

Benefit Insights

Growth in Health Care Spending Projected to Slow, But Still Exceed Inflation

Total health care spending is projected to reach 19.5 percent of the gross domestic product by the year 2017, up from the 16 percent it represented in 2006, according to health tracking trends published in Health Affairs. The report projects private health care spending will grow at an average rate of 6.7 percent from 2007-2017, growth that continues to outpace inflation, but which represents some relief for employers and other private sector payers, compared with the double-digit increases seen in recent years.

Other highlights from the report:

Prescription Drug Spending

Analysts project that drug spending will accelerate through 2017, reaching almost \$515.7 billion -- more than double the \$231.3 billion projected for 2007.

Hospital Spending

Hospital spending is projected to nearly double from the expected \$696.7 billion in 2007 to more than \$1.3 trillion by 2017.

Physician services

Over the next decade, growth in physician spending is expected to average 5.9 percent per year, down from 6.6 percent over the past eleven years.

Consumer out-of-pocket spending

Growth in out-of-pocket costs is expected to gradually accelerate to 6.0 percent and reach \$464.3 billion by 2017. The analysts expect that employers will shift more health care costs to their covered members through benefit reductions

and increased cost sharing due in part to slower projected economic growth.

“National Health Expenditure Projections 2007-2017,” authored by individuals with the Office of the Actuary, Centers for Medicare and Medicaid Services, can be viewed in its entirety on Health Affairs website, <http://www.healthaffairs.org/>.



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Avoiding Common COBRA Mistakes Is the Best Way to Manage Costs

With high COBRA costs and steep penalties for noncompliance, employers have plenty of incentive to make sure that they—and their administrators—are doing all that is necessary to administer COBRA exactly according to the law. Yet, errors frequently occur, due in large part to the complexity of the COBRA law and its regulations, but also sometimes to misunderstandings and miscommunications that occur between the employer and administrator as to who is responsible for what aspects of COBRA compliance.

Just how costly is COBRA for employers? According to an annual survey from Spencer's Benefits Reports, in 2006,



...when a plan encounters administrative problems, noncompliance penalties can add significantly to COBRA's costs:

the average annual cost for employers per COBRA enrollee was 45% more than the average annual health care cost for an active employee, or \$9,914 compared with \$6,831. And when a plan encounters administrative problems, noncompliance penalties can add significantly to COBRA's costs: an excise tax penalty from the Internal Revenue Service of \$100 per day (\$200 if multiple qualified beneficiaries are involved), an ERISA penalty of \$110 per day, and potential court costs, legal fees, and even medical claims costs if an individual is not properly covered by the health plan due to COBRA noncompliance.

With all this at stake, it's worth taking a look at some of the common and most frequent COBRA errors—

- Failing to provide the initial or general COBRA notice. This is the notice that must be provided to all employees, and spouses, which tells them about the COBRA law and their responsibility to notify the employer if they experience certain qualified events. If this notice is part of the health plan summary plan description (SPD), and the SPD

is only distributed on-site to employees, the notice-to-spouse requirement will not be satisfied.

- COBRA notices that do not contain language as required by the most recent COBRA regulations.
- Poor documentation that the required notices have been provided. If challenged that a required COBRA notice actually was provided, an employer will need to show that its methods for meeting the notice requirement are reasonably calculated to result in receipt by employees. This requires established procedures and proof that those responsible actually are adhering to these procedures.
- Not offering COBRA for coverages besides the core medical coverage, such as dental, vision, and the flexible spending account.
- Not holding qualified beneficiaries to coverage election deadlines by accepting COBRA elections late. What may seem like a nice gesture can cost a company significant dollars, given the data cited above concerning average claims costs incurred by COBRA beneficiaries.
- Keeping COBRA beneficiaries on the coverage rolls for longer than necessary (not terminating coverage when required premium payments are missed or are received beyond the grace period; not terminating coverage at the end of the 18- or 36-month coverage period, plus the disability or multiple qualifying event extension, if applicable; not terminating coverage when a COBRA beneficiary becomes entitled to Medicare or becomes covered under another plan).
- Assuming the health plan insurer is providing COBRA notifications, though it has not been specifically contracted to do so. COBRA is an employer law, and though employers can allocate contract specific COBRA responsibilities to other parties, don't assume that the insurer is providing notices simply because it pays any claims under the plan.
- Trying to save a few dollars by self-administering rather than hiring a qualified COBRA administrator. Remember the dollar signs cited at the beginning of this article. Proper administration will help you to avoid penalties, and also to keep your COBRA costs as low as legally possible.

Though you can charge COBRA beneficiaries 102% of the "cost of coverage for similarly situated employees," most employers will find that the individuals who elect COBRA under their plan will incur costs well beyond this amount. Precise compliance is your best chance to keep your COBRA costs as low as legally possible.

EAPs Can Be a Welcome Resource for Financially Stressed Employees

Nearly three-quarters of workers today feel stressed due to financial concerns, according to a national survey of working adults from Workplace Options. Take a look at current economic conditions and this figure should come as no surprise—

- The number of bankruptcy filings in the United States during the first half of 2008 rose by 29.2% over the first half of 2007.
- Foreclosure activity was up 14% in the second quarter of 2008 over the first quarter, and up 121% from the second quarter of 2007.
- Driven by rising gas and food prices, inflation stood at about 5.6% mid-2008. Wages aren't keeping up, having risen on average about 3.3% in 2007.

