BENEFIT Plan Developments

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Employers Change Health Plans By Shifting Costs

According to the Center for Studying Health System Change (HSC), most employers have made modest changes in their health benefits plan and are primarily shifting costs to employees through larger premium contributions or higher out-of-pocket costs to fill a prescription or see a doctor.

"Despite predictions that the weak economy would spark an overhaul of health benefits, most employers have moved cautiously—but steadily—to increase what patients have to pay," said Paul B. Ginsburg, Ph.D., president of HSC, a nonpartisan policy research organization.

The shift in costs to employees is outlined in a new HSC Issue Brief titled, *Employers Shift Rising Care Costs to Workers: No Long-Term Solution in Sight*. The study is based on HSC's 2002–03 site visits to 12 nationally representative communities: Boston; Cleveland; Greenville, S.C.; Indianapolis; Lansing, MI; Little Rock, AR; Miami; northern New Jersey; Orange County, CA; Phoenix; Seattle; and Syracuse, NY.

"Most employers were unwilling to run the risk of alienating workers by curtailing their choice of physicians and hospitals," said Lydia Regopoulos, co-author of the brief. "In essence, they maintained choice at a price."

The HSC brief also noted that some employers are promoting public insurance as an alternative source of coverage for children of their low income employees, and many reported modifying family coverage or planning to do so, using one of two strategies: (1) changing relative premium subsidies between single and family coverage; and (2) encouraging workers' spouses to obtain coverage through their own employers.

Employers increased patient cost sharing either by passing on a larger

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Companies can realize an 8% savings with consumer-driven health care.

share of premiums to workers or by increasing **co-payments, deductibles,** and **co-insurance**. For example:

- Employers who were still paying the full premium started requiring employees to pay a part of their health insurance premium. (Employers who already required premium contributions, however, typically did not increase the contribution percentage.)
- Employers with modest patient co-payments increased them. Many also introduced new co-payments for particular services such as specialist care, urgent care, and outpatient surgery.
- Some employers who already had high co-payments replaced them with co-insurance.

Consumer-Driven Plans Show Attractive Results

Consumer-driven health plans (CDHPs) are expected to be an even more attractive model for employers to adopt in coming years, according to *Aon Consulting's Spring 2004 Health Care Trend Survey*.

"Early returns on the impact of consumer-driver plans have been positive," said Bill Sharon, a senior vice president who directed the study. "Significant reductions in unnecessary care have been charted. Once the actuaries begin to see these results continue year [after] year, we predict that this will be reflected in trend rates and future trend lines will drop lower than other plan models."

Although Sharon said employers can expect double-digit increases of 14.1% for all types of medical coverage, he cautioned that those projections should not be taken out of context. "It's important to look at overall cost for health care programs. Our analysis reveals that a company can realize first year savings of up to eight percent of their cost if they implement an effective consumer-driven health care strategy. So, although consumer-driven plans will likely see the same level of increase as other coverage plans this year, considerable savings will still be recovered by making the switch. It all depends on the financial incentives and the resulting changes in consumers' health care consumption."

The Aon study noted that pharmacy rate projections—although slightly lower than last year—point to a 14.4% increase, showing that employers must continue to take a look at how their prescription drug coverage is designed.

Connie Perry, director of Aon Consulting's national pharmacy practice, said that as employees continue to play a larger role in their health care decisions, use of generic drugs is helping to lower the overall trend line for prescription drug coverage. "However, in the months to come, we will see discussion about expensive 'biotech injectable' drugs move to the forefront, so plan design in light of these innovations will be vital."

The Aon study noted that the role of biotechnology-derived injectable medications, which are used primarily to treat high-cost disease states for which previous treatments may have been either more invasive or unavailable, is important for companies to watch since their cost impact on health plans will become more pronounced as their use increases.

DOL Issues Final Rules On COBRA Notices

Final rules governing health care coverage notices under the **Consolidated Omnibus Budget Reconciliation Act (COBRA)** have been issued by the U.S. Dept. of Labor (DOL). The rules, which are similar to those the DOL proposed last year, set minimum standards for the timing and contents of the COBRA notices. The rules also provide model notices

to be used by group health plans. Under COBRA, many group health plans must give employees and their families the chance to stay in their group health plan after termination of employment, divorce, or death.

In order to give plans sufficient time to modify their notice procedures, the new DOL rules will be effective the first plan year that begins six months after publication in the Federal Register. Until then, plans may rely on either the proposed rules or the final rules to meet their COBRA obligations.

"These (new) rules will make sure workers and their families understand their rights under COBRA and make it easier for employers and plan officials to meet their notice obligations," said Ann Combs, assistant secretary of labor for the Employee Benefits Security Administration (EBSA). "We want to make sure that individuals do not lose their group health coverage because they lack information about the steps to take to protect those rights."

Model notices are available from the EBSA website at www.dol.gov/ebsa.

