



MID AMERICAN GROUP

"The Leading Edge"

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

Fall, 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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LOWEST HEALTH CARE INCREASES SINCE 1999: HEWITT CONSULTANTS REPORT

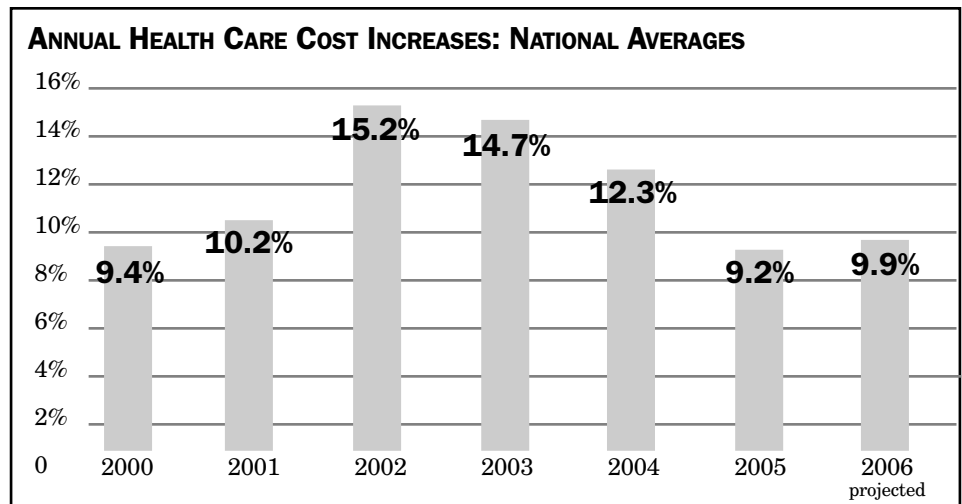
A survey conducted by employee benefits consultant, Hewitt, found that for the year 2005 employers had the lowest increase in health costs since 1999. **The average cost increase for 2005 was 9.2% versus 12.3% in 2004. The projected cost increase for 2006 is 9.9%.**

Hewitt's report is based on Hewitt's cost and performance database of more than 2,000 health plans in the United States. This data includes 400 major employers and more than 18 million health plan participants.

While this appears to be good news for employers, the fact remains that health cost increases continue to outstrip inflation and wage growth.

The Hewitt study noted that the expected base salary increase for salaried exempt employees for 2006 is 3.6%. An employee with a salary of \$40,000 would see a pay increase of \$1,440. As much as 23% of the pay increase would be needed to offset the increase in health care costs for 2006.

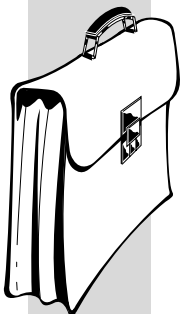
A number of factors were cited as reasons for the slowing increase in health costs. **One of the most promising factors is the growth of consumer-directed health plans.** Employers with significant enrollment in consumer-directed health plans are experiencing rate increases below the national trend.



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



MEDICARE PART D ENROLLMENT LOOMING

Medicare Part D plans were able to begin marketing to Medicare beneficiaries as of October 1, 2005. **Enrollment in the plans will begin on November 15, 2005 with coverage taking effect on January 1, 2006.**

In many regions of the country Medicare beneficiaries will be able to select among a dozen or more plans. Each plan may have a different premium, different design and different formulary. This multitude of plan choices may make the Medicare Part D plan so confusing that seniors choose to wait rather than enroll. The number of choices argues for a greater role for family members and company-sponsored educational efforts to explain how a plan might benefit a particular senior.

The government is taking a role in educating the consumer. Government efforts will focus on getting seniors to consult the government's internet site (www.medicare.gov) to facilitate a comparison among plans.

ILLINOIS' GOVERNOR PUSHES "ALL KIDS" PLAN

Illinois' Governor, Rod Blagoevich, won approval for a new state-subsidized program to provide health insurance coverage for children. **The plan named "All Kids" will provide coverage with premiums based on a sliding scale according to the parents' income.**

The Governor expects to fund most of the cost of the plan through a revised Medicaid program. The plan is expected to cost \$45 million dollars in the first year. If implemented, the plan could cover as many as 253,000 children.

MORE TRANSPARENCY DEMANDED OF DRUG PLANS

A number of large employers have formed a coalition to demand more transparency from pharmacy benefit managers (PBMs). **The employers want more information regarding the acquisition costs for retail and mail-order prescriptions. They also want greater disclosure of any rebates that PBMs receive from drug manufacturers.**

Other employers are eschewing such details and pursuing a different approach to drug purchasing. They are negotiating contracts where PBMs charge an administration fee. The PBMs would then compete for employer customers based on fees and the scope of their clinical management services.

AUTOMATIC ENROLLMENT BOOSTS 401(K) SAVINGS

A recent study showed that automatic enrollment for

employee 401(k) retirement plans has a significant impact on participation among lower-income employees. **The study conducted by the Employee Benefit Research Institute found that participation rates increased from 66% of eligible workers to 92% when an automatic enrollment feature was used.** The largest impact was seen in the lowest income employees who otherwise are least likely to participate in a retirement savings plan.

