



MID AMERICAN GROUP

"The Leading Edge"

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

Autumn, 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



Inside this issue:

Bill of Rights to Cost Everyone1
 Disability "Gross Up" Makes Cents1
 EEOC Does About Face2
 Employer Mandate Courtesy2
 Health Care Premiums Going Up2
 HIPAA Actively-At-Work and
 Non-Confinement Restrictions2
 Congress Gives and Takes Away2
 The Mandates Are Coming3
 Key Man Insurance3
 Tax Law Gives Credit for Start-Ups3
 Long Term Care Insurance4

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.

PATIENT'S BILL OF RIGHTS TO COST EVERYONE

The Patient's Bill of Rights is still wending its way through Congress. But, the Congressional Budget Office (CBO) has taken a calculator to the provisions to estimate the costs should the "Bill of Rights" become law.

The version of the bill crafted with input from the White House would **raise premiums for employer plans by approximately 2.6%**. The version under consideration in the Senate would increase premiums by 4%.

The CBO analysis notes that some of the increase in costs can be offset by how employers respond to passage of the legislation. They estimate that employers can offset as much as 60% of the cost increase. The CBO estimate assumed that employers could reduce costs by accepting lower overall profits, reducing or eliminating health benefits or contracting with less expensive plans.



employee's disability income benefits are taxable when an employer pays the premiums. If an employee pays the premium for coverage, then any benefits that are paid to the employee are not taxed.

Many employers are finding that they can gross up employee salaries to cover premium costs, maintain the value of the benefits for employees and still save money. For example, an employer-paid plan has a 60% of income benefit. An employee in the 28% tax bracket who receives disability benefits will see 43% of after-tax income replaced. If the employee pays for the coverage, given the same tax bracket (28%), their after tax benefit is 50%.

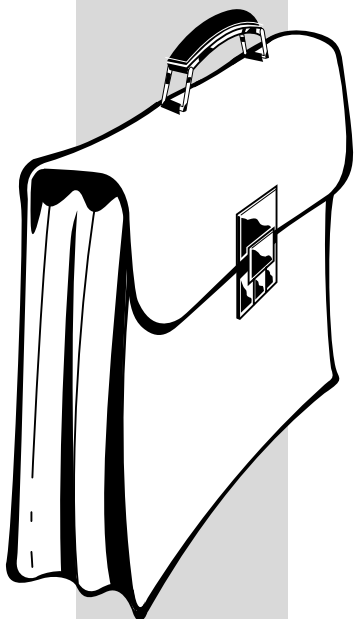
An employer wishing to cover the premium through "grossing up" pay will realize some savings since the premium for a policy with a 50% benefit is less than the premium for a 60% benefit.

DISABILITY INSURANCE "GROSS UP" MAKES ¢ENTS

By shifting premium payments from employer paid premiums to employee paid, the net benefit to employees increases dramatically. This is possible because an

DISABILITY "GROSS UP" EXAMPLES	Employee Paid		Employer Paid	
	Employer Paid	Employee Paid	Employer Paid	Employee Paid
Benefit Percentage	60%	50%	66-2/3%	50%
Tax Bracket	28%	28%	36%	36%
Percentage of Income Replacement After Tax	43%	50%	43%	50%

News Briefs



EEOC DOES ABOUT FACE ON RETIREE PLANS

The Equal Employment Opportunity Commission (EEOC) is reviewing its policy on retiree health plans. The EEOC had shocked many employers when it decided, previously, that the federal ADEA (Age Discrimination Employment Act) applied to retiree health plans. Employers had understood that ADEA applied to workers age 40 and older – not retirees.

This action comes after a recent court decision. **A lower court held that the federal ADEA prohibits employers from providing lesser health care benefits to older retirees than to younger retirees.**

The EEOC had issued a policy that stated that retiree health plans that reduced or eliminated benefits on the basis of age or Medicare eligibility were in violation of ADEA. **The EEOC decision to step back from this policy was based on an uproar from employers, labor groups and others.** The EEOC feared that employers would eliminate retiree health plans – especially for early retirees – to avoid the ADEA problem.

Employers should not take this action as final, however. The EEOC will conduct a review of discrimination in retiree health benefits with an eye to protecting the rights of retirees.

EMPLOYER MANDATE COURTESY STATE OF ILLINOIS

Illinois has a new law, Public Act 92-0126, that mandates that employers provide written notice to each employee covered under a plan if the employer fails to make payments for coverage when the failure will result in a loss of coverage. No longer can an employer simply post a notice to provide this warning.

HEALTH CARE PREMIUMS GOING UP

Health care premiums are jumping! A new survey found that premiums increased 11% from spring 2000 to spring 2001. The average employee also saw an increase in their share of the premium. **Employee contributions increased to \$30 a month, an increase of \$2 from 2000.**

HIPAA ACTIVELY-AT-WORK AND NONCONFINEMENT RESTRICTIONS

Among the many requirements of HIPAA, **health plans are prohibited from establishing eligibility rules or premium contributions based on whether an individual is confined to a hospital or other health care institution.** As such, the effective date of coverage cannot be delayed due to an individual's confinement even if there is an extension of benefits provision from a prior carrier.

Plans may not, generally, discriminate based on whether an individual can engage in normal life activities or whether they are actively-at work. A plan could be delayed due to non-health factors. So, if the employee is not at work or has not been continuously employed (if a continuous service clause is used), an absence due to a health factor cannot be considered an absence for these purposes.

