



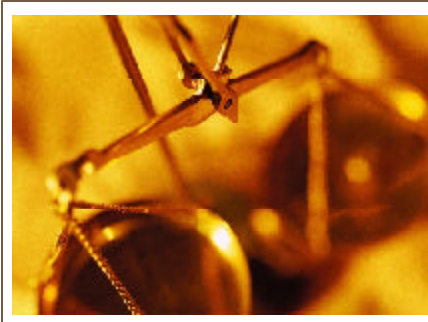
# The ViewsLetter

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## New Congress - The Balance of Power Has Shifted

The elections this year resulted in a big leadership change. Both the House and the Senate lost their Republican majority. Because Democrats took control when the 110<sup>th</sup> Congress convened in January, organizations should be prepared for changes in the prevailing agenda.



Even with the shift in power, your organization should not expect radical differences in new or amended legislation. Not only does President Bush still hold the power of the veto, but also Democrats hold the Senate by just a narrow margin. To override a Presidential veto, Congress would need a two-thirds majority, a difficult feat unless the legislation has strong bi-partisan support.

Democrats will set the agenda for the 110<sup>th</sup> Congress. Their priorities will certainly affect upcoming legislation. Health care issues are likely to be in the spotlight.

One of the key items on the Democratic agenda is Medicare. Many Democratic leaders in Congress are pushing to reorganize aspects of the Medicare program, especially Medicare Part D. Democrats want to pass laws allowing the government to negotiate directly with pharmaceutical manufacturers on Medicare Part D prescription drug prices.

Under the current system, the government contracts with private insurance carriers to deliver the Medicare Part D benefit throughout the country. Each carrier negotiates directly with pharmacies and pharmaceutical manufacturers. This aspect of the Medicare Part D program has often been criticized. Each carrier has the negotiating power of only its specific membership base. It is believed that if the government negotiated directly with pharmaceutical manufacturers, Medicare drug costs could be reduced significantly. It makes some sense since the government

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## About the ViewsLetter

We welcome you to the first quarterly issue in Volume Ten 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](http://www.mcgrawwentworth.com).

## New Congress - The Balance of Power Has Shifted cont.

would be negotiating on behalf of all Medicare Part D program participants.

In the initial days of the 110<sup>th</sup> Congress, the House of Representatives passed a measure that would allow the government to negotiate drug prices for Medicare Part D. The proposed legislation is now being reviewed by the Senate.

Another area of Part D that may attract Congressional interest is the "coverage gap." Remember, Medicare Part D's standard plan has several coverage levels.

Initially, beneficiaries pay an annual deductible; then Medicare steps in to pay part of the expense. Once expenses reach a certain level, however, Medicare pays nothing until the beneficiary meets the true out-of-pocket

maximum. Democrats have been very concerned about this coverage gap. They will likely develop a plan that offers Medicare beneficiaries more consistent coverage throughout the calendar year.

Democrats also plan to attack the subsidies Medicare Advantage plans receive. Currently, the subsidies paid to Medicare Advantage plans are slightly higher than the expected cost under the Traditional Medicare program. The idea behind the generous subsidies is to provide incentives for carriers to offer attractive benefits and rates. It is believed that these plans will manage the care of Medicare beneficiaries more effectively in the long run. Democrats, however, have wanted to decrease the subsidies for some time and may have the opportunity with the new Congress.

Another issue expected to be on the Congressional agenda is the re-importation of drugs. Some states and health plans work with vendors that re-import drugs from Canada and other developed nations. In many cases, re-imported prescription drugs are less expensive than prescription drugs purchased here. Most other governments have established national health care programs enabling them to negotiate very attractive prices for prescriptions covered under their national health care programs. Currently, however, it is illegal to buy mail order prescriptions from entities outside the United States.

The government has recently revisited the re-importation issue. Under the new rules, people can now cross the border to buy prescription drugs, but they cannot buy the drugs from an Internet pharmacy.

Democrats may consider allowing people to import prescription drugs from Internet pharmacies in order to reduce drug cost. However, they will encounter two major objections to the practice. First, the safety of re-imported drugs cannot be easily verified. The FDA has no authority over Internet pharmacies operating in other countries.

