

Risk Monitor



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Health Savings Accounts Can Build Retirement Wealth

When preparing retirement funds to sufficiently carry an employee through their retirement years, it's crucial for the employee to think about all the ways that they can potentially maximize their workplace benefits. A great example can be found by looking at how a health savings account or HSA could also function as a retirement account. In certain instances, such as with employees that aren't made to spend down HSA contributions each year, HSA's can function in just such a manner.



Let's say that there's a 40-year-old worker that's very concerned that he isn't saving enough to last him through his retirement years. He seeks the guidance of a professional financial advisor to address his concerns. The advisor runs a retirement projection based on the worker's 401 (k) contributions. Unfortunately, the worker discovers that he needs to save around five percent more than his current six percent salary deferral in order for him to have his retirement where it should be.

At this point, the advisor and the worker start to talk about where the extra retirement funds

could possibly come from. One option would be to increase his 401 (k) contribution. However, the worker brings up how he's maxing out his contributions to his HSA, around \$3,000 dollars per year. He goes on to say that he's considering lowering his deferral during the next open enrollment period. And, here is where the worker discovers that he can build retirement funds with his HSA. Since his deductible is only \$1,800, the excess funds can be counted toward his needed retirement savings.

Of course, the above is just one scenario of using an HSA. There's actually several reasons why it could be beneficial for an employee to use a large HSA balance as part of their retirement.

- Most people naturally have more medical expenses with age. A study by Fidelity may add a little perspective, as it estimates that around \$250,000 in non-Medicaid covered health expenses will occur during the retirement years of a typical 65-year-old retired couple. Wouldn't it be nice if these expenses could be paid for tax-free? Well, they can be with an HSA. HSA funds can be used without taxation for various qualified medical expenses—from long-term care insurance premiums to remodeling a home to accommodate a wheelchair or other assistive living device.
- For individuals that are fortunate enough not to have high medical expenses throughout their years at work, an HSA can provide some financial flexibility. Although funds are subject to taxation when not used for medical-related purposes, those at least 65-year-old can withdraw the funds for any reason they see fit.

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Welcome to The Chadler Group's Newsletter!

It is with great satisfaction that we bring our newsletter to you. In this issue and the coming quarterly newsletters, we will continue to discuss pertinent insurance topics which affect your business and personal insurance needs. **This newsletter will deal with Health Insurance.** We hope you find this information both informative and useful in your overall risk management practices.

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2011 Health Plan Cost Trend Projected to Outpace Inflation Again

According to the 2011 Segal Health Plan Cost Trend Survey, prescription drug cost and medical cost trends are yet again expected to denote a considerable increase over core inflation. “Trend” is a forecast of per capita claims cost that takes factors such as price, utilization, new treatments, government-mandated benefits, and inflation into account. Segal’s survey used insurance carriers, pharmacy benefit managers, third party administrators, and managed care organizations to project a year to year change in the per capita cost of health plans—cost trend.

This is the 14th annual Health Plan Cost Trend Survey by The Segal Company, an independent firm of compensation, benefit, and human resource consultants. According to the Segal survey data, all types of 2011 medical plans will experience cost trends eight times greater than the CPI (consumer price index) for urban consumers, which was 1.1% during a 12-month period ending in August of 2010.

2008 was the bottom of several years of declining trends, with 2009 marking the return of an upward cost trend rate direction. One new component of the health plan cost trend is compliance with The Affordable Care Act. The Segal survey found that over 75% of the participants said that health care reform would increase the overall health plan cost trend by over 1%.

More Key Findings of the Segal Health Plan Cost Trend Survey

- Cost trend rates for HDHP’s (high-deductible plans) and indemnity plans, when compared to 2010 data, are forecasted to grow slower in 2011.
- The biggest element of the overall plan cost trend is price inflation for supplies and services, with in-patient stays in a hospital being of greatest note.
- Compared to 2010, the trend rates for point of service plans

and preferred-provider organizations in 2011 will be somewhat higher.

- Over the last three years, trend projections for prescription drugs have consistently been below 10%.

Cost Control

The Segal survey also addressed how plan sponsors plan to mitigate the increase with cost-management steps and strategies:

- Use of designs that drive lower net prescription drug costs by generating greater generic drug usage, waste elimination, and taking advantage of step therapy programs.
- Reasonable cost payment increases by spotlighting aggressive network hospital dialogue.
- Reduce emergency room visits; reduce excessive use of MRI and CT scans; and better use of low-intensity health care providers, such as a nurse practitioner or primary care provider, by putting smarter design rules into practice.
- Move away from contracts that are fee-for-service by investment in controlled wellness and preventive services and on-site clinics.
- Create meaningful incentives and needed support services, to assist participants in engaging in healthy behaviors and improve overall health status, and determine key cost drivers by mining medical data.

According to Segal, comparing the actual increases to past projections on health plan cost is indicative of pharmacy benefit managers and insurers tending to make conservative projections, as forecasts have previously tended to be higher than what was actually experienced. However, past projections also show that forecasters are growing more accurate in health plan cost projection.

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- A Roth 401 (k) has tax-free withdrawing, but is funded with post-tax dollars. A traditional pretax 401 (k) features tax breaks only up until retirement. The benefits of an HSA are unique in that funds contributed to it are in the form of pretax dollars and remain tax-free on withdrawal for medical purposes.