Plans are allowed to establish a rule requiring an individual to begin work for the employer before coverage becomes effective. But, the rule must apply regardless of the reason for the absence. If, however, coverage was effective for an employee who was absent for the first day for reasons unrelated to health – such as the death of a family member – then denying coverage due to illness would violate HIPAA.

THE MANDATES ARE COMING

The Illinois General Assembly took action this past spring on a number of benefit mandates. These add to the already cumbersome list of mandates that insured health plans issued in the state of Illinois must include.

One of these new mandates, SB 1341, **requires that an insurer that provides coverage for hospital or medical expenses under a group policy or health care plan must cover “serious mental illness” under the same terms and conditions as coverage for hospital or medical expenses for other illnesses.** This expansion applies to firms with 51 or more employees and is effective as plans are issued or renewed on or after January 1, 2002. It does not apply to HMOs. HMOs have mental health requirements specific to their industry under the state’s HMO Act.

A “serious mental illness” is defined as certain, named psychiatric illnesses as defined in the most current edition of the Diagnostic and Statistical Manual (DSM). The named illnesses cover the gamut of mental illnesses from schizophrenia to bipolar disorders (hypomanic, manic, depressive, and mixed).

This poorly drafted bill actually provides limited “parity.” Group health benefit plans must provide 45 days of inpatient treatment and 35 outpatient visits for mental illness. Outpatient visits for medication management purposes cannot be counted as an outpatient mental visit. A lifetime limit on the number of days of inpatient treatment or outpatient visits is prohibited. There is no prohibition for providing these benefits under a managed care plan.

This new “parity” provision terminates after December 31, 2005. However, the Department of Insurance (DOI) must report on the cost versus benefit of this provision by March, 2005. This provides ample time – and pressure – for legislative action.



KEY MAN LIFE INSURANCE A BUSINESS MUST

What happens when a business owner dies? In many cases, the business is sold to pay estate taxes. When there are multiple owners the issue can be even more difficult. There may be disagreement between the heirs of the deceased owner and the surviving owners. The heirs may wish to liquidate their interest in the firm, necessitating a sale of the firm. Key man insurance removes the immediate need to make important business decisions based solely on financial concerns.

Key man insurance is a life insurance policy for business owners or other persons critical to the success of a firm. The premiums paid on the life insurance policy are not a deductible business expense. However, the proceeds of the policy when an insured dies are tax free income to the company that purchased the policy.

Placing a value on a key employee is not easy. Some firms consider the contribution that an individual makes to the profits of a firm. Another method reflects the compensation of the key employee. Replacement costs to hire someone in the same role are another consideration. Each approach has merit. The method or methods chosen should depend on the key person’s role in the firm and the financial picture of the firm.

TAX LAW GIVES TAX CREDIT FOR PENSION START-UP PLANS

The new pension and tax provisions contained in the EGTRRA, Economic Growth and Tax Relief Reconciliation Act of 2001, include a new tax credit for smaller employers. **Employers with fewer than 100 employees can receive a start-up credit to help offset the costs of starting a retirement plan.**

The new start-up credit is equal to 50% of qualifying start-up costs to a limit of \$500. The credit covers costs incurred in the first three years of a plan. The credits are available for certain retirement plans beginning in 2002.

Small business owners will also have access to plan loans as a result of the reforms. Currently, loans from 401(a) and 401(k) plans are not available to owners of subchapter S or unincorporated businesses. As of 2002, **these owners will have access to loans on par with the loan provisions previously available to their employees.**

CONGRESS GIVES AND TAKES AWAY

More About EGTRRA

Pension reform, increased tax incentives for child care services and adoption, “permanent” status for education tax credits – Congress was very generous with the recent tax law changes. **But, Congress can also take away! The entire tax law expires in 2011. Barring further action from Congress, January 1, 2011 will reset the tax law clock to 2001.**

But, despite this possibility, employers should take action on the tax law changes that meet their needs. Extremely popular changes are likely to be made permanent – or, at least, extended. And, Congress typically allows existing plans to continue whenever significant changes or expirations occur.



MID AMERICAN GROUP
A quarterly Newsletter to our valued friends and clients...

414 Plaza Drive, Suite 303
Westmont, IL 60559

Phone: (630) 789-9508
Fax: (630) 789-9516
Email: info@main.midamgroup.com

Website: www.midamgroup.com

Employee Benefit Consultants—Insurance Brokers

Mid American Group Named as America's 4th most productive insurance brokerage firm in 2000.

—*Crain's Business Insurance*

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

MID AMERICAN GROUP

*Autumn Seminar
& Luncheon*

**EMPLOYEE BENEFIT
COMMUNICATIONS USING
THE INTERNET**

November 8, 2001

12:00 - 4:00 p.m.

**Call for reservations
630-789-9508**

EMPLOYERS AND EMPLOYEES DISCOVERING LONG TERM CARE INSURANCE

The rising costs of long term care – both in a nursing home or one's own home – are getting the attention of both employers and employees. Long term care services are financed almost exclusively by personal and family savings. Government programs pay for very limited services or require that personal funds be exhausted prior to assisting with expenses.

Employers are finding that they can sponsor long term care insurance programs (LTC) for little added cost. Most LTC insurance coverage is employee-paid even though an employer sponsors the program.

Plans offer a variety of features. More importantly, today's LTC plans are significantly improved from the earlier versions of LTC insurance. For example, some plans feature a return-of-contributions option that pays back premiums paid into the plan if the insured dies without having made a claim.