MID AMERICAN GROUP

The Leading Edge®

A quarterly Newsletter to our valued friends and clients…

Summer, 2006

Ask us about…

The Leading Edge®

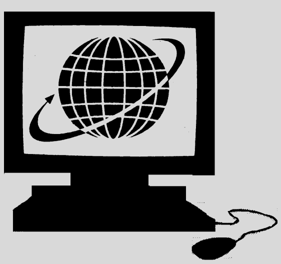
…a trend-setting employee benefits program from Mid American Group, including:

Administrative Services

- ⇨ **COBRA Administration**
- ⇨ **Flex Administration**
- ⇨ **5500 Form Preparation**
- ⇨ **Cafeteria Plan Administration**
- ⇨ **HIPAA Administration**

Employee Benefits

- ⇨ **EAP**
- ⇨ **Vision**
- ⇨ **Wellness Services**
- ⇨ **Internet Services**



Inside this issue:

Disease Management Plans: A Managed Health Tool Savings & HIPAA Consideration

Disease management (DM), the program that identifies people with chronic conditions and helps direct their care, is an undisputed asset to enhance quality of life. A well-designed DM program provides extra resources to help manage health care conditions such as diabetes, asthma and heart disease. Services often include enhanced educational programs, nutritional counseling and advice and medical decision-making support.

Recent studies suggest that employers may not be saving money with disease management, however. DM providers often factor in productivity savings, exclude outliers and extrapolate data to include hypothetical savings. One analysis that probed beneath the DM's savings report found that instead of saving money, the employer actually incurred costs.

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Dependent Care Tax Guidance Issued: FSA Accounts Affected

The Internal Revenue Service (IRS) issued proposed regulations regarding dependent care expenses for claiming the Dependent Care Tax Credit. This tax credit is distinct from the Section 129 Dependent Care Accounts. Dependent Care Accounts are pre-tax accounts that are often coupled with Section 125 Flexible Spending Accounts.

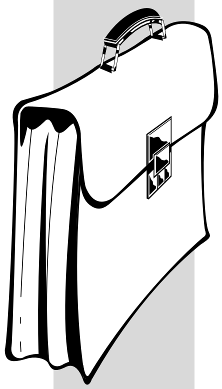
The rules issued on May 24, 2006 are considered to provide guidance for Section 129 accounts even though they relate specifically to the tax credit. The thinking is that eligible expenses under one section of IRS rules will be viewed the same if claimed under another section.

The proposed rules relate to areas that have been questionable. One such area involves the expenses for day camps. The proposal notes that a camp may be deductible even if it is a sports camp, for example. The critical issue is whether the dependent care expenses are employment related expenses – a requirement for both the Dependent Care Tax Credit and the Dependent Care Account.

Expenses that are indirect are also eligible. These might be application fees, agency fees or deposits that are necessary to obtain care. The rules note that if the deposit is forfeited because alternate care is acquired, then the deposit does not qualify for favorable tax treatment.

The proposed rules may be used immediately. However, employers should note that the rules may change based on comments made to the IRS.

News Briefs



Revised Post May 15 Medicare Part D Notice

The initial Model Creditable and Non-Creditable disclosure notice should no longer be used to notify employees and their beneficiaries regarding Medicare Part D coverage. Instead, employers should use the revised model notice. The notice is available on the CMS website at cms.hhs.gov/creditablecoverage.

401(k) Investment Reallocation

Employees should be encouraged to reallocate their 401(k) investments periodically to reflect their tolerance for risk. Some employers have developed lifestyle cycle investment options to take the guesswork out of the process. These options automatically adjust the portfolio to a more conservative one as an employee nears retirement.

Employee Benefit Contract Review Crucial: Stop Loss Insurance

Employers need to periodically review the contractual terms for eligible employees and termination of coverage. This review ensures that plans are covering only those people who meet the definitions for eligibility. Absent that, people who remain on a plan who don't qualify may be denied benefits. This could lead to an embarrassing situation, at best, and a lawsuit to pay for expected health or life benefits, at worst.

Another caution about providing benefits that are not detailed in the contract or Summary Plan Description is that stop-loss insurance contracts for self-funded plans are linked to the specific details contained in these documents. If an employer extends coverage to someone who is not eligible under the terms of the plan, the stop-loss carrier may deny any attempts to recover dollars under the stop-loss insurance.

Since stop-loss insurance covers large, high-cost claims, it is imperative that this coverage is established correctly. Employers should look to their insurer, administrator and broker/consultant to help ensure that the definitions and terms in the overall health benefits plan, the Summary Plan Description (SPD) and any stop-loss insurance are the same.

HIPAA Dictates Wellness Incentives

Employers considering wellness and disease management programs need to keep HIPAA in mind when designing their programs. **Simply described, HIPAA's nondiscrimination provisions prohibit an incentive that is tied to results. For example, an incentive to participate in a nutrition program geared to lowering cholesterol is fine. But, if the incentive is tied to successfully lowering cholesterol, then the program may violate HIPAA.**

While employers may think these prohibitions undermine the effectiveness of a program, they need to keep in mind that people respond in different ways. Some people can easily lose weight while others may do everything called for and lose far less. **Therefore, keeping the focus on the participation rather than the outcome makes sense.**

Disease management vendors and benefits attorneys should be consulted when designing a plan. This will ensure that programs meet federal requirements. Also, employers should review state law for further restrictions or considerations.

