

BENEFIT

Plan Developments



A report covering plan design and legislative changes

Volume 49, Number 11

House Committee Approves HSA Reform Legislation

The House Ways and Means Committee approved in September the Health Opportunity Patient Empowerment Act of 2006 (H.R. 6134), a measure that would raise the limit on employee and employer contributions to tax-advantaged health savings accounts (HSAs), allow tax-free rollovers from other tax-advantaged savings accounts to HSAs, and provide incentives for employees to enroll in HSAs. Ways and Means Chairman Bill Thomas (R-CA) has said the bill could pass before the 109th Congress adjourns in January.

Under current law, holders of qualified high-deductible health plans (HDHPs) are permitted to make tax-deductible contributions to an HSA equal to the lesser of the amount of the HDHP deductible or an indexed amount, \$2,700 for individuals and \$5,450 for families for tax year 2006. The proposed legisla-

tion would set the contribution limits at the indexed amounts, regardless of the size of the plan's deductible. The current prorated contribution limits, which apply to HSAs created in the middle of a tax year, would be repealed, allowing taxpayers who start accounts later in the year to make the full annual contribution.

In This Issue

- More Women Buy Supplemental Insurance
- Business Group Calls For Improved Health Care Quality And Safety Standards
- Employees Worry About Health Benefit Reductions

In addition, the measure would permit employees to make a one-time tax-free transfer of funds held in a flexible spending account (FSA) or health reimbursement arrangement (HRA) to an HSA. Taxpayers would also be allowed to make a one-time distribution from an individual retirement account (IRA) to an HSA.

The proposed legislation would repeal the current requirement that employers make comparable contributions to the HSAs of all employees. Under the terms of the bill, employers would be allowed to make larger contributions to the HSAs of lower-paid employees than to the accounts of highly compensated employees.

Commenting on the bill, Committee Chairman Thomas said, "HSAs are still relatively new, but we are already seeing them quickly grow in popularity in the early stages of their existence. The adjustments in this bill will make



Summit Financial Group

A Summit Consolidated Group Company

1350 South Boulder, Suite 300

Tulsa, OK 74119

Phone: (918) 663-0991 • Fax: (918) 663-0840

www.yoursummit.com

Services to Value, People to Trust



The analysis showed that 69% of disability policy purchasers and 61% of critical illness policy buyers were women.

HSA's more attractive as Americans consider their health insurance options.”

The measure remains controversial, however. The Joint Committee on Taxation has estimated the legislation would reduce federal revenues by \$287 million between 2007 and 2011, and by \$1.04 billion between 2007 and 2016.

Opponents of the measure have argued that HSAs are often used to shelter savings from taxes, rather than to pay for medical expenses. A study by the Government Accountability Office (GAO) of HSA-eligible enrollees showed that, in 2004, 51% of tax filers reporting HSA contributions had adjusted gross incomes of \$75,000 or more, and that HSA contribution levels among high-income enrollees were considerably higher than among lower-income participants. Moreover, the GAO found, 55% of taxpayers reporting HSA contributions in 2004 withdrew no money from their accounts in the course of the year. GAO researchers said many participants in focus groups of HSA-eligible enrollees reported using their HSAs as tax-advantaged savings vehicles, accumulating HSA funds for future use.

Opponents of the bill also point to a study by the Kaiser Commission on Medicaid and the Uninsured asserting that, while the premiums for HSA-qualified HDHPs may be lower than those of traditional plans, HDHPs also shift more financial risk to individuals and families. The Kaiser Commission's analysis showed that HSA-eligible plans are unsuitable for low-income families because they would have difficulties covering high out-of-pocket costs and do not face a large enough tax liability to benefit from the tax deductions associated with HSAs. The Kaiser study concluded that HSA-eligible plans may exacerbate, rather than alleviate, the problems low-income families currently face in affording and accessing health care.

At the markup of H.R. 6134, Rep. Pete Stark (D-CA), ranking Democrat on the Ways and Means Health Subcommittee, commented, “Health care is certainly an issue we should be addressing in Congress. But make no mistake, HSAs are not health

policy, they are tax policy. Attempts to make HSAs even more attractive—like the one we have before us today—threaten traditional insurance coverage and shift more of the cost burden for health care to workers. We should not be wasting precious time on an expensive niche policy that benefits a few, at the expense of everyone else.”

More Women Buy Supplemental Insurance

Purchasers of supplemental insurance products, such as disability and critical illness policies, are overwhelmingly female and middle-aged, according to a study by disability insurance provider UnumProvident.

Researchers studied the buying patterns of more than 100,000 employers that offer employees the option of adding supplemental, or ancillary, insurance products to their basic health care and retirement benefit packages. The analysis showed that 69% of disability policy purchasers and 61% of critical illness policy buyers were women. The most common age range for purchasers of supplemental products was found to be 30 to 49.

Supplemental insurance products are typically sold in integrated packages, the study found, with stand-alone sales of individual products making up just 20% of all ancillary insurance sales.

Researchers noted that, while life insurance and short-term disability are the most popular supplemental insurance products, critical illness, accident, and hospital indemnity policies are growing at double-digit rates.

“We’re no longer in a one-size-fits-all benefits world,” said Kevin McCarthy, executive vice president of risk operations at UnumProvident. McCarthy recommended that employers use statistics on supplemental product buying patterns to “map out benefit strategies, determine specific plan designs for specific employee groups, and better determine an overall workable, sustainable, and suitable benefit plan that better meets the needs of all workers.”

