BENEFIT
Plan Developments

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Treasury Gives Workers More Time To Spend FSA Funds

The U.S. Treasury Department and the Internal Revenue Service (IRS) have issued Notice 2005-42, which will allow employers to extend the deadline for employees to spend funds held in Flexible Spending Arrangements (FSAs) by up to 2½ months after the end of the calendar year.

Under section 125 of the Internal Revenue Code (IRC), an employee may make a commitment at the beginning of the year to contribute a set amount to an FSA, and the employer regularly deducts money from the employee's paycheck to place in the account. These pre-tax FSA contributions may be used to pay for child care or health care expenses not covered by insurance. Prior to this announcement, rules stipulated that employees forfeited any funds left in the FSA at the end of the year.

The rule change will not, however, allow employees to roll over unused FSA funds into the following year, and companies that sponsor FSAs will not be required to change their deadlines.

"The new rule will give workers with FSAs more time to pay for medical and dependent care expenses and will ease the year-end spending rush prompted by the prior rule," said Treasury Secretary John Snow. "Putting people back in charge of their own care is one of the most important things we can do to strengthen our health care system. That's why President Bush has made it a priority to make it easier to access and pay for care through FSAs and to encourage consumer driven health care initiatives such as Health Savings Accounts."

Members of Congress, most prominently Sen. Chuck Grassley (R-IA), chairman of the Committee on Finance, had been lobbying for the change, arguing that many employees were reluctant to sign up for the FSAs because of the "use-or-lose" provision that forced workers to spend all the funds in their accounts by the end of the year, or forfeit the money to their employers.

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Commenting on the rule change, Sen. Grassley said, "This is great news for Americans struggling to keep up with rising health care costs. The so-called 'use it or lose it' rule has discouraged millions of Americans from using flexible spending accounts. It's caused millions more to waste or forfeit precious health care dollars. Workers shouldn't have to lose money just because they've been lucky enough not to have a health crisis. An artificial deadline doesn't make sense."

Grassley added, "I appreciate the Treasury Department's response to my request to take a fresh look at this decades-old rule and put the word 'flexible' back into these plans. Americans need every possible tool to meet their families' health care needs. I'm looking forward to working with President Bush and my fellow senators to make health care more affordable by further improving flexible spending accounts, and by continuing to build on the success of consumer-directed health plans such as health savings accounts."

Benefits Providers Missing Out On Cross Selling Opportunities

Just 14% of 401(k) plan participants currently own additional products and services from their retirement plan provider, but as many as two-thirds of these employees are open to the idea of purchasing other benefits, according to a study by financial services consulting firm Spectrem Group.

Based on more than 400 telephone interviews with 401(k) plan participants, the survey showed that many 401(k) plan participants, particularly those with the highest balances, would consider buying additional products and services from their providers. The survey found, however, that a large percentage of participants are unaware of additional products and services available from their provider.

When asked how they wished to learn more about other products, respondents said they would prefer to get information from mailings to their homes, statement supplementals, and website links.

Results showed that most respondents are happy with their 401(k) plan providers. Some 70% of surveyed employees who do not yet own additional products said they were satisfied with their provider's service, and 63% said they were satisfied with their plan performance.

George Walper, Jr., president of the Spectrem Group, said, "Cross-selling represents a tremendous opportunity for the providers of 401(k) plans, yet it remains largely untapped by these firms. Plan participants tell us they are generally satisfied with their providers and overwhelmingly open to the marketing of new products by these organizations. At a time when scandal has tarnished so many areas of the financial services industry, positive relationships like these are worth their weight in gold. New sales seem to be there for the asking."

Early Adopters Of HSAs Report On Lessons Learned

The Health Savings Account (HSA), a tax-advantaged medical expenses account that has been available since January 2004, is becoming increasingly popular with employers looking for ways to reduce their health insurance expenditures. But because the HSA, which must be used in conjunction with a high-deductible health plan (HDHP), differs from traditional group health insurance plans, employers who have added the accounts to their benefits packages have found that employees often need encouragement and education before they are willing to consider the HSA option, according to a report by Fidelity Investments.

Based on discussions with client firms that have begun offering HSAs to their employees, Fidelity reported there were three keys to a successful HSA rollout learned by early adopters.

First, early adopter companies with the strongest HSA enrollment rates went beyond simply offering the HSA as an additional option; they also made changes to their health care plan design to promote HSA enrollment. These employers typically asked employees to select a plan from a number of choices during the annual enrollment period, and used an HSA coupled with a high-deductible health plan as the default option for employees who did not choose. As a result, the report said, these companies were able to move as many as half of their employees to an HSA plan.

