

Employee Benefits Report

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Long-Term Care

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More Employees Interested in Long-Term Care

Nearly 75 percent of baby boomers and seniors are concerned about paying for long-term care. Yet by 2003, only 13 percent of full-time private industry workers had access to long-term care insurance through their employers.



The first group long-term care insurance contract was written in 1987, according to the Bureau of Labor Statistics, and the number of companies that offer the benefit has been rising ever since.

Still, by 2003, only 13 percent of all full-time private industry workers had access to long-term care insurance through their employers, and only 19 percent of full-time workers at companies with more than 100 employees had access.

The National Academy of

Social Insurance reports that nearly 75 percent of baby boomers and seniors are concerned about paying for long-term care. Medicare and health insurance policies do not provide for long-term care, and Medicaid covers care only after one's personal assets are depleted.

That said, it's not hard to imagine why group long-term care policies can be attractive. They often offer cheaper rates than are available in the open market and may not require that people meet any medical requirements in order to obtain

coverage.

The U.S. Government Accountability Office estimates that 40 percent of the people receiving long-term care services are between the age of 19 and 64, so besides helping when an employee suffers a debilitating injury or illness, long-term care insurance can provide employees with a way to take care of elderly dependents.

As a result, long-term care insurance (LTCI) offers employers a way to reduce absenteeism and improve productivity, loyalty and morale.

This Just In

Seeking out and treating depression in the workforce might work to employers' best interests, according to an analysis funded by the National Institute of Mental Health and published in December 2006. A simulation based on dozens of studies revealed that providing care for depression would save employers \$2,898 per 1,000 workers over five years. Even though the intervention would initially increase use of mental health services, it ultimately would save employers money by reducing absenteeism and employee turnover costs.

The study's results might also apply to other mental illnesses. The National Business Group on Health cited a 2002 study by Pfizer Outcomes Research that estimated mental illness and substance abuse disorders cost approximately 217 million lost workdays, at a cost of \$17 billion annually to U.S. employers. For more information on mental health benefits, see the article on P. 2.





Mental Health Parity Back on Front Burner

Only a third of the 44 million American who suffer from a mental health disorder receive treatment. Because mental health has a strong effect on physical health, employers will want to consider the status of their mental health benefits.

Current federal law governing mental health parity in employee benefits is scheduled to sunset again at the end of this year. But two bills have been introduced, one in the House and one in the Senate, and the consensus seems to be that new legislation will be enacted in 2007.

The existing 1996 bill requires that group plans that offer coverage for mental health do so in such a way that the limits on coverage are on a par with the limits on medical coverage. Yet that requirement demands only equivalent annual and lifetime dollar caps. Insurers have found ways to restrict coverage, such as limiting the number of doctor visits covered in a single year, according to the American Psychological Association (APA).

The APA estimated in 2004 that only a third of the 44 million American who suffer from a mental health disorder receive treatment. Results of a survey by the association indicated that 87 percent of respondents indicated they lacked care because they lacked

insurance, and 81 percent cited cost as a factor.

Both of the bills now in the works would require insurers and employers to provide fully equivalent coverage for mental and physical needs. They exempt plans with fewer than 50 participants.

The House bill, while it does not require that mental health care be provided, would close the loopholes that have allowed plans to charge higher co-payments, deductibles and maximum out-of-pocket limits and impose lower day and visit limits on mental health and addiction care, according to statements by Rep. Patrick Kennedy (D-R.I.), a cosponsor of the bill. The House bill requires parity between mental and physical health coverage on all these fronts. It also requires that mental health coverage plans cover the illnesses and addiction disorders that are included in the health plans members of Congress use.

The Senate bill, cosponsored by Rep. Patrick Kennedy's father, Sen. Edward Kennedy (D-Mass.), does not require that coverage

mimic that offered to members of Congress. Like the House bill, it closes the loopholes in the current legislation, includes care for addiction and provides an exemption for companies with fewer than 50 employees.

