MID AMERICAN GROUP

The Leading Edge©

A quarterly Newsletter to our valued friends and clients... **Summer, 2007**

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
  - FMLA Administration
  - Performance & Financial Guarantees
- Employee Benefits
  - EAP
  - Vision
  - Wellness Services
  - Internet Services

Inside this issue:

Disability Risk Rising Study Finds

A Council for Disability Awareness study found that the risk of disability is increasing, with the number of disabled workers rising by 35 percent since 2000. Key findings of the study show that Americans are ill-prepared for this risk:

- Nine out of 10 workers underestimate their chances of becoming disabled.
- Sixty-four percent (64%) of those responding who had 401(k) or Roth IRA plans had not considered the effect on their retirement savings if they become disabled and are unable to earn an income.
- Twenty-six percent falsely believed that they could rely on Social Security or workers' compensation if they were disabled for six months or longer. Less than one-half of those who applied for Social Security Disability coverage in 2005 were approved.
- **More than one half of all personal bankruptcies and mortgage foreclosures are due to medical expenses and disability.**

Employers can serve a critical role in helping employees understand and plan for disability. Short and long-term disability plans provided through an employee benefit plan are generally underwritten on a more favorable basis than individual coverage.

Spring Brings Dependent Changes

Employers should circle June on their calendars. Many dependents lose full-time student status when they graduate from college. It's wise to review dependent eligibility provisions in benefit contracts and notify employees of the requirements.

June is also a big wedding month presenting an opportunity to remind newlyweds of enrollment requirements as a part of their wedding planning. Employers may want to require a copy of the wedding license as a means of ensuring that only legitimate persons are added to the benefits plans.

News Briefs

Wellness Plans Require Management Commitment

Intuitively everyone understands that healthier employees are more productive and contribute fewer costs to a health plan. But, this "fact" requires a long term view that may not fit in with the corporate viewpoint.

Employers implementing a wellness plan may see some costs rise as the plan is rolled out. There are new administrative expenses, communications expenses and costs associated with false positives. **It helps to keep in mind that finding a case of high-blood pressure or early cancer may offset the costs of the plan.**

Employees also must be encouraged to buy into the wellness concept. Many employees fear that employers want to use wellness plans to screen out employees. As such, they may be reluctant to enroll in the plan's offerings. Many wellness plans see significant employee participation increase after the "braver" employees have participated and had good experiences.

Employees are often most concerned about confidentiality of responses on health risk appraisals and other tests. Wellness vendors must underscore the steps they take to maintain patient confidentiality.

A number of employers have had success with wellness plans by injecting fun into the process. This can include creating teams and competitions among them. Prizes – small and large – can be used to reward employees for participating in wellness events. And, if all else fails, food can be an effective tool. Employers often provide a healthy lunch delivered with a health awareness presentation for participating employees.

Medco the Largest PBM

Medco Health Solutions, Inc. was ranked the largest prescription benefit manager (PBM) by Business Insurance. The ranking was based on 2006 revenues. Medco also ranked first in the number of prescriptions filled in 2006.

IRS 2008 HSA Limits Announced

HDHP or HSA Variable:	2008
Self-only coverage min. deductible	$1,100
Self-only coverage max. out-of-pocket	$5,600
Self-only coverage max. HSA contribution	$2,900
Family coverage min. deductible	$2,200
Family coverage max. out-of-pocket	$11,200
Family coverage max. HSA contribution	$5,800

Review of 401(k) Plans Encouraged

Employers should conduct regular reviews of their 401(k) plans to ensure that they are being administered according to plan documents and Internal Revenue Service (IRS) regulations.

In fact, the IRS encourages employers to correct errors. The Employee Plans Compliance Resolution System Program allows employers to correct insignificant matching contribution errors at any time. Significant errors can be corrected until the end of the second plan year after the error occurred. This program allows employers to take corrective action before an IRS audit.

Errors in matching contributions are more common than many would believe. If matching contributions are made on a payroll-by-payroll basis they could yield different results than contributions made on a shorter term. For example, an employee may request the maximum contribution on a bonus. This could result in the loss of matching employer contributions if the one time employee contribution exceeded a maximum established in the plan of benefits.

