McGraw Wentworth

The ViewsLetter

Volume Nine • Issue Two May 2006

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Value-Based Benefit Plans

Value-based plan designs are generating a lot of discussion among human resource professionals. Rising health care costs remain a concern even though increases are cooling. Cost control strategies are being debated and no clear winner on which strategies will work best for each organization has emerged.

Some strategies focus on decreasing the cost of care, using both provider and patient incentives. One option to reduce cost is the consumer driven health plan. Consumer driven health plans increase the members' cost to encourage them to seek care more wisely. The concern about consumer driven health plans, however, is that individuals will not seek the care they need if it is too expensive. In the long run, health plan costs can rise when employees avoid seeking needed care. Complications often occur when chronic conditions are left untreated, and managing these complications can be quite expensive.

Other cost control strategies focus on the quality of care. These approaches argue if individuals receive quality care, the care will be less expensive over time. Paying physicians for performance is one strategy. This strategy requires physicians to meet certain quality measures in order to get paid the optimum amount. Quality of care strategies and cost control strategies attack the same problem using very different approaches.

Pitney Bowes has adopted a value-based plan design. At first glance, the value-based design seems counterintuitive. In a value-based design, an organization actually lowers the cost of therapies to treat chronic conditions. The value-based approach analyzes the value of the medical treatment. A growing number of studies show that as member cost for care increases, the demand for both essential and non-essential care decreases. When cost sharing is set at the same level for all types of services (for example, a $10 copay for generic drugs and a $20 copay

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About the ViewsLetter

We welcome you to the second quarterly issue in Volume Nine of the McGraw Wentworth ViewsLetter. It is our mission to be the leader in the employee group benefits brokerage and consulting industry to mid-sized organizations.

We have established the ViewsLetter as an integral part of our commitment to keep you informed of benefit trends, legislative and marketplace developments that may affect your group benefit programs.

We welcome your comments and suggestions regarding the ViewsLetter. You can pass your comments directly to your McGraw Wentworth Account Director or Account Manager, or you can reach us at www.mcgrawwentworth.com.

Value-Based Benefit Plans cont.

for brand drugs), increasing the amount members have to pay leads to a decrease in utilization. The decrease in utilization doesn't just occur in wasteful, ineffective health care services but the decrease also occurs in lower cost, important treatments for chronic conditions. Many plan sponsors are concerned about increasing copayments to a level where individuals will not seek care. Using a value-based approach, a plan sponsor assigns copay structure based on the effectiveness of treatments. The copays are set taking into account not only price and quality, but also "value" of the treatment being sought.

Value of treatment is very difficult to assess. However, in some treatment regimes, the value of interventions is clearly documented and proven effective. For example, it is imperative for diabetics to remain on their treatment regime to effectively manage their diabetes. Statin medications are critical to lower cholesterol in patients with a history of myocardial infarctions. Statin drugs, insulin and several other medications have a proven health benefit.

The Pitney Bowes program offered little or no copay for all drugs used to treat asthma and diabetes. The end result was increased cost on the pharmacy side, but reduced cost on other services such as reduced emergency room visits and inpatient hospital stays.

The value-based benefit design does make sense. Offering lower copays on drugs that have a proven track record for managing chronic conditions may motivate individuals to stay on the medications and reduce their need for other types, and typically, more expensive medical care.

One of the challenges in designing value-based plans is deciding which therapies warrant the low, "value-based" pricing. Your organization may find only a handful of treatments qualify for the value-based pricing. Certainly, asthma, high blood pressure and statin medications are proven to be effective.

Employers can ask their pharmacy benefit manager, their health plan vendor and their disease management provider which medications to include in a value-based program. Pitney Bowes used Express Scripts to manage its plan. Not all vendors can offer a value-based benefit approach. Because these plans are receiving a great deal of press, however, many pharmacy benefit managers are willing to make the necessary system changes to accommodate employers requesting these benefit designs.

Although this approach is not guaranteed to generate the significant savings that Pitney Bowes experienced, a plan design that does not include "barriers" to necessary care, such as relatively high copays, can have tremendous merit. When long-term evidence shows a medication is effective in treating a chronic condition, it makes sense to cover the drug so it is affordable for plan participants. MW

DID YOU KNOW?

Employees gave the following reasons for working while they were sick:

- 32% thought it was too risky to take time off.
- 25% didn't want to let down co-workers relying on them.
- 12% felt too busy to stay home.
- 9% were saving sick days for child care emergencies.
- 6% didn't work when they were sick.
- 5% save sick time for vacation.
- 3% save sick days for elder care emergencies.