Both bills also provide a cap on costs, allowing an exemption for employers if it is projected that their health plans will experience increased costs that exceed 2 percent of the actual total plan costs during the first plan year or exceed 1 percent of the actual total plan costs each subsequent year. The cost exemption would apply for the next plan year following determination that the cost threshold will be exceeded.

Sponsors of the Senate bill say that the Congressional Budget Office projects the bill will increase health care costs less than \$1 per month per insured. They have negotiated with employers, insurers and mental health advocates to develop their bill, which they say has the support of all three groups.

Forty-six states have some form of mental health parity law, but they vary widely, according to the National Conference of State Legislatures. The Senate bill would supersede those laws, except for state laws pertaining to the individual insurance market or small employers. The House bill would allow states to set even stronger standards.

If you want to weigh in on the issue of mental health parity or the legislation that is pending, contact your legislators. You will find contact information for your senators at www.senate.gov and for your representatives at www.house.gov. ■





Long-Term Care

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Premiums are usually paid by the employee, with no contribution from the employer. However, if the employer does pay some or all of the premium, long-term care insurance is a qualified benefit — as long as it is a standard group policy and the employer is not providing the LTC coverage through a “cafeteria plan.”

What it covers

LTCI policies can vary widely. However, they may include coverage for home health care and care in a nursing home or assisted living facility.

Coverage kicks in when a person cannot perform what are known as activities of daily living, or is cognitively impaired due to senile dementia or Alzheimer’s disease.

In state-licensed nursing homes, policies usually cover skilled, intermediate and custodial care. At home, they usually cover nursing care, physical therapy, homemaking assistance and home health aides provided by state-licensed and Medicare-certified home health agencies, according to a report by America’s Health Insurance Plans (AHIP), a national association. Pre-existing conditions generally are not covered until after a set waiting period.

Most policies are known as either indemnity or expense incurred policies. An indemnity policy pays a fixed benefit amount per day. An expense incurred policy pays actual expenses up to a fixed amount per day, week or month. Home health care benefits are usually about half those offered for nursing home care, according to the Bureau of Labor Statistics.

There are also integrated policies with pooled benefits that provide a total dollar amount that can be used for different types of services, AHIP says. These usually carry a daily, weekly or monthly dollar cap.

Typically, benefits are paid for a set period of time or up to a dollar cap. Benefits may be adjusted for inflation, but annual adjustments may be capped at a fixed percentage.

Most policies carry a deductible in the form of a period of time during which coverage does not apply. A 30-day deductible on nursing home care would mean the coverage

would start paying on the 31st day the insured person was in a nursing home.

Those covered by a group policy are allowed to continue coverage when they leave the employer, as long as they pay their premiums on time.

Why it matters

Many baby boomers have lived lives different from those of their parents. They are more likely to have never married or to have been widowed or divorced. And they have had far fewer children.

The National Academy of Social Insurance forecasts that nearly 10 percent of those born between 1956 and 1964 (the youngest baby boomers) will have never married by the time they reach an age between 55 and 64. Today, 21 percent of those age 63 to 72 today live alone, the academy says. In 10 years, 24 percent of that age group will live alone, and 37 percent will be living alone when the youngest baby boomers reach that age.

It may be safe to say that the traditional system of the young caring for the old in their declining years is likely to break down. Baby boomers will be more likely than their parents to need to find care outside their extended families.

And costs for outside care are continuing to rise. The Bureau of Labor Statistics, citing a report by MetLife, points out that the average cost of home health care (five hours a day, five times a week) was \$20,000 a year in 2004, while nursing home care that same year cost an average of \$52,000 a year for a semi-private room.

By 2030, it is projected the annual cost for a semi-private nursing home room will reach

\$190,600, the bureau says, citing a 1999 report by the Henry J. Kaiser Foundation.

For these reasons, your baby boomer (and older) employees will likely be interested in long-term care insurance. Even if a contributory plan doesn’t fit your benefits budget, voluntary (employee-paid) plans can often provide better benefits or lower premiums than an individual plan. For more information, please call us. ■

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employees an opportunity to opt out of the automatic deduction system within 90 days, it is generally expected that such plans will increase both participation and the amount of money participants are saving.