Business Group Calls For Improved Health Care Quality And Safety Standards

A health benefits advocacy group representing 250 large employers has issued a set of recommendations urging employers that offer health care benefits to demand that hospitals and other medical providers meet standards for quality and safety.

The National Business Group on Health—which counts among its members very large employers such as Microsoft, Wal-Mart, Dell, and IBM—announced in October it is adopting three broad recommendations aimed at reducing health care costs and lowering rates of avoidable death and injury.

As its first recommendation, the Business Group advised employers to refuse to pay medical claims for avoidable medical errors. Among the errors that should never be tolerated, the group asserted, are wrongful surgical procedures and medication errors resulting in death or serious disability.

“There is a groundswell of support at the state and national levels for hospitals and health plans to report medical errors,” said Helen Darling, president of the National Business Group on Health. “Employers should not pay for so-called ‘never events’ and over the next six months, we will be working with health plans, providers, consumers and employers to develop methods for tracking and not paying for avoidable medical errors.”

In addition, the group recommended that employers demand from top-level management of hospitals and health care systems in their preferred networks a commitment to make improving health care safety and quality the highest priority. Specifically, the Business Group advised employers to require preferred providers to actively participate in two ongoing projects devoted to reducing medical er-

rors: the 100,000 Lives Campaign and the Surgical Care Improvement Project.

In its final recommendation, the Business Group called upon employers to require the health care providers in their preferred networks to implement health information technology, including electronic medical records and personal health records for all patients.

“Adopting and using health information technology will reduce medical mistakes by making patient-specific information and the latest condition-specific information readily available to treating providers at the point of care,” said Darling. “We are rapidly approaching the time when health care organizations and providers must rely on information technology to be credible providers of safe, quality care.”

Employees Worry About Health Benefit Reductions

Faced with rapidly escalating medical costs and increasingly complex insurance plans, most employees are concerned about health care affordability and reductions in health benefits; furthermore, they want assistance from their employers in managing health care, according to two recently published surveys.

A study conducted by human resources services firm Hewitt Associates found that nearly 80% of the more than 18,000 U.S. employees surveyed worry that health care coverage will ultimately become unaffordable. More than half believe selecting the health care plan that best meets their needs—and using the plan effectively—is becoming more complex every year.

Despite these concerns, most employees are not taking responsibility for managing their own health care, according to the study. Just 34% of the workers surveyed reported tracking their current health care expenses, and fewer than half



In its final recommendation, the Business Group called upon employers to require the health care providers in their preferred networks to implement health information technology.

said they take the time to estimate future health care expenses. While the majority of respondents said their employers provide sufficient tools and information for choosing and using the plan, only half said they use the tools.

Jennifer Murphy, health care communication leader, Hewitt Associates, commented, “As health plans become more complex, it’s critical that employers have a year-round strategy that includes ways to promote the tools and educate employees and their families.”

Employees enrolled in high-deductible health plans (HDHPs) with health savings accounts (HSAs) find managing their plans particularly challenging, the study found. Just 30% of respondents enrolled in HSA-qualified HDHPs indicated they understood and were satisfied with their choice; 48% said they would not choose the same plan again. When asked why they chose an HDHP, 40% said they were attracted by the lower premiums.

“As health care costs continue to rise, HSAs are great vehicles for helping employees save for future health care expenses, but they can be ineffective or confusing to employees if they aren’t using them in the right way,” said Murphy.

Similarly, a survey of more than 12,000 employees by human resources consultancy Watson Wyatt showed that 69% of workers are worried their employer will increase out-of-pocket health care costs through higher deductibles and co-payments over the next three years. Results also showed that 53% of respondents are concerned that, over the next two years, their employers could reduce their health care benefits by limiting coverage or access to providers.

The survey clearly revealed that employees place considerable value on their employer-provided health care benefits, with two-thirds of respondents saying the

quality of job-related health care benefits is an important factor when deciding whether to remain with an employer. Researchers noted, however, that in a 2006 survey of employers, none of the respondents cited health care coverage as a key reason top-performing employees leave.

Ilene Gochman, director of organization effectiveness at Watson Wyatt Worldwide, said, “As their concerns escalate, employees will increasingly consider health care benefits when deciding whether to stay with their current companies. And if the trend continues, these benefits could become a real differentiator as employers try to hold on to key talent.”

While employees are most worried about their health care benefits, they are also concerned about their retirement benefits, according to the Watson Wyatt study. Some 43% of the employees surveyed said they are concerned their employer will reduce retirement or retiree medical benefits in the next three years, while 30% of respondents covered by a defined benefit plan said they worry their company will freeze or terminate the plan within three years. Meanwhile, researchers observed, the survey showed that employers tend to underestimate the impact retirement benefits have on retention.

“It’s not surprising that employees are concerned about benefits reductions, given the changing relationship between employers and employees,” said Laury Sejen, director of strategic rewards at Watson Wyatt. “Employers can help ease those concerns by explaining the competitive pressures they face in the marketplace and associated trade-offs in reward programs. By clearly communicating their total rewards strategy, management can pave the way to better employee understanding of their total package and acceptance of any benefit changes that need to be made.”



Results also showed that 53% of respondents are concerned that, over the next two years, their employers could reduce their health care benefits by limiting coverage or access to providers.