



MID AMERICAN GROUP

"The Leading Edge"

A quarterly Newsletter to our valued friends and clients...

Spring, 2001

Ask us about...

The Leading Edge

...a trend-setting employee benefits program from Mid-American Group, including:

Administrative Services

- ⇒ **COBRA Administration**
- ⇒ **Flex Administration**
- ⇒ **Benefits Administration**
- ⇒ **Cafeteria Plan Administration**

Employee Benefits

- ⇒ **EAP**
- ⇒ **Vision**
- ⇒ **Wellness Services**
- ⇒ **Internet Services**



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The information contained in this publication is intended for the general information of our clients. It should not be construed as legal advice or legal opinion regarding any specific or factual situation.

MEDICAL RECORDS PRIVACY REGS ON HOLD

A paperwork error has enabled the new Secretary of Health and Human Services, Tommy Thompson, to pull back the privacy regulations published at the end of the Clinton administration. The error presents an opportunity for revisions in the privacy regulations but, they'll be reissued not rescinded.

Employers can expect important changes and challenges in the regs that are ultimately issued.

Key among the regs is a requirement to take additional steps to ensure the privacy of medical information of employees.

As the current draft regulations stand, employers may have an obligation to ensure that their health care partners also guard confidentiality. How such an obligation will impact relationships and information sharing with insurers, administrators and service providers such as Employee Assistance Programs (EAPs) is unclear and troubling.

The rules that were issued extended far beyond the sharing of medical information electronically. They included paper and oral communications as well. Experts predict that employer health plans will see costs rise as a result of compliance with the rules due to, among other things, increased insurer liability.

SICK EMPLOYEES COSTLY

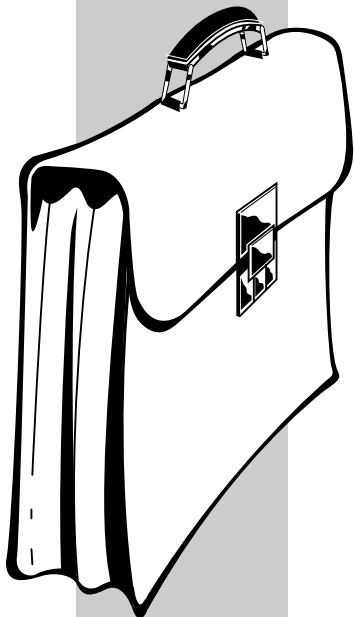
Many employers are concerned and rightly so with the rising costs of health coverage. However, health coverage costs are only the tip of the iceberg when looking at the overall costs of sick employees.



A study of 300,000 group health and 32,000 related short-term disability episodes for a large manufacturer conducted by The Medstat Group illustrates the true cost of sick employees. The employer that was studied found that medical costs were only 20% of the cost of sick employees at \$1/4 billion over 2 years. Once lost productivity was factored in for replacement of employees who were absent due to short-term disability another \$1 billion was added to the total.

Employers should review health coverage claims, absences and disability costs to get a true picture of illness related costs. Then, a strategy encompassing all such costs can be developed to manage costs and increase productivity.

News Briefs



SPD RULES ADD INFORMATION

The U.S. Department of Labor published final rules that add more information requirements for SPDs (Summary Plan Descriptions). Many of the rules published in November, 2000 were considered to be clarifications of prior rules. Therefore, the DOL asserts that plans are subject to the requirements now. Other new changes are effective the first day of the second plan year beginning after January 22, 2001.

Highlights of the SPD rules include:

- SPDs must disclose provisions concerning COBRA, plan amendments and terminations, procedures for claims, identification of health insurers.
- Information and procedures must be included regarding qualified medical child support orders (QMCSOs) and qualified domestic relations orders (QDROs).
- Types of disclosures that must be included or listed in SPDs versus those that can be summarized with details provided separately (e.g., claims procedures).
- Information regarding the Newborns' and Mothers' Health Protection Act and any insurance coverage offered that relates to hospital stays after the birth of a child.

DOCTOR UNIONS ON HOLD

As reported here last year, Congress was poised to act on legislation to provide doctors with an antitrust exemption that many believed would create "de facto" doctor unions.

This legislation, HR 1304 was passed by the House of Representatives. The legislation remains stalled in the Senate largely as a result of the outcry by concerned employers, insurance brokers and others. Opponents fear increased costs and liability if this proposal is enacted into law.

IRS DEFINES COBRA PREMIUM SHORTFALLS

The IRS has provided guidance on the rule regarding COBRA premium shortfalls. The IRS ruling allowed that an "insignificant" underpayment could be considered as payment in full by an employer.

The rules require that an employer accept the "insignificant" underpayment or send another notice with an additional grace period.

Further guidance by the IRS gives new meaning to the term "insignificant." An underpayment is "insignificant" if it is "no greater than \$50 or 10% of the required amount, whichever is less."

PRESCRIPTION COST PRESSURE

Prescription drug costs continue to increase pressure on overall health benefits costs. Benefit plans are seeing increasing drug prices and an increase in demand for brand-name, more costly drugs.

One answer to this pressure is a three-tier pharmacy benefit program. Humana reports that a three-tier program decreases the trend in paid claims from 26% compared to a one-tier program at 5.2%. A two-tier program has a 23.9% trend.

COBRA FAILURE COSTS LARGE

When an employer errs on COBRA compliance, the costs can be large. In addition to required payment for any medical expenses, there are fines and attorney fees. Moreover, the attorney fees of the COBRA beneficiary can be assessed. In one case, claim costs assessed against the employer totaled \$40,000. Attorney fees were \$44,000.

