



MID AMERICAN GROUP

"The Leading Edge"

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

Spring, 2005

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



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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.

PHARMACY MANAGERS THE RX FOR THE DRUG COST SPIRAL

Ever since the US Food and Drug Administration changed its rules in 1997 to allow drug manufacturers to use broadcast advertising of their products it seems that broadcast and print ads have dominated advertising! One industry estimate was that drug manufacturers spent more than \$3 billion in direct-to-consumer advertising in the year 2002 alone.

Marketing works! A November 2001 report by the National Institute of Health Care Management reported that sales for the 50 most heavily advertised drugs rose by 32% between 1999 and 2000. There is no reason to believe that this trend has done anything but increase.

Employers have been on the front lines of this marketing blitz. Employers have seen their benefits expenses for prescription drugs skyrocket. **According to a Segal survey, medical trend has been increasing at a 14% to 15% annual pace and prescription drug trends have been increasing at an annual rate of 18%.**

Some of the increase in drug spending is to be celebrated. Not only are prescription drugs available for a wider and wider

array of medical problems, the increased use of prescription drugs is credited with reductions in spending for hospital services. **Drugs are keeping people from entering the hospital or allowing them to leave the hospital sooner.**

Employers have taken a variety of steps to slow down the rise in drug costs. **Plan designs have been changed to place greater emphasis on generic drugs by reducing copayments or coinsurance rates for generics.** Multi-tiered programs with coinsurance (geared to whether a drug is a brand name or new drug) have also helped slow down drug cost growth.

The most effective approaches have been multi-faceted ones combining benefit redesign with the use of a Pharmacy Benefit Manager or PBM. PBMs represent an intermediary between the drug manufacturers and the employer.

PBMs negotiate with drug manufacturers for discounts and reduce dispensing costs by relying on automation and volume to further reduce costs.

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News Briefs

OTHER TAXES ON SICK PAY AND DISABILITY

Sick pay due to an employee's absence as a result of sickness, disability or injury is subject to taxation. Sick pay includes amounts paid by an employer, as well as amounts paid through short term disability or long term disability programs.

Sick pay is subject to both Social Security and Medicare taxes. There is a limit of six (6) full calendar months following the employee's date of disability for withholding of taxes on this income.

If premiums for a disability plan have been paid with post-tax dollars, then the benefits are not subject to tax. It is also possible that a portion of premiums have been paid with pre-tax dollars. In this event, taxable benefits would be based on a proportional amount.

HIPAA MODEL NOTICES REVISED

New HIPAA model notices are required for plan years beginning on or after July 1, 2005. The revised model notice provides more educational information than the prior notice. Chief among the educational information is a statement informing employees of their rights under HIPAA.

The new notice provides examples of creditable coverage and explains, in detail, the pre-existing condition exclusion time period and how it can be offset by creditable coverage. The new notice was included with the final regulations issued in December 2004.

TAX BREAKS FOR LONG TERM CARE PREMIUMS

One of the provisions of HIPAA that is often overlooked is the provision that allows for a tax deduction for individual long term care (LTC) insurance. Individuals can include as deductible medical expenses eligible LTC premiums or un-reimbursed expenses for LTC services, subject to expenses exceeding 7.5% of adjusted gross income.

The amount of eligible LTC premiums is based on an individual's age. The amounts are adjusted annually based on the medical care component of the Consumer Price Index (CPI).

ROTH 401(K) PLANS

Employers are expected to embrace the new Roth 401(k) plans that will be available as of January 1, 2006.

Contributions to Roth 401(k) plans are made with after-tax dollars – the opposite of traditional 401(k) plans. But, distributions from Roth 401(k) plans are tax free.

Most employers are expected to offer employees the option to invest in either the traditional 401(k) plan or the Roth alternative.

