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In This Edition

Plan Design

Employers Eye New Benefits Buzzword: Value

A rough economy, skyrocketing health care costs and the specter of health care reform are prompting many employers to consider changes to their benefits strategy for 2011 and beyond. Some companies now are reshaping their plans around one word: value.

An emerging benefit trend known as value-based design (VBD) involves crafting coverage to encourage better health habits and better (and more cost-effective) medical care choices. Some of the key strategies that employers are adopting include transparency, evidence-based care and wellness, according to a report in *Managed Healthcare Executive*.

VBD "is about aligning your efforts and targeting your dollars to where you will get the best value for your investment," Sara Poage Palermo, a vice president with Mid-America Coalition on Health Care, told *Workforce Management*.

While this model is not yet widespread, some companies are experimenting heavily with the concept. A group of companies in Kansas City, Mo., are participating in a pilot program that aims to cut costs by maximizing the value of medical treatments. One of the companies, Cerner Corp., has used the strategy to combat a number of costs, including mental health conditions. In just six months after instituting an employee assistance program and other resources aimed at early intervention, the company saw its costs for treating outpatient mental health issues plummet 41 percent.

The promotion of generics over brand-name drugs and proper drug compliance is another example of VBD strategy. A series of recent studies suggest that reducing pharmaceutical costs can have a significant impact on overall health costs and help employers and their workers get more value from their plans. For instance, a study published in the *New England Journal of Medicine* found that high spending on prescription drugs did not improve patients' overall care. According to a Reuters report, the research by the Pittsburgh Graduate School of Public Health found large variations in how much U.S. physicians and hospitals spend on drugs for Medicare patients. However, researchers found no correlation between high spending on drugs and improved health. "That contradicts the idea that high spending leads to better prescription practices," said researcher Yuting Zhang.

A separate study found that when drugs with high value are available with a lower copayment, patients' adherence to their treatment programs improves. U.S. technology firm Pitney Bowes lowered its copayments on several drugs that were proven to help patients, including cholesterol-lowering statin drugs and treatments that combat blood clotting. The study's authors say the findings are significant because it validates the VBD strategy and hints that increasing deductibles and other types of cost sharing are not the only ways to stem the rise of health care costs, according to a report in *The Medical News*.

In the end, however, a strategy by itself won't drop costs. Employees need to be part of the solution, experts told *Managed Healthcare Executive*. After all, they are the ones making the decision at the doctor's office and the pharmacy counter.

"The bottom line is getting employees to ask whether they are getting the highest quality care that will drive down costs," said George Stadtlander, executive vice president and chief managed care officer for Medical Mutual of Ohio.

Health Care Reform

Election Leaves Reform Questions Unanswered

The results of the recent midterm election signal some possible coming changes to the health care reform law, but employers shouldn't expect real relief anytime soon, experts say.

House Republicans, who took control of that body in the elections, are poised to push for an early vote for repeal of the entire law, according to a Dow Jones Newswire report. While such a measure could muddle things in the Senate and frustrate the Democrats, any full repeal is unlikely because Democrats still control the Senate and the White House, experts said.

However, House Republicans can attempt to strangle the Patient Protection and Affordable Care Act (PPACA) simply by refusing to fund it. The law requires federal funding for more than 100 key components of the bill, including funding for the planned state health exchanges in 2014 and $500 billion for subsidies for individuals to purchase insurance.

Yet that strategy harbors its own pitfalls, according to analysis by Lockton, Inc. "Many voters are weary of partisanship and are looking for Congress to make something good happen," it wrote in a PR Newswire press release. "Republicans must remember that according to a number of exit polls, voters identified the *economy* as their main concern, by a wide margin (about 63 percent of voters picked the economy as their primary issue; only 18 percent cited the health reform law). The American electorate wants results."

Likewise, many employers are searching for real solutions to their health care challenges after the election. As the dust clears from the midterm contest, employers still must contend with the same obstacles: rising health care costs and the uncertainty of what health care reform (whatever its final form) brings. Some employers are starting to wonder if they'd be better off dropping coverage altogether. However, a new analysis by the Corporate Leadership Council (CLC) suggests that such a move could prove more costly than keeping coverage.

According to the CLC analysis reported in *Human Resource Executive Online*, the legislation will increase health care costs for employers between 2011 and 2018 by 37 percent more than if reform had never been signed into law. However, dropping coverage could be an even less attractive option for employers, the CLC study suggests.

"Dropping health care coverage might have a pretty significant negative impact on employees," noted Michal Kisilevitz, managing director for benefits and compensation at CLC.

In addition to fines and subsidies that many employers face if they don't offer coverage under health care reform, a drop in coverage could have a potentially harmful effect on workers' productivity and reduced recruitment and retention power, Kisilevitz said.

By 2016, health care costs might increase to the point that fines and subsidies become a cheaper option, but it's still too early for employers to make any long-term decisions, Kisilevitz said.