Second, foreign governments fear this practice will interfere with their ability to negotiate effectively with pharmaceutical manufacturers. In fact, if Internet drug purchases become legal in the United States, other governments may very well pass laws prohibiting their Internet pharmacies from filling prescriptions outside the country.

### DID YOU KNOW?

- Fifty-five percent of employees responding to the ComPsych StressPulse survey report high stress levels causing feelings of extreme fatigue and being out of control.
- Forty-two percent reported they had consistent, but manageable, stress levels and only 3% reported low stress levels.
- "People issues" were the most often cited source of stress. In fact, 36% of employees cited "people issues" as a cause of stress. This percentage was up significantly from 2005 when only 28% of folks indicated "people issues" were a source of stress.
- In 2005, 45% cited workload as a major source of stress. In 2006, that percentage declined significantly to only 28%.
- Stress takes a toll:
  - Forty percent stated stress caused them to lose an hour or more a day in productivity.
  - Forty-seven percent reported they missed work one or two days a year because of stress. A whopping 33% said they missed three to six workdays a year because of stress.

Source: ComPsych's 2006 StressPulse Survey

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# Medical Tourism: Employer Issues

Congress will likely reexamine issues that have had strong bi-partisan support over the last several years. Health care cost control measures including electronic medical record initiatives, pay for performance programs, transparency requirements, quality and accountability reporting and wellness initiatives will be a focus over the next two years. Although these ideas have widespread support on both sides of the aisle, the problem will be agreeing on the best approach to implement them.

Other issues will now receive less attention; for example, Health Savings Accounts (HSAs). President Bush feels strongly that HSAs help consumers. These tax-favored accounts are one way to tackle rising medical expenses; however they are very complicated. Consumers must meet many conditions in order to establish an HSA. Foremost, an individual must have a "qualifying high deductible health plan." The minimum deductible required for these plans is a little too high for many employers. However, many employers are assessing employee interest in and company cost for HSAs. Although these accounts will continue to be an option, do not expect Congress to ease any of their plan requirements.

In addition, Congress periodically discusses amending Section 125 to allow rollover for any year-end account balances. Democrats have not historically supported the proposed rollover provision for medical and dependent care flexible spending accounts. It is unlikely that this issue will become part of proposed legislation in the next couple of years.

The balance of power has indeed shifted. The 110<sup>th</sup> Congress will debate a host of ideas to help manage and control health care cost. How-

## TREND TIDBITS

- \$ Hewitt is predicting health plan costs will increase 7.7% in 2007.
- \$ The average health plan cost for each employee will increase to \$8,340 in 2007; up from \$7,744 in 2006.
- \$ Employee medical plan contributions will also increase for 2007. Average employee contributions for medical coverage will be \$1,678 in 2007, up just over 6% from 2005's average contribution of \$1,576.
- \$ Overall, employees are expected to spend \$3,305 in 2007, up from \$3,065 in 2006. These figures include employee contributions as well as out-of-pocket costs, including deductibles, coinsurance, and copays.

Source: Hewitt Associates, 2006

ever, it is unlikely this new Congress will significantly affect existing employer-sponsored health benefits. The new Congress will debate new issues and focus on different strategies to help organizations control health plan cost and improve employee health. However, the President will likely veto controversial measures and Congress will not be able to override the veto without strong bi-partisan support. The next two years will certainly be exciting for benefit professionals. **MW**

## Medical Tourism: Employer Issues

Lately many discussions in the benefits field center on the idea of traveling to other countries for medical care, a practice called medical tourism. Originally, the travel industry coined the phrase to describe the rapidly growing number of people traveling to foreign countries to obtain medical care while they were vacationing. Initially, most medical care received outside the country was for cosmetic procedures. Why? Health insurance plans rarely cover cosmetic

procedures. Since these procedures can be performed in other countries for almost a tenth of the cost, the idea makes economic sense.

