



MID AMERICAN GROUP

"The Leading Edge"

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

Spring, 2006

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The Leading Edge

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

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LONG TERM CARE COVERAGE - A WIN FOR EMPLOYERS & EMPLOYEES

Long term care coverage and Group Long Term Care (LTC) Insurance have been available for some time. Part of the interest in LTC has been fueled by government laws acknowledging the limited role that government was willing to play in funding long term care services. **For example, the federal HIPAA law expressly allowed for tax deductions for the purchase of long term care insurance.**

The passage of the Deficit Reduction Act of 2005 may boost interest in LTC. One of the primary provisions of this law was to tighten the rules that allow people to access state-financed Medicaid coverage for long term and nursing home care services. Medicaid is the largest payer for nursing home services. And, there has been a thriving industry that helped middle-class taxpayers divest themselves of assets to qualify for Medicaid payment for long term care. This new Act increases the federal period to look at asset transfers from three to five years in an attempt to stop them.

Another shelter has also been

restricted by the Act. Homes will continue to be exempted from asset calculations, but there will be a limit on the value of the home that will be allowed for the exemption.

These changes and a growing understanding that Medicare is not a source for long term care services will fuel employer and employee interest in LTC. In fact, a recent LIMRA survey found that more than one-third of employers with 500 or more employees are considering adding LTC to their benefit offerings. Almost one-quarter of employers with 100 or more employees are considering doing so.

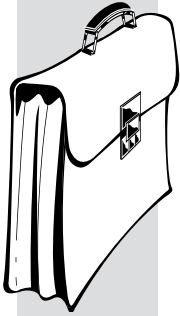
There are both tax benefits and other tangible and intangible benefits to group LTC. An intangible benefit – that is perhaps the most important – is the peace of mind that LTC provides. When the need for LTC services arises, the family enters a world that is largely unknown to them. Most people are uncomfortable with the idea of nursing homes.

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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.

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News Briefs



WELLNESS INCENTIVES: SMOKERS SURCHARGE GAINING POPULARITY

Employers know that smokers, couch potatoes and people with other unhealthy behaviors add to health costs. Some employers have believed that taking action to encourage healthy behavior was too intrusive in personal lives or didn't pay off.

But those attitudes are changing. More employers are considering surcharges for smokers on the health benefit cost – a common practice for individual health or life insurance policies.

There are federal and state laws that may restrict these programs, however. Employers should check with their labor attorney before instituting a plan. **Generally, such plans pass muster if they are incentives rather than penalties and they are based on program participation rather than results.**

GREATER GENERIC OPPORTUNITIES: “STEP THERAPY” HELPS MITIGATE COST

A number of brand name prescriptions are losing patent protection this year and over the next few years. This presents employers with an opportunity to revise their prescription drug programs to drive beneficiaries to greater use of generics.

Some employers are eliminating co-payments when generics are used. **Other employers are requiring that lower cost drugs be tried first before they will approve coverage for brand-name drugs. This strategy is known as “Step Therapy.”**

HORMONE THERAPY ALTERNATIVES

Employers who saw a drop-off in hormone therapy expenses as a result of questions about the safety of this approach may see a spike in use of anti-depressants. Doctors have found that anti-depressants help deal with the symptoms of menopause in many women.

SELF FUNDED PLANS: STOP LOSS PREMIUM HIKES MODERATE

Stop loss rate hikes for partially self funded health plans are being reported as “relatively stable” and competitive. Increases are ranging between 11 and 26%, on average. Aggregate stop loss rates are less volatile

than the premiums for individual stop loss.

Tillinghast's 2005 Stop Loss Survey reported that the average increase in 2005 for a \$50,000 individual stop loss was up 15% versus an increase of 14% in 2004.

NEW FOR 2006: AVOIDING ROTH 401(K) WITHDRAWAL TAX HIT

No tax is due on a Roth 401(k) distribution when withdrawals are taken out within five years of the contribution and rolled into a Roth IRA. Otherwise, taxes may be due on the portion of any payout that is allocated to earnings.

NATIONAL HEALTH CARE SPENDING PROJECTED TO BE 20% OF GDP

The National Health Statistics Group at the federal Centers for Medicare and Medicaid Services projects that health care will consume 20 percent of the gross domestic product by 2015.

Economists estimate that people pay only 11 cents out-of-pocket for every dollar of health care spending. This low cost results in greater use of services that are perceived as almost free. **HSA's and high deductible plans are intended to raise the out-of-pocket costs to the level where people become more aware of the health care dollars that they are spending.**

HEALTH SAVINGS ACCOUNTS GROWING AT RAPID PACE

Health Savings Accounts coupled with high deductible health plans are seeing rapid growth. **A survey by America's Health Insurance Plans reported that 3 million people were enrolled in such plans – an increase of 2 million over last year.**

Despite slow adoption at first, the greatest growth of HSAs has been employers with more than 50 employees.