Hewitt Associates, an Illinois-based firm that provides human resources outsourcing and consulting services, recently conducted a survey of 146 large U.S. companies and reported that 58 percent of them will automatically enroll employees into 401(k) plans by the end of the year.

In addition, Hewitt reports that 34 percent of the companies couple, or plan to couple, automatic enrollment with contribution escalation features.

Companies remain skeptical of employees’ ability to be accountable for their own retirement funding, said Pamela Hess, Hewitt’s director of retirement research. As a result, she said, they intend to become more aggressive about equipping workers with tools that help improve their savings and investing habits.

At the same time, 78 percent of the companies told Hewitt they had no plans to change the amount of their company match. ■

According to the IRS:

“You cannot exclude contributions to the cost of long-term care insurance from an employee’s wages subject to federal income tax withholding if the coverage is provided through a flexible spending or similar arrangement. This is a benefit program that reimburses specified expenses up to a maximum amount that is reasonably available to the employee and is less than five times the total cost of the insurance. However, you can exclude these contributions from the employee’s wages subject to social security, Medicare, and federal unemployment (FUTA) taxes.” ■



Automatic 401(k) Enrollment on the Rise

Employers can use automatic 401(k) enrollment and escalation programs to help employees save for their retirement.

The Pension Protection Act of 2006 expressly allows automatic deductions for retirement savings plans and overrides any conflicting state law. Some state payroll laws that disallow paycheck withholdings made without the express consent of the employee had discouraged employers from instituting automatic deductions.

Some employers are also experimenting with automatic deductions for the catch-up provision for older workers, according to *Workforce Management* magazine. Fidelity Investments is conducting a pilot study with 25 employers and has reported positive feedback.

Employers will want to be cautious when they consider automatic catch-up deductions, and Fidelity told the publication employers may want to check with their consultants or in-house counsel to make sure safe harbor provisions are met.

Although employers have to give em-

Catch-up contributions: According to the IRS, a plan can permit participants who are age 50 or over at the end of the calendar year to make additional catch-up contributions to their 401(k). For 2007, the maximum catch-up contribution remains at \$5,000, the 2006 level.

Safe harbor provisions: The Pension Protection Act of 2006's safe harbor provisions require:

- * that default employee contributions equal at least three percent of pay in the first year of participation and that they increase annually to at least six percent in the fourth year of participation (with a maximum contribution of 10 percent of pay);

- * the employer either matches contributions for all eligible non-highly compensated employees at 100 percent of the first one percent of pay contributed plus 50 percent of the next five percent of pay contributed or makes a non-elective contribution equal to three percent of pay to all eligible employees;

- * that matching contributions or non-elective contributions vest after two years of service. ■

As American retirement planning continues to swing away from traditional pension plans toward the 401(k), it becomes increasingly important that employees actually contribute to their retirement savings.

One way you can encourage that participation and help your employees prepare for retirement is to institute a system of automatic payroll deductions.

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Survey: Workers value health benefit most

Results of a recent survey of 1,619 people who work for large American employers indicate that a majority consider health care coverage the most important benefit of employment and they are satisfied with their employer-provided coverage.

The polling, done on behalf of the National Business Group on Health, a nonprofit association of 266 large U.S. employers, also showed that the survey group favored charging smokers more for their coverage, but opposed increasing costs for the obese.

At least six in 10 of the employees considered it important that a health plan be easy to manage, offer choices of doctors and limit their out-of-pocket expenses. They put a higher value on coverage for routine care and healthy-life-

style incentives than on care for serious illnesses.

In other findings, employees:

- * Were split on whether they preferred low co-payments or low premiums, but more than half would accept fewer plan choices if it kept costs low.
- * Strongly preferred receiving health care coverage from their employer than receiving increased pay to purchase their own.
- * By slightly more than half, objected to having their employer contribution to the premium considered taxable income.
- * By 83 percent, in lean times would rather have their salary or retirement benefits cut than take a reduction in health benefits. ■