsettled Economy" and found that employers need to increase their retirement education efforts to keep employees from making mistakes that could impact their future retirement. Nowhere is this more evident than with workers terminating employment and cashing out their 401(k) programs.

Few employees realize the unfavorable tax impact of early withdrawal from a 401(k) program. The study found that 30% of employees took cash payments upon leaving a job, while only 19% left their

*(Continued on next page)*

## Wellness Programs Prove Their Worth

Wellness programs have been a staple of many companies' employee benefit plans for years. However, some businesses still aren't convinced of the value of wellness programs. Moreover, with corporate expenditures coming under a microscope in the current economic climate, companies aren't willing to adopt something new without strong reasons for doing so. Well, now we have those reasons in a Xerox Corp. study of its wellness program.

The study looked at the Rochester, N.Y. plant, which employs 3,338 workers. Participants in the study all had worked at Xerox since 1981 and were members of the Blue Choice HMO. Of the total plant population, 943 also participated in the company's risk appraisal program, which is a key component of the wellness program. The appraisal program evaluated an employee's health risks such as smoking, obesity, drug and alcohol use, high blood pressure, and life and job satisfaction.

Two key findings of the study were:

- Appraisal program participants had an average 5.6% factor for workers compensation claims, compared to 8.9% for the general plant population.
- When the appraisal participants did get hurt, the average cost per injury was $6,506 compared with $9,482 for the general plant population.

Xerox estimates that over a two-year period its wellness program produced a five-to-one return on its investment. ■

## Job Changers (*cont.*)

money in the current plan. About 10% transferred balances to new employers. Younger workers were found to be more likely to "take-the-money-and-run," with about 40% of workers between the age of 18 and 34 opting to cash out upon termination.

While employees see the immediate cash as a windfall, the long-term effects aren't considered. This lack of planning in early years can have a profound impact at retirement. If a young employee has a $10,000 balance, he or she will net only about $5,000 after taxes with a withdrawal. However, if the money were to stay in the plan, it could result in more than $100,000 at retirement.

The consequences of early withdrawal are significant. Early payments will result in about 39% in federal taxes. And, if the worker is younger than 55, there also is a 10% penalty. Putnam estimates penalty payments totaled between $7.1 billion and $8.3 billion annually.

Putnam suggests that better education of employees on 401(k) accounts is needed. We'll be happy to work with you. ■

## Pension Investment Counseling and Fiduciary Liability

While most employers are interested in educating employees about retirement options, many fear being held liable if investments don't pan out.

This concern certainly is valid since employers could be viewed as fiduciaries if they begin offering additional information. Once they are considered fiduciaries, they will be held to a higher standard. To reduce this concern, the Department of Labor has issued a bulletin that outlines four safe harbors for employers to provide information:

1. Plan information – basic details as to how the plan works.

2. General financial and investment information – basic primer on what investing is all about.

3. Asset allocation models – specific information for employees to figure out what their allocation model should be.

4. Interactive investment materials – questionnaires, worksheets, and software that will help an employee estimate their future income needs in retirement as well as the impact of the various asset allocations on retirement income.

By limiting the focus to these areas, you can reduce your chances of being considered a fiduciary. And you can greatly help employees better understand their retirement program and make better decisions.

It is also important that you have the proper insurance should an employee sue you. Our agency would be happy to review your current coverage and make suggestions, if warranted. Just give us a call. ■

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## HMO Renewal Rates Setting Records

Health insurance industry prognosticators had predicted that cost increases for healthcare benefits were going to rise by 11% to 12% in 2001. Unfortunately, for the most part they were right. Even more unfortunate is that fully insured HMOs are setting records with their increases, some of which exceed 20%.

William M. Mercer, author of an annual report on health benefits, suggests a number of factors that account for these significant increases. The most recent report says HMOs are beginning to try to make up for years of discounted service fees. It also indicates that the aging population has caused an escalation in costs. Finally, it suggests that managed care options, after having served for years as a viable cost-reduction strategy, may have reached their maximum return and that new cost saving options may be needed.

If your firm would like to discuss your health plan's cost effectiveness, we can provide the expertise you require. Just give us a call.

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