What error did the employer make that resulted in the assessment for \$84,000 in claims and attorney fees? The COBRA beneficiary did not receive proper notice of COBRA.

NEW RULES FOR 401(k) COMPARABILITY PLANS

“New Comparability” retirement plans have proven popular, especially for smaller and mid-size employers. **Such plans maximize the retirement benefits of a select group of employees while maintaining the plan’s non-discrimination requirements.**

The Internal Revenue Service (IRS) has been critical of the plans. The question was whether the New Comp design was consistent with the basic aim of the nondiscrimination rules. New proposed regulations provide guidance on how New Comparability plans can meet the nondiscrimination tests.

The rules issued by the IRS take effect with plan years beginning on January 1, 2002.

The overriding criteria for a plan to be in compliance with the IRS is that the plan offer broadly available allocation rates. Generally, plans that base allocations on age or service achieve this goal. Plan participants effectively “grow into” the higher allocation rates through aging or time on the job.

There are alternative means to compliance if the plan does not provide broadly available rates. Each non-highly compensated employee (NHCE) in the plan must have an allocation rate of at least one-third of the allocation rate of the highly-compensated employee (HCE) with the highest allocation rate. Another method to achieve compliance requires that the NHCE receives an allocation of at least 5% of the NHCE’s compensation.

Many employers with New Comparability plans will not be affected by the new rules. Still others will find that only minor changes to their plans are needed to meet the requirements for compliance.

Plan sponsors should review their plans this year in anticipation of the new rules effective on January 1, 2002.

VOLUNTARY BENEFITS GAIN MOMENTUM

The percentage of employers offering voluntary benefits to employees grew from 30% in 1994 to 44% in 1999. One study found that 36% of employers with 20 to 4,999 employees are considering adding voluntary benefits in the next two years.

Fueling this voluntary boom is technology and availability. **Many employers would consider voluntary plans including life insurance, prepaid legal, long term care insurance, short term disability and long term disability but they’ve never been informed about the benefits.** Advances in technology have made it easier and more cost-effective to reach employees, as well. Company intranets, in particular, offer an effective communication tool.

Many employers find that voluntary benefits provide an avenue for employees to purchase coverage that is highly desired. Employees benefit from lower costs, greater convenience through on-the-job enrollment and the employer’s know-how in selecting quality companies and products.

Employers also find that providing voluntary products eases the pressure of conflicting employee demands for new, employer-paid benefits. By providing ready access to a variety of insurance products employers can meet the varied needs of employees without adding to the benefit budget.

FLEXIBLE SPENDING ACCOUNTS AND PREMIUM CHANGES

The IRS rules regarding changes in Flexible Spending Account (FSA) elections have caused confusion and consternation among employers. Recent rules provide additional guidance regarding acceptable election changes in mid-year.

New rules clarify that employees may make a change in pretax contributions because the employee’s share of the premium changed. Such a change can be made even though the underlying premium cost for the plan did not change. A typical example of an occurrence of this type is when an employee moves to part-time status where a plan requires that part-time employees pay a greater percentage of the premium to maintain coverage.

Prior regulations allowed employees to decrease or cancel coverage after the initial election if the employee became covered under another plan, such as the spouse’s plan. Employers questioned how they were to verify these conditions. The final regulations allow an employer to rely on an employee’s statement.

The rules also provide that changes can be made in initial elections for life insurance and disability coverage upon the subsequent birth or adoption of a child.

Mid American Group Spring Seminar & Luncheon May 1, 2001

12:00 - 4:00 p.m.

Hyatt Regency Oak Brook
1909 Spring Road
Oak Brook, IL 60523

Topics:

**Deferred Compensation
401(k) - New Comparability
Legislative Expectations in
a Bush Administration**

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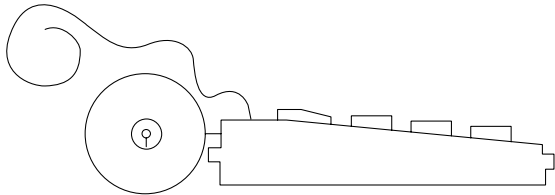
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For Free COBRA and Flexible Spending Account Administration information, go to
www.cobraflex.com



EAP DOLLARS AND SENSE

Employee Assistance Programs (EAPs) have been invaluable to many employees and their families. But, many employers are unaware of the value that EAPs have for the company.

A U.S. Department of Labor study found that employers save \$5 to \$16 for each dollar invested in an EAP. Another study found that almost 68% of workers will experience problems severe enough to prevent them from coping on the job.

Another study looked at the relationship between EAPs and health benefit costs. **It found that EAP case management for employees with substance abuse problems was more effective at reducing overall health costs than the health plan alone.**

2001 LIMITS ON RETIREMENT PLANS

401(k) Elective Deferral Limit	\$10,500
403 (b) Salary Reduction Limit	\$10,500
457 (b) Deferred Compensation Limit	\$8,500
Simple 401(k) Elective Deferral Limit	\$6,500
Highly Compensated Employee Compensation Limit	\$85,000
Defined Contribution Limit	\$170,000
Defined Benefit 415 Limit	\$35,000
Defined Benefit 415 Limit	\$140,000
Key Employee Officer Compensation Limit	\$70,000
Taxable Wage Base	\$80,400