Medical tourism has grown significantly over the last ten years. People are now seeking more complex care overseas. Heart surgery, knee replacements and even organ transplants are being performed rather successfully in India, Thailand, South Africa and other industrialized nations.

Many factors are contributing to the rapid increase in medical tourism. Surgical costs are certainly a consideration as more and more people pay a greater percentage of their medical care costs. These complicated procedures are significantly less expensive in other countries.

Medical tourism is also becoming popular among Canadians. Many Canadians travel abroad for medical care because they are frustrated by the Canadian National Health Plan waiting periods for care.

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### YOUR QUESTIONS

**Q.** Our organization was planning to implement a Consumer Driven Health Plan this year along with Health Saving Accounts. Once we began examining the details and complexities involved, we decided to implement the plan on January 1, 2008, and spend 2007 explaining the new plan option to our employees. I have one question regarding HSA contributions. Our organization is not planning to fund the HSA, but we will allow employees to contribute to these accounts through payroll deductions using pre-tax dollars. Does the employee need to make an annual election and have equal amounts withdrawn from each pay check? Also, under what circumstances can an employee modify this election?

**A.** This is a great question and the IRS does allow more flexibility for contributions made under a Section 125 plan to an HSA. One of your first steps is to decide how much flexibility you would like to allow. With HSAs, ability to contribute is determined monthly, and in reality you may allow employees to adjust their contributions accordingly. Some human resources benefit professionals feel monitoring changes to HSA contributions every month will certainly be more work. However, in the case of an unforeseen medical expense, an employee may need to fund the HSA immediately. It would be helpful to allow the employee to contribute under Section 125 rules.

To allow pre-tax contributions, you must first amend your plan document to show these contributions can be made through your cafeteria plan. The document should indicate the degree of flexibility your plan will allow for HSA contributions. Remember, any changes to contributions need to be made prospectively. If your organization is concerned about employees frequently changing contributions, you could limit the changes to a certain number each year. Be reasonable with your limits, though. An employee may want to make a large one-time lump sum contribution and if you limit changes to one a year or even one a quarter, you would limit these lump sum contributions. In all likelihood, most employees will set aside a fixed amount for each pay period and not change the amount during the year.

As the plan administrator, you will also need to track contributions made under Section 125. Pre-tax dollars must be sent to the HSA vendor as soon as reasonably possible. Your organization should work with the HSA vendor to determine a reasonable timeframe and process for handling employees' HSA contributions.

Another key factor contributing to the rapid increase in medical tourism is the improved standard of health care in many other countries. While cost is an initial attraction, if a foreign medical center did not offer quality care, you certainly would not see such a dramatic increase in medical tourism.

In fact, certain countries are focusing on medical tourism as a major economic force. India is one of the most popular destinations for medical tourists. The government and private hospital groups are working diligently to make medical tourism a major industry. India is known for the quality of care patients receive particularly for heart surgery and knee replacements. The hospitals pride themselves on personalized attention and quality care. The Escorts Heart Institute and Research Center in Delhi and Faridabad perform over 15,000 heart surgeries a year and the post-surgery mortality rate is only 0.8%, less than half the mortality rate of most major hospitals in the United States. India expects medical tourism to generate \$2 billion by 2012.

The appeal of medical tourism is easy to understand. The expectation of quality care for a much lower price is very appealing. Even employers are considering covering health care received in other countries under their health plans. If services can be delivered effectively at a tenth of the cost, why not cover services performed abroad? It is a simple question with a more complex answer.

The advantages of medical tourism are clear. First, many treatments cost significantly less than the same procedure performed in the United States. Second, many of the doctors performing services abroad were trained in top-notch United States medical

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## Medical Tourism: Employer Issues cont.

schools. Third, success rates for many procedures are higher and infection rates are often lower for services rendered abroad. These advantages can be significant to a patient considering elective surgery.