EMPLOYER RX SUBSIDY: IMPORTANT MEDICARE DRUG PLAN INFORMATION

Medicare Part D, the new prescription drug component, will be effective in 2006. **One provision of the Medicare drug law is a subsidy for employers that offer retiree drug benefits that meet or exceed the value of Medicare Part D. Firms are eligible for a 28% subsidy if they provide drug coverage to retirees age 65 and over. The subsidy is estimated at \$1,300 per retiree.**

Employers must take steps to prove that their plans are as good as Medicare Part D. **Most importantly, employers that plan on filing for the subsidy must make sure that their retirees do not sign up for the Medicare Part D coverage.**

The US Centers for Medicaid & Medicare Services will be sending out notices to Medicare beneficiaries explaining the new drug benefit. These notices may be sent as early as this spring.

Employers must conduct an actuarial evaluation of their prescription drug benefit to determine if it is as good as Medicare D. **The deadline for filing an actuarial attestation to receive the subsidy for 2006 is September 30, 2005.**

DEBIT CARDS POPULAR HSA OPTION

The use of debit cards for Section 125 flexible spending accounts has become more common over the last year. Employers have reduced administrative complexity with the debit cards and employees have the convenience of not having to file for reimbursement.

The convenience and ease of debit cards is gaining favor with the new HSA accounts too. HSAs are savings accounts where the funds can be used for medical

expenses. The HSAs are coupled with high deductible health plans.

One critical difference when using debit cards with HSAs is when the debit card should be presented. For services at a doctor's office or medical facility, the debit card should only be presented after the health plan has applied any negotiated discounts, if the health plan that is used with the HSA is a preferred provider plan. Using the card

immediately upon visiting the doctor, for example, could result in overpaying for the doctor visit. Any attempts to return the overpayment to the HSA account linked to the debit card could cause confusion regarding the total amount contributed to the HSA in a given year. Since there is a maximum contribution based on the health plan's deductible, employers should make sure that employees using a debit card have sufficient guidance on how the plan's provisions interact with the HSA account.

FORM 5500 FILING FACTS & TIPS

ERISA requires the administrator of an employee benefit plan to submit an annual report – Form 5500. The Secretary of Labor may assess a civil penalty of up to \$1,100 a day from the date of a plan administrator's failure or refusal to file the annual report. Here are some facts and tips to help plans comply with this annual obligation.

- IRS requirement for welfare benefit plans.
- Informational return only, not a tax return.
- Any organization that offers a welfare benefit (medical, dental, etc.) and has more than 100 enrollees on the plan anniversary date is required to file a Form 5500.
- Form 5500 filings are due seven months after the end of the plan year.
- All welfare benefit plans are assigned a three-digit plan number which begins in the 500 series (ex. Plan 501, 502).
- Plans can be numbered separately or combined. Less cost and effort if they are combined.
- Schedule A information (detailing premiums paid to vendors and commissions paid to MAG) that MAG received from vendors is attached to the Form 5500 returns.
- Schedule C information sometimes provided by TPA on self-funded plans.
- If prior years are needed to be completed, penalties may be assessed by the IRS for late filing.
- FSA – not required to file because it is considered a fringe benefit and not a welfare benefit.
- EAP – gray area with the IRS, would have to be reviewed to determine whether the EAP is providing medical assistance.
- Not-for-profit entities are required to file.

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PBMs have become increasingly sophisticated, especially as employers asked more questions and demanded more accountability for drug spending. **The best PBMs are now seen as true partners with their employer clients. As a partner, these PBMs are employing a "transparent pricing" model that substantiates fees and discloses rate negotiations with the goal to achieve the lowest net cost for the employer.**

Apart from negotiating costs and reducing distribution expenses, PBMs have a very important educational role. This role ranges from promoting the use of generics to both employees/patients and physicians to using their extensive

medical knowledge to avoid unnecessary and costly drug switching. Drug switching – especially to newer name brand drugs – can inflate drug costs significantly without any increased clinical benefit to the patient.

Employers should ask prospective PBMs what steps they will use to control utilization and encourage the use of generics. They should also demand a thorough explanation of the relationship between the PBM and the drug manufacturers. Furthermore, employers need to have a thorough understanding of the relationship of the PBM's pricing as it relates to rising ingredient costs. Employers want to minimize the PBM's increase in revenues as ingredient costs increase.