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Presidential Panel Suggests Tax Reform: Health Insurance Taxation May Change

The President's Advisory Panel on Federal Tax Reform has proposed sweeping changes to the tax code. The overall goal of the panel was to look at ways to simplify the tax code.

No taxes or tax breaks were spared from analysis. **A review of "major credits and deductions" included a proposal to revise the tax preference currently given to employer provided health insurance.** Currently, employer provided health insurance is not taxable to the employee and it is deductible as an expense for the business. The tax reform panel suggested capping the value of the health insurance that would be tax free. The current tax preference does not have a dollar limit.

The revised plan would provide all taxpayers the opportunity to purchase health insurance with pre-tax dollars – whether they received the coverage as an employee benefit or whether they purchased coverage on their own. **The pre-tax benefit would be limited to an estimated amount of $5,000 per year per individual and $11,500 per family.**

This change could have significant impact on employer provided plans. First, employers with very rich plans that would exceed the tax cap would likely cut benefits to meet the tax cap provisions. Also, should any part of the benefit become taxable, one would expect that employees would want more say in the benefits that would be provided – since they would be funding a portion of the cost, i.e., the amount subject to taxes.

A cap on tax free coverage that extends to individuals could also encourage employers to drop coverage altogether since there would no longer be a tax advantage to receiving the benefit through the employer. This would relieve employers from the administrative burdens of providing health insurance. But, it could also mean greater burdens for employees who would have to shop for and procure their own coverage. Furthermore, without an employer's assistance more employees might decide to forego coverage and use their money for other purposes. This could start a vicious cycle of costlier health care as fewer people insure their care and medical providers face more people who are unable to pay for their care.

Health savings plans and education savings plans would be replaced with "Save for Family" accounts. These accounts would cover education, medical, new home costs and retirement savings needs. They would have a $10,000 annual limit and be available to all taxpayers. A refundable "Saver's Credit" would be available to low income taxpayers.

Whether any of these proposals is enacted into law is uncertain. Any changes to the tax code bring out powerful interest groups who often resist any change. But, there appears to be consensus that the tax code has become too complicated and needs to be simplified.

Individual savings and retirement plans would also be revamped under the proposal. Defined contribution plans would be consolidated into "Save at Work" plans. These would have simplified rules using the current law 401(k) contribution limits.

Retirement savings plans would be replaced with "Save for Retirement" accounts. These accounts would have an annual limit of $10,000 and would be available to all taxpayers.

Disease Management Plans

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But, while it may be difficult to definitively state that a DM program saves money, that doesn't mean that a DM program is not worthwhile. **These programs often help the sickest of patients to use health care more effectively and receive the appropriate level of care.**

DM providers are aware of the concern about reported savings. They have initiated studies to develop appropriate measurements of the value of DM programs.

Employers should also review the extent to which their DM program and DM provider must comply with the federal HIPAA privacy and electronic information requirements. If the DM program is structured as a health plan, then the full array of HIPAA administrative obligations is triggered. This would mean the HIPAA privacy rules and the requirements of electronic transactions in HIPAA EDI format.

A review of any business associate agreements is a first step to gauge HIPAA compliance. Employers should also consider whether any information they obtain from the DM vendor is necessary or can be eliminated. Any ongoing information should also be kept separate and distinct from employment-related data and activities.

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HSAs: Changing Health Care Focus

Health Savings Accounts (HSAs) and High Deductible Health Plans (HDHPs) are gaining acceptance at a quicker pace than many assumed. The fact that consumers have an economic interest in making wise health care decisions is a cornerstone of this consumer-directed approach to health care.

Critics of the current system note that people receiving care have little incentive to question whether care is effective or efficient. For the most part, economists project that the consumer currently pays only about 11 cents out-of-pocket for every dollar of health care that they receive. Therefore, they will receive care until it is no longer worth 11 cents on the dollar.

Consumer-directed care is designed to counter this trend. Consumers are expected to become more engaged in spending decisions because they have dollars at risk due to the high deductible. They also have dollars in their HSA account that they can save for the future when a serious medical condition may require greater expenditures.

The information component of this new paradigm is lacking, however. Consumers need to have access to prices if they are expected to compare prices of services. Government entities, medical providers and insurers are still grappling with providing meaningful information.

Also, information on dollars available in the HSA accounts is a must. Some insurers are developing their own banks to serve as the savings vehicles for these accounts. Other insurers are developing partnerships with banks. These approaches are expected to replace the idea of the health insurance plan and the savings account as entirely separate – almost unrelated – components.

Insurers recognize that consumers will think of the two pieces of consumer-directed plans as their *one* health plan. The HSA account is part of the funding component of the insurance plan. Unless the bank is connected in some way to the insurer, the ability to respond to consumer questions regarding the amount and availability of funds is difficult to navigate. Banks are ill equipped to answer insurance related questions such as if a procedure qualifies under the health plan and how much the patient will have to pay.

HSAs are expected to continue to gain ground with employers and employees. Federal employees will be seeing more HSA options in 2007, reflecting the growing popularity of the plans.

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