Whether in extreme financial crisis or just feeling stretched and pinched, U.S. workers are suffering financially, and as a result their employers are, too. According to the Workplace Options survey, 45% of the respondents said their financial stress made it harder for them to do their jobs. Employees' financial stress can manifest itself at work in many ways: overall lower productivity, more frequent mistakes, irritability with co-workers and customers, disruptions caused by absences and phone calls made to handle specific money issues, and health problems related to stress (ulcers, hypertension, headaches, mental health/substance abuse issues). In extreme cases, an employee in severe financial crisis might turn to stealing from his or her employer.

It's clearly in an employer's best interests to try to help employees cope with and manage their financial problems. The first step in doing this is to recognize whether any of your employees are feeling undue financial stress. Today's newspaper headlines would certainly suggest that it's a good bet that at least some of your employees are in this situation, but specific red flags you can look for include requests for salary advances; calls from banks and other lenders seeking employment and income verification for an employee who is taking out a loan; and hardship withdrawals and loans taken from a 401(k) plan.

Beyond being alert to whether your employees are under financial stress, you can offer resources to those who are, and a useful yet frequently untapped resource for these employees is an employee assistance program (EAP). Sometimes offered as a part of the medical plan but also available on a stand-alone basis, EAPs commonly are thought of as a source for childcare or eldercare referrals, help with mental health and substance abuse problems, and crisis counseling. But most EAPs also can be a great resource for employees' financial concerns, either through the EAP staff or through referrals. Among the financial-related services EAPs can provide are—

- general financial counseling;
- help with budgeting;
- help with debt consolidation;
- referrals to attorneys for representation in debt collection and foreclosure lawsuits;
- counseling on options when an individual can't make mortgage or rent payments; and
- workplace seminars on debt and credit issues, money management, and financial resources.

According to the Workplace Options survey, employee calls to that company's financial assistance resources increased 41% from the first quarter 2007 to the first quarter 2008.

EAPs tend to be an overlooked resource in general, and since they usually aren't thought of in connection with financial concerns chances are this oversight is even more pronounced for employees under financial stress. If you do offer an EAP, check whether it provides services that could be a resource to your employees in today's difficult economy, and if it does highlight these services in your workplace communications, both print and electronic, and by lunchroom postings, paycheck stuffers, and announcements. Taking advantage of any onsite services the EAP offers—such as lunchtime seminars—also will make the EAP more visible to employees, who may be more likely to call for individual help once they have become more familiar with the EAP in a group setting.

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75% reported making better financial decisions, 75% were more confident in making investment decisions, and 56% felt their financial situation had improved as a result of financial education.

To take the first steps in bringing financial education and advice to employees, consider the following resources—

- Look to your 401(k) provider for what financial education services it offers. Your provider should make available various online resources (interactive calculators, engaging articles, investment style/strategy questionnaires) to employees.

- Many employee assistance programs (EAPs) offer debt counseling services. Find out exactly what services your EAP has and publicize these to employees.
- Check what resources are available in your community (local chambers of commerce, other community organizations) that can affordably be brought into the workplace. These might include speakers or seminars on a variety of financial topics.
- Check out the Web site of the Certified Financial Planner Board of Standards (www.cfp.net, Human Resource Professionals link on the left sidebar). They offer a variety of tools and resources for human resources professionals.

Today's Employees Want and Need Financial Help in the Workplace

Employees today are increasingly interested in seeking financial counseling and advice, and are looking for those services through the workplace. MetLife's annual Study of Employee Benefit Trends found that 49% of workers would like to receive financial education through work and 44% are interested in talking with a financial planner. Never has there been a better time to offer your employees access to financial education, counseling and advice.

Why the surge in interest in financial planning and education services? A number of reasons explain this trend—

- The American workforce is aging, and an older workforce will be more focused than their younger counterparts on saving and investing, whether for retirement or their children's college education.
- Fewer employees than in the past can count on a company-financed pension, and instead must make sure they're saving and investing for a secure retirement through a 401(k) plan, individual retirement account or other means.
- Employees also have increasing responsibility for their health care needs, both today and in retirement, with more focus on consumer-driven plans and fewer employers providing any health care coverage in retirement.

The workplace is a logical place for employees to seek financial education.

- Today's investment environment has grown to become very complex, with volatile stock markets and an ever-changing array of investment and loan products.

The bottom line is that for today's employees, it's extraordinarily difficult—and sometimes overwhelming—to plan, budget, save and invest. Headlines about ballooning consumer debt, sinking consumer confidence, inflation concerns and shaky financial institutions can turn uncertainty into fear and inaction, and impact an individual's health and productivity. As many as a quarter of workers are seriously distressed about their personal financial situation, according to one study, and 80% of workers with financial stress spend time while at work dealing with or worrying about these problems.

The workplace is a logical place for employees to seek financial education. It's in the workplace that individuals already make some significant financial decisions, such as how much to contribute to a 401(k) retirement plan, which medical plan to select, how to handle tax withholding, what additional voluntary benefits to pay for, etc. Plus, research shows that workplace financial education can indeed yield positive results. One study published in the Journal of Compensation and Benefits found that among employees who participated in workplace financial education workshops,

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