The Growing Nest Egg

Financial institutions that manage HSA accounts typically allow investment of HSA funds (in excess of an employee’s annual deductible) into mutual funds. In other words, if the

HSA has an annual deductible of \$2,000 and the employee contributes \$3,000 dollars to the HSA, then the employee could invest the annual unused \$1,000. After thirty years at 7% annual interest, the employee would have grown a retirement nest egg of about \$100,000.

Imagine how elated the worker in the above scenario might be to find out that his employer had not only given him the flexibility of using his HSA for his current and future medical expenses, but also a means to supplement or pad his retirement nest egg.

Lowering Health Care Costs Through Smart Healthcare Decisions



The annual insurance renewal process is a difficult time for employees and employers alike, especially when faced with the rising cost of health care. Employers do their best to make the plans they offer affordable, and employees are often unhappy with the amount they must pay to receive coverage for their families.

If employers take a proactive approach towards addressing health care costs with their employees, the financial burden of carrying benefits can be softened. By introducing employees to money saving strategies that can reduce the overall cost of health care for the company, rising premium costs can be stopped in their tracks.

Cost Effective Strategies for Purchasing Prescription Medication

Here are a few suggestions that can help employees and employers save on health care costs.

1. When prescribed a new medication at the doctor's office, ask for a sample before filling a full prescription. Pharmaceutical representatives leave samples of many medications with physicians, and this is a cost effective way to see if the medication is beneficial or not. For instance, many patients must try different anti-depressant medications before finding the right one. Instead of having the insurance company pay upwards of \$125 for each prescription, patients can try different medication samples until the best results are achieved.
2. Many patients who experience pain and inflammation are prescribed NSAID, or non-steroidal anti-inflammatory, medications. The family of NSAID medications ranges greatly in strength and most drugs are available in brand-name

and generic form. Patients should experiment with generic NSAID medications to see if they receive the same results as from their brand-name counterparts. Choosing to go with a generic medication will save the employee money in co-pay costs and save the employer money in overall costs.

3. Doctors generally become familiar with a certain medication and prescribe it over and over again, and at times they must be asked by patients to use an alternative medication on their provider's formulary. When a patient opts to go with a formulary medication instead of a similar non-preferred one, the savings gets passed on to both the employee and the employer.
4. Employees should be reminded to follow the directions of their doctors carefully when taking prescribed medications. Skipping doses of required medications to extend the time between renewals will not save you or your insurance plan any money in the long run. Missing doses or not following the warnings of your doctor can lead to illnesses and hospital stays, which are emotionally draining on your family and financially draining, as well.

Passing Down the Saving to Employees

All of this advice makes sense and is sure to reduce the overall health care costs companies face, but without seeing a difference in the amount employees pay in premiums, workers may not see the incentive of making everyday choices to reduce the cost of health care. Employers must live up to their promise of lowering health care premiums when employees work towards lowering overall expenses, otherwise they will not see why it is worth the effort.

All examples in this article are for purposes of illustration and should not be construed as medical advice. Prices are estimates based on current retail market value.

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by the new regulations. These vaccines include Hepatitis A and B, MMR, Meningococcal, Tetanus, flu shots, and others.

Care for Children

All new plans will now cover the preventive services recommended by the American Academy of Pediatrics in their "Bright Futures" guidelines. Services include access to pediatricians until the age of 21, regular wellness checkups, hearing and vision screenings, developmental assessments, vaccines, and care that addresses childhood obesity.

Women's Care

Health screenings for anemia and other risk factors in pregnant women are covered, along with screenings for breast

cancer and osteoporosis in older women, as well as other preventive measures. An independent council of doctors and medical experts are currently working on new preventive care guidelines for women.

Prescription contraceptives are not currently listed as a covered preventive service, but officials from the Planned Parenthood Federation of America hope that contraceptives will begin to receive first-dollar coverage within the next year or two.

Information on all of the covered services can be found on the government's www.healthcare.gov website.



Health Care Reform Brings About First-Dollar Preventive Care

The Patient Protection and Affordable Care Act, signed into law earlier this year, is beginning to bring about changes to the nation's health care system. In July, a summit between the U.S. Departments of Labor, the Treasury, and Health and Human Services came together to issue new Preventive Regulations, in accordance with the President's health care reform bill.

The new regulations require non-grandfathered health care plans to provide complete coverage of many preventive services for newborns, children, and adults, regardless if deductible costs are met. These regulations will apply for the first plan year on or after September 23, 2010.

The government has put these regulations in place in order to increase patients' access to numerous services, such as diabetes and cholesterol tests, prostate and other cancer screenings, child/adult vaccinations, pre-natal services, and routine checkups for children and infants. In the past, many patients were required to cover deductible costs or share the cost of these services, but now preventive care will be covered on a full first-dollar basis. The new regulations only apply to in-network providers.

The Department of Health and Human Services, or HHS, hopes that the increased access to high-quality preventive care will lead to earlier detection of disease and improve Americans' overall health, essentially lowering health care costs. In the

United States, 7 out of every 10 deaths are caused by chronic diseases, like cancer, diabetes, and heart disease. HHS estimates that 75% of the country's health care dollars are spent on fighting diseases and illnesses that can be prevented. Additionally, the HHS states that Americans receive preventive services about half as much as they need to.

Increased Coverage

Here are a few health care services that will be covered under the new regulations:

Preventive Care

The U.S. Preventive Services Task Force selected a variety of services to be covered, including screenings for colon and breast cancer, screenings for high blood pressure and cholesterol, checkups during pregnancy, help for smokers trying to quit, and other high-priority preventive care services.

Vaccinations

Routine vaccinations selected by the Advisory Committee on Immunization Practices for children and adults are fully covered

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