Source: LifeCare, 2006

Is the Brain Drain Coming to Your Organization?

Baby boomers are beginning to reach an age where retirement will be an option for many. Unfortunately, baby boomers represent a great deal of experience and intellectual capital in many organizations. With the potential for so much talent to walk out the door, what are employers doing to maintain their competitive edge?

Many employers are facing these issues today. Employers will have difficulty replacing these seasoned employees as many younger employees lack the skills needed to take over for retiring baby boomers.

Everyone knows that you cannot hold on to your employees forever. In fact, employees do not expect to work for one employer for their entire working life. This job mobility is a big departure from the steady employment their parents and grandparents experienced.

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Is the Brain Drain Coming to Your Organization? cont.

Many employers are evaluating "phased retirement" programs. In a recent AARP survey on the *Attitudes of Individuals 50 and Older Toward Phased Retirement,* four out of five workers would be interested in a phased retirement program. In fact, a phased retirement program would encourage potential retirees to stay in the workforce longer.

Phased retirement offers flexibility to workers who want to scale back their workloads. It may include flexible work schedules, reduced work hours, decreased job responsibilities or more unpaid time off. Older workers are attracted to these arrangements because they allow them to pursue some of their retirement interests while keeping one foot in the workplace.

These arrangements do benefit employers. They allow organizations to retain key employees and implement mentorship programs to pass along their considerable knowledge and experience. Experienced employees also help provide the informal leadership organizations need.

There are some barriers to launching formal and informal phased retirement programs. Many organizations have not implemented these programs because of these potential problems. Current IRS rules prohibit members of defined benefit plans from continuing to work while receiving a benefit from their company sponsored retirement plan. These regulations allow distributions from defined benefit pension plans only when an employee leaves the company or reaches normal retirement age under the employer's pension plan.

This issue has been brought to the attention of the IRS. In 2004, the IRS proposed changing the rules for distributions to allow for phased retirement plans. The IRS requested comments on the proposed changes and has not yet issued final regulations.

The key provisions of the proposed regulations include:

- The employer must write and adopt the phased retirement program.
- Employer and employee must expect at least a 20% reduction in hours worked.
- The program would be available only for workers who are age 59 ½ or older.
- The employee must be working full-time before entering the program and must be old enough to be eligible for full retirement benefits.

Employers are concerned with the requirements of the proposed regulations, especially the age limit. Employees could conceivably take early retirement with their current employer and then look for phased retirement options with a new employer. Employers are also concerned that the testing requirements for these options could become very cumbersome.

These limitations apply to benefits payable by defined benefit retirement plans. Many employers are cutting their defined benefit pension plans. These plans are much less common than they used to be.

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YOUR QUESTIONS

Q. Unfortunately, one of our employees died 6 months ago. His widow elected COBRA for herself and also for their 20 year old daughter. At the time the daughter was a full-time student. Recently, the daughter notified us that she was dropping out of college and would no longer be a full-time student. Are we obligated to extend her COBRA coverage?

A. When your employee passed away, his widow and his daughter were offered 36 months of COBRA. Although the daughter is no longer eligible under your health plan since she dropped out of school, she is still eligible for COBRA. If she continues to pay her COBRA premium, her coverage will continue for the remaining 30 months.

However, several years ago, the DOL released more detailed regulations on COBRA notice requirements. One of the new notice requirements was a "notice of unavailability of COBRA." You do not know why the daughter notified you of this change. Does she think she may lose her COBRA coverage? Is she under the impression that she can begin a new 36-month continuation period? Your organization needs to make sure there is not a misunderstanding that could result in a dispute. It makes sense to let the daughter know, that despite her decision to leave school, her COBRA status remains unchanged. She can continue to pay her premiums and continue her COBRA for the remaining 30 months.

Is the Brain Drain Coming to Your Organization? cont.

Phased retirement programs will become important for employers concerned with maintaining productivity when key employees decide to retire. The important steps to implementing a phased retirement program include:

- ***Conduct a talent risk assessment***. How will the retirement of older workers affect your organization? Identify the skills and key knowledge that will leave when employees retiree. Can your organization replace the potentially lost skills and key knowledge?
- ***Evaluate informal phased retirement arrangements***. Informal arrangements can include reduced work schedule, job sharing, telecommuting, extended leaves of absence or even rehiring the employee as a consultant.
- ***Consider whether it makes sense to launch a formal phased retirement program***. If your talent assessment reveals your organization will not lose a significant amount of talent, you may not need to launch a phased retirement plan.

