BENEFIT Plan Developments

A monthly report covering plan design and legislative changes

Volume 48, Number 2

Cost Control Is Top Priority For Benefits Specialists

Controlling health care benefit costs remains the top benefit priority for the overwhelming majority of American employers in 2005, but providing rewards programs that attract, motivate, and help retain employees is also becoming increasingly important for companies, according to the 11th annual "Top Five Total Rewards Priorities Survey" by Deloitte Consulting LLP's Human Capital practice and the International Society of Certified Employee Benefit Specialists (ISCEBS).

The 350 employee benefit specialists surveyed identified health care spending as their leading concern for the sixth year in a row, with more than 90% calling it their top issue in 2005, Deloitte and ISCEBS reported. The other leading benefit priorities cited by respondents were providing benefits to attract and retain talented employees (56%), addressing employee willingness to pay a larger portion of benefits coverage (52%), increasing employee responsibility for managing their own rewards budget (42%), and managing retirement benefit costs (41%).

"Employers are concerned about not only the cost and management of benefit plans for their employees, but also how those plans will actually shape who makes up their workforce," said Tim Phoenix, principal of Deloitte Consulting. "As baby boomers approach retirement and the talent race becomes more competitive, cost-effective and consumer-friendly benefit packages will become increasingly important to employers wanting to succeed in talent management."

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Services to Value, People to Trust

Some 83% of employers said they are increasing employee cost-sharing in health and welfare programs.

Except for the second priority, which deals with recruitment and retention incentives, all the priorities cited by benefits specialists are related to finances or costs, researchers noted. Two of these priorities involve cost control by the employer, while the remaining two are concerned with encouraging employees to play a greater role in managing their own benefits.

"Most of this year's top five priorities surround health benefit cost management and consumer-driven programs," said David V. Repko, president of ISCEBS. However, he added, "though reducing costs of employee benefit plans and finding ways to give greater control to employees remain consistent concerns for employers, the need for organizations to provide total rewards programs that can help them retain and engage those employees needed for success is an emerging challenge for 2005."

In addition to identifying their priorities, survey participants were also asked to report changes they have made over the past 12 months—or intend to make over the next 12 months—to their companies' rewards programs. Some 83% of employers said they are increasing employee cost-sharing in health and welfare programs, and 72% said they are placing greater emphasis on consumerism for employee health and welfare programs. In relation to post-retirement plans, 23% said they are emphasizing consumerism and 33% said they are increasing cost-sharing.

Some of the actions being taken by the employers surveyed over this two-year period include shifting to lower-cost providers (40%), increasing the use of outsourced administration providers (44%), and eliminating or freezing participation in post-retirement plans (16%). In addition, 29% of respondents said they are scaling back rewards packages and benefit levels for employees by reducing the number of plan options they offer to employees.

To help employees navigate changes to benefits and rewards programs, most respondents (85%) said their organizations are stepping up their employee communication and education efforts. And to assist employees in managing their own benefits, around two-thirds of survey participants are increasing the use of employee self-service technology (68%), and providing employees with improved retirement-planning tools (65%).

"We see a rising trend in employer-employee partnerships surrounding benefit plans as employers seek ways to reduce costs by providing employees with more control over their own careers and futures," said Mike Fucci, leader of Deloitte Consulting's Human Capital practice. "Employers understand the need for effective guidance during these transitions and are dedicated to providing employees with the tools necessary to be successful in their individual planning."

New Long-Term Care Insurance Product Designs Needed

The prospect of not having enough money to pay for long-term care (LTC) services is a looming crisis for many Americans, particularly those approaching retirement who lack LTC insurance, researchers warned in a newly published white paper for insurers, "Long-Term Care Coverage Designed for Employers."

According to the report, written by Jonathan Shreve and Jill Van Den Bos of Milliman Consultants and Actuaries, the group LTC insurance market is growing, but sales of LTC insurance policies are still far from adequate to meet the anticipated requirements of the growing population of elderly Americans. The paper recommended that insurers design new long-term care insurance products to help employers improve employee participation rates in group LTC plans.

"The long-term care financial crisis has been creeping up on Americans for years," said Shreve. He noted that, since the passage of the Health Insurance Portability and Accountability Act (HIPAA) in 1996, which defined how long-term care coverage can be offered as a tax-preferred benefit, an increasing number of employers are offering long-term care insurance through payroll deduction.

However, Shreve warned, "these 'convenience' benefits are not consistent with safety net provision goals of the employer due to low participation rates among eligible employees." He added that employers are often unwilling to contribute to these plans because of the high costs involved.