Ruling Outlines Interaction Among HSAs, FSAs, HRAs

The U.S. Treasury Department and Internal Revenue Service (IRS) have issued guidance under which employees may contribute to a **health savings account (HSA)** when they are also covered by a **flexible spending account (FSA)** or **health reimbursement arrangement (HRA)**.

Tax-deductible contributions for an HSA are allowed for employees covered under a **high-deductible health plan (HDHP),** but not simultaneously covered under another health plan that pays for services before the HDHP's deductible is met.

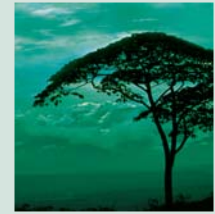
Under Revenue Ruling 2004-45, the Treasury and IRS outlined five scenarios regarding the interaction among HSAs, FSAs, and HRAs:

1. HSA contributions are not allowed when a person is covered by an FSA and/or HRA that pays for medical expenses before the deductible is met.
2. HSA contributions are permitted when the FSA and/or HRA pays only for certain benefits, such as vision, dental, and preventive care.
3. If HRA payments are suspended, HSA contributions are allowed during the suspension period.
4. If the FSA and/or HRA pays for medical expenses only after the HDHP deductible is met, HSA contributions are permitted.
5. HSA contributions are permitted when HRAs pay only for medical expenses after retirement.

When Co-Payments Increase, Use Of Drugs Curtailed

As co-payments for pharmacy benefits climb, the use of medications decreases by as much as 45%, according to a four-year study conducted by Dana P. Goldman, Ph.D., and associates and published in the *Journal of American Medical Association* this past May.

The study found that the doubling of co-payments was associated with reduction in use of eight therapeutic classes of drugs. The largest decreases occurred for non-steroidal anti-inflammatory drugs (45%) and antihistamines (44%). Among patients diagnosed as having a chronic illness and receiving ongoing care, the study found use was less responsive to co-payment changes. For example, use of antidepressants declined by 8%, use of antihypertensives by 10%. However, larger reductions in use were observed for arthritis patients taking non-steroidal anti-inflammatory drugs (27%) and



HSA contributions are not allowed when an FSA is used.

allergy patients taking antihistamines (31%). Patients with diabetes reduced their use of anti-diabetes drugs by 23%.

Data used in the study was compiled from pharmacy and medical claims submitted from 1997 to 2000 for 30 large employers and 52 health plans covering 528,969 beneficiaries, ages 18 to 64 years, continuously enrolled for up to four years.

Short Vacations Can Prevent Reinvigoration

When employees return from vacations seemingly out-of-sorts, the reason could be that they did not take enough time off. A survey by Office Team, the staffing service organization, found that more than four out of ten employees (43%) returning from vacation said they took insufficient time off.

A total of 571 men and women, all 18 years of age or older and employed, responded to the survey. Other responses included: couldn't relax or get mind off work (17%); checked in with the office too much (8%); and didn't prepare or organize work well prior to leaving work (7%).

Executive Director Diane Domeyer of Office Team said: "Employees fearful of falling behind on projects or not seeming like team players often put off vacations or limit breaks to long weekends. Lean staffing levels in recent years have left many professionals with increased pressure at work, but this makes the need to recharge more vital than ever."

Domeyer said collaborating with coworkers can help employees rest easy while away. "Inform colleagues of the status of key projects before you leave and designate a point person in your absence."

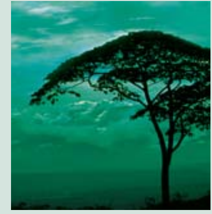
To get the most benefit from a vacation, Domeyer offered employees four tips:

1. Use history as your guide. Consider your last vacation, including what you did, how much time you took, and whether or not you felt reinvigorated on your return. Use this experience as a basis for planning your next break.
2. Resist the urge to check in. Change your voicemail and e-mail to let colleagues know you're away. Don't contact the office unless necessary. The more connected to work, the less time you have to unwind.
3. Avoid scheduling too many meetings for the day you return. You'll need time to address immediate issues, catch up on e-mail, and get updates from coworkers on the status of projects.
4. Seize the day. Don't wait until you're in dire need of a vacation to take one; regular breaks can help keep you motivated all year long.

Why IBM Is Giving $150 Health Rebates

Executives at IBM's Research Triangle Park campus in North Carolina are convinced that employees who exercise regularly are more productive and have lower health care costs. As a result, the company is now paying a $150 one-time "Healthy Living Rebate" to employees who exercise at least three times a week for ten weeks.

Dr. Joyce Young, who oversees IBM's health promotion programs in the Southeast region, said the company is confident the one-time rebates represent well-spent investments. Dr. Young cited industry re-search that showed companies can save $4 per employee in reduced medical costs and $5 per worker in increased productivity for every dollar spent on health promotion. However, the doctor noted that it can take a company up to five years to realize those financial returns.



Collaborating with coworkers can help employees rest easy while on vacation.