The potential drawbacks may be more daunting:

- Taxes for care received abroad should be considered. If a group health plan pays an expense, that expense can typically be treated as tax-favored. If an employer offers to pay for travel costs for the medical service, those costs are not tax-favored and the employer must report those expenses as employee earnings. This issue may or may not make out of country care less attractive, but certainly, understanding the tax consequences of any benefit an employer provides is important.
- Malpractice insurance for care received in other countries is typically very limited. If patients feel they did not receive appropriate care, they have less legal recourse than in the United States.
- Patients also need to consider post-operative care. Most post-surgery care is handled in the United States. Before surgery, a patient will need to arrange this care. Patients need to consider language barriers as well as post-operative drugs. American pharmacies cannot legally fill foreign prescriptions.
- If a group health plan intends to pay for out of country care, an employer must consider the legal consequences. First, if a plan encourages or offers incentives for care in another country, and the care is not

### Technical Corner

Technological advancements can influence our everyday lives. Technology, particularly the Internet, has had an enormous effect on our lives. Many insurance carriers are investing heavily in technology to help their plan members. Some of the electronic tools now available include price shopping capabilities, quality reviews and general information about health and wellness. Insurance carriers and administrators are developing these tools to help their members make good decisions about health care.

Initially, carriers developed these tools to help members enrolled in Consumer Driven Health Plans (CDHPs). Members using these plans pay significantly more than traditional PPO plan members pay. The tools are really necessary for people to evaluate their health needs and care options, especially considering the higher cost. Insurance carriers are no longer limiting these tools to members enrolled in CDHPs. Making informed, prudent, health care decisions helps in all types of health plan arrangements.

The tools are evolving every day. Unfortunately, too many subscribers either don't know the tools exist or they don't know how to use them effectively. If employers and health plans are going to reap the benefits of a more informed consumer, they will need to help educate that consumer. A recent Kaiser Family Foundation survey on consumer directed health plans indicates between 50% and 60% of respondents didn't know about the tools their health plan vendor's website offers. The survey asked whether their health plan website offered information on various health issues (treatment options, provider quality, treatment costs, and

so on). Surprisingly, more than 50% of participants questioned said they did not know whether their vendor's website offered each of the tools.

Clearly, subscribers need training on what tools are available and how to use them. Don't limit this discussion to once a year. To involve subscribers in the decisions affecting health care, employers must offer in-depth and ongoing information.

Subscribers need examples explaining when and how these tools can be used to help them manage their out-of-pocket costs. It is also good to remember, out of sight, out of mind. Finding innovative ways to integrate the use of health plans tools into your employees' consciousness will help encourage them to use the tools. Your employees need to feel comfortable with the tools available to them.

Tools to help employees make better health care decisions are available from many health plan vendors. The key to getting the most out of these tools is to encourage employees to use them. If employers can increase the utilization of these tools, it will very likely to have a positive impact on the health plan's bottom line. Create a strategy to increase your employee's comfort level and abilities with these tools. Once using these tools becomes second nature, employers and their group health plans will reap the benefits. **MW**

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## Medical Tourism: Employer Issues cont.

adequate, the employer should be concerned. If a patient has problems with the foreign care, the plan may be held liable.

Before offering financial inducements to seek care abroad, the employer should ask an attorney to draft appropriate waiver language to avoid any potential liability.

For the most part, self-funded plans consider using medical tourism as one strategy to help control health care costs. Before offering this option, however, make sure your plan document lists covered services. In particular, will the plan require pre-certification for services performed abroad? In addition, you need to check your stop loss coverage. Will your stop loss vendor cover services received in another country?

Medical tourism is growing in popularity. The reasonable cost and the high quality of care can be very attractive. However, employers trying to encourage employees to seek medical care outside the United States should be careful. Although a few group health plans are using foreign care as a cost control measure, these plans are on the cutting edge. Medical tourism for medically necessary

services is relatively new. Employers need to consider the consequences before they encourage this practice.

New organizations are springing up to help arrange foreign care. It makes sense for employers seriously considering this option to discuss the services these organizations offer.

In addition, organizations should seek legal advice to make sure they cannot be held responsible if any problems arise.

Covering foreign care may be one way group health plans can better manage their medical costs. While cost and care quality are advantages, the potential disadvantages should cause concerns. Employers should carefully review their situation before embracing medical tourism as the next great strategy for controlling health plan costs. **MW**

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