Unfortunately for employers, the waiting game continues. Even with Republicans now in a better position to make changes to the law, it's still anyone's guess how health care reform will fully impact employers and their health plans.

Reform Roundup

Below are a few developments regarding PPACA regulations recently announced by federal agencies.

W-2 reporting: The IRS has delayed a requirement that employers report the cost of health care coverage under an employer-sponsored group plan on employees' W-2s until 2012. Reporting is optional for 2011. The IRS announcement noted that federal agencies decided that employers need more time to amend their payroll systems to meet the new requirement. The IRS also stressed that "the amounts reportable are not taxable," and are "intended to be informational only and to provide employees with greater transparency."

Grandfathering: Federal regulators in October announced that for employers that maintain multiple health plans, a change to one plan does not revoke the grandfathered status of the company's other plans. Under the health care reform law, a plan will lose its grandfathered status if certain changes, such as increased cost sharing or decreased benefits, are made. However, regulators said grandfathered status applies on a plan-by-plan basis.

New FAQs: The Department of Labor has posted a fourth set of frequently asked questions on PPACA. The latest set covers how frequently employers that choose to grandfather their plans must distribute notices, among other issues. The FAQs can be viewed at: www.dol.gov/ebsa/faqs/faq-aca4.html.

Diabetes Presents Cost-Containment, Communication Opportunities for Wellness Plans

The rising prevalence of diabetes -- and the threat that it could grow even more in the future -- has some employers going on the offensive to treat afflicted workers and help other employees avoid this disease.

A recent study reported in *USA Today* by the Centers for Disease Control and Prevention (CDC) notes that one in 10 Americans have diabetes, but that rate could change to one in three by 2050.

This alarming trend is nothing but bad news for the future of health care costs. Not only can diabetes be a costly disease to manage, it can lead to serious health complications, including blindness, kidney failure and a series of ailments that can lead to a trip to the hospital or death. Already, health professionals are seeing a jump in hospitalizations for diabetes-related conditions, especially among young women, according to research by the University of Michigan Health System. Researchers found that hospitalizations for diabetes for young adults (ages 30 through 39) more than doubled from 1993 to 2006, according to a report by UPI. Young women were 1.3 times more likely to end up in the hospital compared with young men.

Overall, the CDC estimates that diabetes costs the U.S. health system $174 million annually.

A number of employers are trying to tackle this problem head-on and see disease avoidance and management as a key strategy in cutting health costs.

"We know diabetes is our No. 1 cost item among all our health issues," Keith Clark, an HR manager for Michigan-based Affina Group, told *Human Resource Executive Online*. "We think we can get the biggest bang for the buck if we can do something about it."

However, diabetes management programs can be expensive, and there's a lack of hard numbers on a return on investment.

One of the best -- and least expensive -- strategies involves educating employees about the dangers of diabetes and how they can reduce their chances of getting it, experts said. For those employees that already have diabetes, stressing drug compliance is vital. Recent research by CVS/Caremark shows that for each dollar spent on medications for diabetes treatment, another $7 is saved in other disease-related costs, such as hospitalizations.

The employer can be a key player in that education effort, according to John Buse, chief of the division of endocrinology at the University of North Carolina. "People spend more time at work than any other place except home," he said.

Some companies, including Affina Group, have turned to financial incentives, such as lower premiums, for diabetes screenings. Surprisingly, many employees didn't have a clue they had diabetes until the screenings, Clark noted. The company also supports an extensive disease management program through their health care carrier.

"Our programs can be hard to understand, so we try to communicate and communicate them," Clark said. "We're trying to make it as easy as possible."

FIDUCIARY RULES

The Department of Labor (DOL) has released a new proposed rule on the definition of "fiduciary" for employer-sponsored benefit plans. The new rule expands the "circumstances under which a person is considered to be a 'fiduciary' by reason of giving investment advice to an employee benefit plan or a plan's participants." According to a DOL statement, consultants and advisors "significantly influence the decisions of plan fiduciaries, and have a considerable impact on plan investments." If they are not deemed fiduciaries under ERISA, "they may operate with conflicts of interest that they need not disclose to the plan fiduciaries who expect impartiality and often must rely on their expertise, and have limited liability under ERISA for the advice they provide," the DOL states. The rule is designed to address "significant changes" in the financial industry and to protect plan sponsors and participants from "conflicts of interest and self-dealing."

HEALTH IS TOPS

Ninety percent of polled U.S. workers said they value their health benefits as much as their salary, according to a new industry survey. According to the survey published in PLANSPONSOR, 83 percent said their out-of-pocket expenses are probably or definitely worth the cost, up from 73 percent in 2008.