Growth in the large employer segment was reported up by 320% since last year.

Small employers are also showing an interest in the plans. Growth was 250% in employers with fewer than 50 employees.

Many surveys indicate that as many as one-third of individuals purchasing these products were not previously

insured. Growth in the individual market was 53.8% over last year.

Dr. John Goodman, one of the original proponents of HSA plans, has said that he believes changes will be made to allow more flexibility in the underlying insurance plans. In a recent speech he stated that the Bush administration has made HSAs a cornerstone of their health insurance agenda.

COMPARISON OF ILLINOIS LAWS PERTAINING TO CONTINUATION OF HEALTH BENEFITS

	EMPLOYEE CONTINUATION	SHIRA	DEPENDENT CONTINUATION
APPLICABILITY	Applies to employer groups of any size. Applies to insurance companies and HMOs.	Applies to employer groups of any size. Applies to insurance companies. Effective Jan 1, 2004 – applies to HMOs.	Applies to employer groups of any size. Applies to insurance companies and HMOs.
WHO IS ELIGIBLE	Employees and covered dependents.	Divorced or widowed spouses (any age) and covered dependent children. Spouses (age 55 or older) of retired employees, and covered dependents.	Covered dependent children of deceased employee, who are not otherwise covered under the Spousal Continuation Law. Covered dependent children who attain the limiting age under the insurance policy or HMO certificate.
COVERAGE REQUIREMENTS	Employees must be covered for 3 continuous months before qualifying event.	Spouse and dependents must be covered on the day prior to the qualifying event.	Dependent child must be covered on the day prior to the qualifying event.
QUALIFYING EVENTS	Must be offered upon termination of employment unless termination is due to theft or commission of work-related felony. Must be offered to an employee whose insurance is terminated due to a reduction in hours worked. (Effective January 1, 2004).	Must be offered to divorced spouse or widowed spouse and dependent children upon divorce from or death of employee. Must be offered to spouse (age 55 or older) and dependent children upon employee's retirement.	Must be offered to dependent child after death of insured if coverage is not available under the Spousal Continuation Law. Must be offered to dependent child upon attainment of limiting age under the insurance policy or HMO certificate.
BENEFITS	Coverage must be the same as under the group plan but need not include dental, vision or prescription drugs.	Coverage must be the same as under the group plan.	Coverage must be the same as under the group plan.
LENGTH OF CONTINUATION COVERAGE	Coverage is provided for a maximum of 9 months.	Spouse under age 55 – Divorced or widowed spouse (not spouse of retiree) and dependent children – Coverage is provided for maximum of 2 years. Spouse age 55 or order – Divorced or widowed spouse of spouse of retiree and dependent children – coverage is provided until spouse is eligible for Medicare. Spouse under age 55 – Divorced or widowed spouse premium may now exceed the group rate. Spouse age 55 or older – Divorced or widowed spouse or spouse of retiree, administration fee may be added to group rate after first two years of coverage.	Coverage is provided for a maximum of 2 years.
PREMIUMS	Premiums may not exceed the group rate.		Premiums shall not exceed the amount that would be charged to an employee if the dependent child was an employee including the amount the employer would contribute.

This is a general comparison. For specific information regarding each continuation law, please refer to the specific Fact Sheets available at www.ins.state.il.us under the Consumer/Provider link.

Source: Illinois Department of Insurance (adapted)

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LONG TERM CARE COVERAGE

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And, nursing homes that accept Medicaid may be few or less desirable than others. LTC coverage means that a family has more alternatives from which to choose. **Without LTC coverage, family members may find that few facilities provide care for Medicaid-eligible individuals or they may be constrained to find an affordable facility.** Affordability can become even more critical when people also want a facility that is close to home. Nursing home care can exceed \$50,000 per year.

As important as increasing affordability is the flexibility that LTC provides. Most insurance plans work with the family to use home care where possible and as a preferred option. A home health aide can cost as much as \$1,000 per month. Without LTC coverage, home care may not be an affordable

alternative. Or it may be that family members will be those providing the care despite the fact that they are neither trained to do so nor financially or emotionally able to do so.

Employers considering LTC should expect the carrier or their broker to develop an overall enrollment strategy. This strategy should include employee communications to build awareness of the need for LTC and the costs associated with long term care.

Typically, one-on-one meetings with employees are conducted after group meetings. This provides an opportunity for employees to have their own questions answered in a more personal way.

A fact that all employers should consider: Forty percent of people who need long term care today are working adults under the age of 65 according to the Guide to Long-Term Care Insurance, published by America's Health Insurance Plans.