LOWEST HEALTH CARE INCREASES SINCE 1999

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In some cases the report notes that employers are experiencing rate decreases.

Another factor is the efforts that some employers are making to encourage healthy lifestyles by their employees. Health promotion programs and risk management efforts are seen as having a positive effect on long term health costs. This is especially valuable with employees who have chronic illnesses.

Hewitt also expects that employers will continue to revise their prescription drug plans since these continue to be such a significant factor in rising health costs. Employers are expected to increase copayments while offering ever more generous generic drug programs.

A Kaiser Family Foundation study of 2,995 employers achieved similar results as the Hewitt study. It found that health insurance premiums increased 9.2% in 2005.

MEDICARE PART D NOTICE DEADLINE NOVEMBER 15, 2005

Employers must provide a Notice of Creditable Coverage to all Medicare eligible participants by November 15, 2005. This notice is intended to assist an employer's Medicare eligible beneficiaries in determining if they need to consider enrolling in one of the Medicare Part D options available for seniors.

Employers should provide the Notice of Creditable Coverage to all employees regardless of age or Medicare status. This method will ensure that no spouses or dependents who may be Medicare eligible are overlooked. The notice is intended

to let beneficiaries determine if they will have creditable coverage that will allow them to refrain from enrolling in the Medicare Part D program. **Part D is voluntary but late enrollees will face a penalty of as much as 1% per month.**

Creditable coverage must have an actuarial value that meets or exceeds the actuarial value of the coverage available under Part D. Some carriers have provided guidance to their clients regarding which of their plans, if any, meet the standard of creditable coverage.

The federal government has also provided guidance including a safe harbor test that employers can use.

SAFE HARBOR CRITERIA GUIDANCE

A plan must meet all four of the following criteria to qualify as creditable coverage under the safe harbor provision:

1. Provides coverage for brand and generic prescriptions
2. Provides reasonable access to retail providers and, optionally, for mail order coverage
3. Is designed to pay on average at least 60% of participants' prescription drug expenses; and
4. Satisfies the following:
 - a. For employers that have a stand-alone prescription plan, the prescription drug coverage must:
 - i. Have no annual benefit maximum or a maximum annual benefit payable by the plan of at least \$25,000; or
 - ii. Have an actuarial expectation that the amount payable by the plan will be at least \$2,000 per Medicare eligible individual in 2006.
 - b. For employers that have integrated health coverage, the integrated health plan has no more than a \$250 deductible per year, has no annual benefit maximum or a maximum annual benefit payable by the plan of at least \$25,000 and has no less than a \$1,000,000 lifetime combined benefit maximum.

If an employer is unsure whether their plan qualifies as creditable coverage, an actuarial analysis may be required.

VOLUNTARY DENTAL PLANS

Some employers are unwilling to provide additional employee benefits because of the concern that they may be financially too costly over time. But, employers also know that employee benefits are important in attracting and retaining quality employees.

In order to provide more benefits, employers are turning toward voluntary products. A voluntary plan through an employer typically offers simplified enrollment and the convenience of payroll deduction. Also, depending on the carrier's rules and the level of participation in the plan, underwriting rules may be more relaxed than the individual market.

An additional feature available for voluntary, employer-based plans is the ability to pay the premium for the plan with pre-tax dollars through a Section 125 flexible spending account.

Voluntary dental plans that are currently available allow employees to select a plan that most closely meets their needs. Typical plans include a range of deductible options and choices regarding the scope of services covered by the plan.

IRS 2006 HSA LIMITS

- HSA Maximum Contribution:
\$2,700 \$5,450
- Catch Up Contribution \$700
- High Deductible Health Plan Deductible:

Individual	Family
\$1,050	\$2,100
- Maximum Out-of-Pocket:

\$5,250	\$10,500
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WORK-LIFE ASSISTANCE PLANS HOLD FIRM

A study by the Families and Work Life Institute found that most employers were maintaining the plans they provide that help employees manage work and personal life. These types of benefits are typically Employee Assistance Plans (EAPs), elder care or dependent assistance plans or extended leaves due to the birth of a child.

Additionally, flexibility in the workday was also found. A 1998 study found that 24% of employers allowed employees to change their starting and quitting times on a daily basis. A 2005 study found that 31% of employers now allow this flexibility.



IRS BARS WELLNESS INCENTIVES IN HSA PLANS

The IRS provided recent guidance on Health Savings Account (HSA) plans. **Of particular note, employers cannot condition employer contributions to an HSA based on health promotion programs.** If an employer required participation in wellness or disease management programs for an HSA contribution, the plan would not provide comparable benefits to all employees participating in the employer's plan.

Employers may still wish to offer wellness programs. **But, if they want to incorporate incentives, they should seek advice from both a benefit consultant and an attorney to ensure that the plan is in compliance with all laws and regulations.**