To address these problems, Shreve and Van Den Bos concluded, there is a need for new product designs that encourage employee participation, while keeping employer costs reasonably low. One option discussed in the paper is the use of vesting and waiting periods for LTC insurance, which would reward long-term employees, while reducing costs for employers. The researchers also offer suggestions on how insurers can take advantage of recent tax rulings to offer alternate funding approaches for LTC insurance.

CalPERS Members Choose Lower Costs Over Physician Choice

Faced with the choice between changing health care providers, or moving to a higher-cost plan, a large majority of California Public Employees' Retirement System (CalPERS) members chose to switch doctors and hospitals and remain with a lower-cost HMO, CalPERS reported in December.

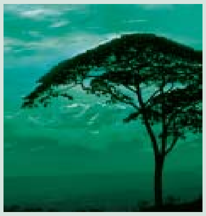
CalPERS—the third largest purchaser of employee health benefits in the U.S., with 1.2 million enrollees—said that preliminary open enrollment results for 2005 showed that 75% to 80% of Sacramento area members who were affected by the decision to remove Sutter Health physicians and hospitals from the Blue Shield network elected to remain with Blue Shield or move to another CalPERS HMO, rather than choose a PPO, which would have allowed them to continue to use Sutter Health.

Across California, the number of enrollees forced to choose between changing doctors or moving to a PPO totaled 48,000. Of these, 29,000 made changes, but the majority chose other HMOs over PPOs. CalPERS officials speculated that factors influencing members' decisions about whether to switch plans may have included a desire for the lowest possible premiums, the impact of regional pricing on local agencies, and a range of costs among plans.

"Early indications show there was no member stampede to retain their Sutter doctor or hospital by moving to our preferred provider network," said Sid Abrams, chair of the CalPERS Health Benefits Committee. But, he added, "I want to emphasize that we don't know all the reasons why affected members stayed in the Blue Shield HMO plan or went to other health maintenance organizations."

CalPERS excluded 24 high-cost hospitals from the Blue Shield lineup starting this year, a move the organization has said will save an estimated $36 million in 2005, and $45 million a year thereafter. CalPERS officials have said they will present a full analysis of the impact of the decision to drop these hospitals in February 2005.

CalPERS has also announced plans to meet with other large health care purchasers based in California and other states in 2005 to discuss initiatives aimed at improving health care quality while



The use of vesting and waiting periods for LTC insurance would reward long-term employees, while reducing costs for employers.

bringing down prices. In particular, CalPERS said it hopes to band together with other purchasers to conduct joint negotiations with health care providers.

"We achieved significant savings by collaborating in this way with Blue Shield to eliminate high-cost hospitals from the provider network going into 2005," Abrams said. "And we can make a much greater impact if other purchasers join us to leverage our combined numbers to change market dynamics."

Nonprofits And Government Employers Offer The Best Benefits

Large nonprofit organizations, followed by government agencies and educational services, provide the best overall benefits packages to their employees, a study by Mercer Human Resource Consulting found.

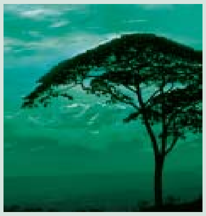
According to Mercer's "2004 Spotlight on Benefits Report," an analysis of the benefit programs of more than 1,000 large U.S. employers, nonprofit organizations offer total benefits at 128% of the market median, government employers at 127% of the median, and educational services at 121% of the median.

Industries in the for-profit sector offering the highest benefit levels in 2004 were utilities (117% of the median), mining (114%), insurance (109%), pharmaceuticals (108%), and chemical manufacturing (108%). By contrast, the industries offering the lowest benefit levels were accommodation and food services (64%), retail (75%), and wholesale (75%).

Broken down by benefit type, employers providing the most generous benefit levels in 2004 were government agencies, which offered health benefits at 134% of the market median; the mining sector, which offered retirement benefits at 138% of the median; and educational services, which offered time loss benefits at 116% of the median. On the other end of the spectrum, the accommodation and food service sectors provided the lowest levels of all three types of benefits.

The report also looked at benefit levels by geographic region. While employers in the Northeast continued to offer the highest benefit levels in 2004 at 108% of the market median, these levels were down from 111% in 2001. By contrast, employers in the Southeast offered benefits at 98% of the median in 2004, up from 93% in 2001. Employers in the South Central and West Coast regions also saw their percentage of the market median grow between 2001 and 2004, but organizations in the North Central region fell from above the median to below during this period.

"While it is necessary for employers to develop their benefit programs based on their unique business and human capital needs, they also need to understand how their organization's benefit programs stack up against other organizations in the same industry or geographic location," said Mercer consultant Kent Gregory. "Having this kind of comparative benefits information helps employers stay competitive for top talent."



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