It is hard to believe baby boomers are now retiring. Employers could be facing a serious shortage of experienced, trained workers to replace retiring talent. Organizations need to be aware the pool of talented employees in many professions is not particularly deep. If your organization relies heavily on key talent for your success and leadership, it makes sense to review the impact of losing that talent.

Even if retiring baby boomers are not a problem that needs to be addressed today, the loss of talent may be a significant problem in the future. Establish a mentorship program to pass along the key knowledge to others in your organization now. If the potential loss of key employees is a more immediate concern, you should consider a phased retirement initiative to maintain key talent while you prepare other employees to assume major roles. MW

TREND TIDBITS

- $ Projected cost increase for PPO plans in 2006 is 12.7%.
- $ Interestingly, HMO plans are expected to trend at 12.0% for 2006 while POS plans should trend at 12.2%.
- $ Prescription drug costs are expected to increase 14.0%. Prescription drug trends have been decreasing since 2001 when they peaked at 19.7%.
- $ The trend for biotech drugs or specialty drugs is increasing at a rapid rate of 21.6%, approximately 8 points higher than retail pharmacy trends.

Source: Segal Company 2006 Health Plan Cost Trend Survey

Price Check on Strep Throat

When you have a routine medical need, you would visit your primary care physician. However, times are changing.

CVS, Walmart, Target and others are launching in-store medical clinics. The medical clinic is frequently staffed with an nurse practitioner working within the scope of his/her license.

The apeal of the in-store medical clinics is that no appointments are required. You can walk in and be seen by the nurse very quickly. The cost is significantly less than care in a physician office setting. Costs range from $20-$60 per visit depending on the service received. The clinics are also open during store hours, which means the clinics have evening and weekend hours.

The clinics are convenient for patients. Routine health needs can be addressed quickly for very little cost.

The clinics are typically operated by health care providers. Two of the most prevalent vendors in the health clinics include Take Care and Minute Clinics. Federal law prohibits pharmacies from profiting on clinics located within their business. Retailers do not profit directly from the health clinic operation. However, they do hope by having the clinics in their store, it will increase foot traffic and ultimately sales in their stores.

The clinics operate effectively because they heavily leverage technology in clinic management and operations. Patients check themselves in, using an electronic kiosk. Minute Care is experimenting with kiosks that take

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Price Check on Strep Throat cont.

all symptom information and generate a diagnosis. Some clinics provide pagers so the patient can shop while waiting to be seen by the nurse practioner.

The nurse practioner reviews the information to make sure an accurate diagnosis was made. Each visit is recorded in an Electronic Medical Record and sent to the patient's primary care doctor.

Insurers have seen the attraction of these retail-based clinics. Several are paying for the services received at these clinics, if typically covered by the plan.

These clinics are becoming popular throughout the country to handle routine care, such as sport's physicals. The clinic can also address minor health concerns, such as strep throat.

Don't be surprised if the next time you run into Target to pick-up a few things, medical care may be available. MW

Technical Corner

The HIPAA Security Rule now affects all group health plans. Small group health plans needed to comply with the rule effective April 21, 2006. Large group health plans needed to comply by April 21, 2005.

HIPAA governs Electronic Protected Health Information (EPHI); EPHI is personal health information that a group health plan maintains or transmits electronically. The rule is designed to:

- Ensure the EPHI an organization creates, receives, maintains, or transmits remains confidential and correct.
- Protect EPHI against any threats to security.
- Protect against any uses or disclosures of EPHI the rule prohibits.
- Ensure your workforce complies with your procedures.

The rule sets forth a series of standards that group health plans must address to demonstrate EPHI is adequately safeguarded. These standards specify the procedures organizations must follow to meet the federal guidelines.

Most organizations will need to analyze the Security Rule requirements carefully. The Rule establishes policies and procedures that need to be reviewed regularly to ensure that any system or procedure changes do not undermine the confidentiality of EPHI.

Take the following ten steps to be sure your organization is complying with the Security Rule:

1. Appoint a Security Officer.
2. Map the EPHI in your organization (where it is located and who uses it).
3. Conduct a risk analysis to identify weaknesses. The risk analysis reviews the systems that store EPHI and the access requirements for each system. The anlaysis should identify any potential weaknesses of the current system.
4. Review each standard and create the proper action steps.
5. Address implementation specifications in writing.
6. Train employees on security procedures and processes.
7. Ensure your business associate contracts will protect EPHI.
8. Establish a discipline policy for failing to follow procedures.
9. Amend your plan documents to describe how your plan will use EPHI.
10. Schedule periodic reviews of your compliance plan.

If you have not yet established your security compliance plan, it makes sense to start now. MW

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THE VIEWSLETTER

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