Many employers make up contributions at the end of the year to allow for small differences. While this is a common practice, an employer must ensure that their plan contemplates this practice. An individual determination letter from the IRS may be necessary to keep the plan in compliance.

Other factors to review include:

- Employee eligibility
- Hours of service for eligibility
- Vesting
- Disclosure
- Accuracy of plan documents.

Illinois Continuation and COBRA

Illinois has three laws that provide for continuation of coverage – much like the federal COBRA law. Firms that may not be subject to COBRA may be subject to Illinois' laws. And, firms that are subject to COBRA may also be subject to Illinois' laws. **Firms that provide insured health plans written in the State of Illinois have to comply with both COBRA and Illinois' continuation laws.**

Insured benefit plans that are "issued and delivered in the state of Illinois" are subject to Illinois' continuation laws. The size of the employer is not a factor in determining if Illinois' laws apply. Therefore, an employer providing a health insurance plan may have to comply with both Illinois' continuation laws and COBRA.

Illinois' continuation laws are:

- Illinois Continuation Law
- Illinois Spousal Continuation Law
- Illinois' Dependent Continuation Law.

Information on Illinois' continuation laws is available on the Division of Insurance website at www.ins.state.il.us.

IRS Clarifies Roth 401(k) Issues

Roth 401(k) Plans have been available as an employee benefit option since the 2001 change in federal tax law that authorized them. But, employers and employees have been slow to adopt these plans. One of the features of Roth Plans hampering their growth is that contributions to these plans are after tax. Contributions to other retirement plans are made before taxes. But, distributions from a Roth Plan are not subject to taxes while other retirement distributions are subject to tax.

Recently released rules are expected to reduce obstacles that employers feared in adopting Roth Plans. Key among these is that businesses can consider the balances separately of terminating employees Roth 401(k)s and traditional 401(k)s. Federal law requires that employers transfer funds to an individual retirement account if a pension or savings distribution is between $1,000 and $5,000 and the employee hasn't directed the employer what to do with the money. Therefore, an employee with funds in both accounts will not have the balances of the accounts added together to determine if the employer has to rollover the monies or issue a distribution check.

There was also confusion regarding whether catch up contributions could be made to Roth Plans. Federal law allows employees age 50 and older to contribute an extra $5,000 to their retirement plans as "catch up" contributions. The new rules maintain the overall $5,000 limit but acknowledge that all or a portion of the amount can be used in Roth Plans.

There is also added guidance on when a "qualified distribution" is given tax-free treatment of earnings from a Roth Plan. These requirements are complex and should be carefully considered and communicated to employees.

Creativity with Dental Plans Yields Results

Dental plans are often taken for granted. The overall costs, compared to health plans, are significantly lower and employees rank dental as a highly valued benefit. Creative thinking can increase the value of dental coverage and reduce the cost.

The growing popularity of consumer-directed health plans with higher deductibles is one strategy that is also being considered for dental plans. The theory is that engaging consumers in costs upfront will encourage them to "shop" more carefully.

A review of employee demographics can also fine tune a dental plan. If employees are younger and single, plans can emphasize preventive and routine care with lower annual maximums. On the other hand, an employer with a lot of families would find that employees may be willing to help fund a plan that covers braces.

Direct reimbursement plans are another option that employers with stable employment may find worthwhile. Direct reimbursement plans allow employers to self-fund dental care. Depending on the plan design, employers may want to hire a third-party administrator to pay claims.

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Dental and Medical Coverages Can Work in Tandem

More employers and insurers are recognizing that dental conditions can add to health plan costs. There is growing evidence that dental problems can negatively impact pregnant mothers and their unborn children. Other evidence suggests a link between dental problems and diabetes and heart diseases. As such, more medical plans are providing dental-type benefits under the health plan.

This growing integration of dental and medical plans aims to lower overall medical costs. One study found that identifying high risk individuals and providing additional preventive dental care can reduce the severity or risk of medical conditions – leading to lower costs.

While this is a new and growing concept, employers can take immediate steps to take advantage of this new medical evidence. Employers should encourage employees and their families to obtain regular dental care. **Employers that do not offer dental plans can encourage employees to use Flexible Spending Account dollars to pay for dental care. By increasing the oral health of employees and their dependents, employers may experience both reduced health costs and increased productivity.**

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