NEW DISCLOSURE RULES

Employers must disclose how much they spend on fees and the expenses of the investment options offered in 401(k) plans, according to new rules announced by the Department of Labor. The rule will go into effect for calendar-year plans on Jan. 1, 2012. As part of the regulation, plan sponsors will be required to provide workers with a comparative chart that lists fees, expenses and other investment-related information. Also, employers will be required to disclose quarterly the actual dollar amounts charged to their accounts for specified administrative expenses.

DROP AND GIVE ME 20

"Boot-camp" workout classes, lifting weights and exercises that strengthen the back and stomach are the top fitness trends in the coming year, according to the American College of Sports Medicine. The survey included 19,000 fitness professionals worldwide. The study suggests that people are going "back to basics" with their exercise regimens, possibly because other exercise programs that require instruction, such as Pilates, tend to cost more, researchers said.

CDHP SAVINGS

A new analysis by CIGNA finds that participants in consumer-driven health plans (CDHPs) tend to spend less on overall medical expenses when compared with those in more traditional plans. The Choice Fund Experience Study also found that those enrolled in CDHPs receive equal or better quality care, take a more active role in improving their health and are happier with the health care services than those in traditional plans.

IRS KEEPS RETIREMENT MAXIMUMS

For the second straight year, the IRS is not changing the contribution rate that employees may make to their retirement plans. The top annual employee contribution through a salary reduction for a 401(k) program will stay at $16,500. The biggest "catch-up" contribution employees 50 and older can make remains at $5,500. The maximum contribution to defined contribution plans will be $49,000 per participant in 2011.

NO PUMP REIMBURSEMENT

The IRS will not allow people to use their flexible spending accounts (FSAs) and other tax-sheltered health accounts to purchase breast pumps and other nursing supplies next year. These supplies were not included in past regulations, but advocates like the American Academy of Pediatrics had lobbied the agency to reclassify nursing supplies as a medical care expense, thus making them eligible to be purchased with FSAs and other health accounts. However the IRS said in a statement that although breast milk can promote good health in infants, the agency considers it a nutrition issue, not a medical expense.

END TO FREEZES?

More than three-fourths (76 percent) of companies that froze pay during the past 18 months have either ended the freeze or plan to do so by the end of 2010, according to a survey by Buck Consultants. The news release also noted that employees can expect an average salary increase of 2.8 percent in 2011, an increase from 2.5 percent in 2010.

SUIT FEARS

Lawsuits brought by their employees rank as the top financial fear of U.S. employers, according to a new survey by Chubb. Thirty-six percent said employment practices liability issues and lawsuits would cause the most financial damage to their company, followed by employee theft (18 percent) and a breach of electronically stored customer data (15 percent). Nearly one in five said they anticipate some sort of lawsuit in the next 12 months.

HOLIDAY HIRING

A large majority of employers who hire seasonal employees during the holidays say they expect to hire the same number of workers or more this year compared with the 2009 season, according to a new industry survey. The poll of retail, hospitality and "quick-serve" restaurant industries found that 55 percent are planning this year to hire the same number of workers as last year, and 29 percent are hiring more, according to an Aon Hewitt survey. Sixty percent of employers said they would be hiring 100 or fewer employees for the holiday season.

BACK TO SCHOOL

More employers are offering tuition reimbursement as an employee benefit, according to a new poll by BLR. Eighty-five percent of employers said they offer tuition reimbursement to their workforce, compared with 52 percent in 2007. Although more companies are offering this kind of benefit, they're tightening the requirements for employees to receive it, the survey found. Nearly all (96 percent) require employees to verify their grades, compared with 50 percent in 2007.

RETIREMENT HELP

The Department of Labor and the American Institute of CPAs have created a new website to help small businesses select retirement plans. The website contains information on a variety of retirement options, from simple individual retirement account plans to 401(k) plans with automatic enrollment. The site lists advantages and challenges of each plan for companies with as few as two employees. The site can be viewed at: www.choosingaretirementsolution.org

WHAT'S YOUR EXCUSE?

A recent CareerBuilder news release lists the latest creative excuses by employees who miss work. Highlights include:
-- A chicken attacked his mom
-- A cow broke into her house and she had to wait for the insurance man
-- Had trouble with a hair transplant
-- Had a finger stuck in a bowling ball
-- Fell asleep at his desk while working and hit his head, causing a neck injury

Webinar Series

COBRA AFTER HEALTH CARE REFORM

Tuesday, Dec. 14 at 2 p.m. EDT

In a way, "health care reform" began 25 years ago, with the coverage continuation requirements enacted as part of the Consolidated Omnibus Budget Reconciliation Act of 1985 (better known as COBRA). With the passage earlier this year of comprehensive health care reform, this is a good time to take stock of COBRA's place in the world of employer health plans.

In this webinar, labor lawyers from Spencer Fane Britt & Browne LLP will provide a brief overview of COBRA's requirements, consider whether COBRA has any long-term future (in view of the ability to purchase coverage through the exchanges starting in 2014), and then address several short-term implications for COBRA from comprehensive health care reform.

For more information, please contact your benefit advisor.

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