Second, employers who communicated health plan changes well in advance, and at each stage of implementation, had the highest rates of HSA enrollment, according to the report. Providing information repeatedly, and in different forms, proved to be the most effective communication strategy for early adopters. Frequent communication gave employees ample time to consider the message and decide on signing up for an HSA.

Finally, educational tools and materials were beneficial in helping employees make their health plan choices, the report said. Cost calculators and background information on consumer-driven health plans make it easier for employees to understand the pros and cons of the HSA model, compared with other health plans.

In addition to these key lessons, Fidelity said early adopters also found it useful to develop a strategy to determine how HSAs might satisfy their company's long-term plans, and to work closely with their health plan provider to understand the administrative details of HSA implementation. HSA enrollment rates tended to rise when companies contributed to employees' accounts, and when employers modeled different HSA plan designs to find the one that best meets the needs of their employees.

"Companies who saw the most success in adopting HSAs were those who designed their benefits programs to change employee behavior—the first critical step in reducing costs," said Marc Hallee, senior vice president of health and welfare consulting for Fidelity Human Resources Services Company.

"Rolling out an HSA is a good way for employers to introduce employees to the broader concept of personal accountability for health benefits decisions," Hallee added. "It empowers employees to better control health care expenses now, while also encouraging them to save for long-term health costs in retirement. This behavioral shift is critical when you consider that most workers are still largely unaware that an average couple retiring at age 65 today needs $190,000 to pay for health care costs."

States Threatening To Compel Employers To Provide Health Insurance

Pressure on employers is mounting as 30 states consider legislation that would require businesses to provide health insurance to workers, contribute to the cost of covering the uninsured, or otherwise penalize companies employing uninsured workers, according to a report released by the HR Policy Association.

As the number of Americans who have no health insurance continues to grow, state public assistance programs are struggling to meet the demand for coverage. In an effort to address this problem, bills have been introduced in state legislatures that would force companies to play a greater role in providing

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insurance for workers who are not currently covered.

After analyzing the reform initiatives pending in legislatures across the country, the HR Policy Association reported that the bills generally fall into three basic categories. The first approach, known as the employer mandate, would compel companies to provide health insurance to their employees, or pay the state for the cost of covering the uninsured. These initiatives generally require employers that do not provide health care to their workers to pay an additional tax or contribute to a fund that would be used to cover the cost of insuring workers.

Other proposed employer mandate laws would require employers to reimburse the state for providing Medicaid or other forms of public assistance to their employees. Yet another type of employer mandate would require businesses that do not provide insurance to pay a higher "living wage" to their workers as compensation. The report noted, however, that these laws would not compel workers to spend their additional wages on health insurance.

Among the states considering employer mandate legislation, according to the report, are New York, Massachusetts, Oregon, Arizona, and Washington.

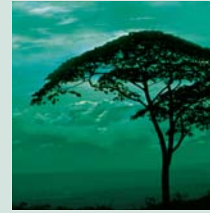
A second category of legislation, the report said, involves conditioning state benefits and contracts on health care coverage. Under these proposals, employers would have to provide health insurance to their workers in order to be eligible to do business with the state or gain access to certain tax breaks.

Some of the bills in this second category propose making the provision of employee health insurance a precondition for companies to receive certain types of loans or to participate in business development programs. Other proposals would require the state to give preference to, but not exclude completely, companies offering employee insurance when selecting the beneficiaries of these programs. The states considering these kinds of bills include Georgia, New Jersey, Connecticut, Utah, and Vermont.

The third category of proposed legislation is the required reporting of employees on public assistance. Instead of compelling employers to offer health insurance to their workers, these laws would attempt to "shame" them into doing so. Some of these proposals call for the publication of a list of the names of companies employing uninsured workers, along with an accounting to the state of the cost of providing health benefits to these workers.

Some states already have these laws in place, including Massachusetts, which issued a list in February. The report listed each employer employing a Commonwealth resident in need of public state assistance. Masaschusetts officials calculated the total cost to the state of insuring employees and their dependents, whose employers failed to provide such insurance, at $52 million dollars in 2004. This report, however, did not exclude those employees whose employers offered insurance but who opted against selecting to participate in their company's plan.

Because legislation like this generally does not arouse much opposition, more states have introduced more "name and shame" measures than other types of reform. Already, 20 states are considered and reviewing making "name and shame" legislation part of their ongoing attempt to insure their residents. According to the report, these states include California, Connecticut, Florida, Hawaii, Minnesota and New Mexico, among others. The report from Massachusetts did not indicate whether such methods would prove 100% effective in the attempt to regulate the way in which employers offer insurance options to their employees. Only time, and further studies, will tell.



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