Employee Benefits Report

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EMPLOYEE BENEFITS
401K
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Administration September 2010 Volume 8 • Number 9

Smooth Sailing: Prepare For Open Enrollment Now

Open enrollment can overwhelm even the most seasoned benefits manager. But the time when employees can make changes to their benefits plans doesn't have to be a time of stress.

In fact, open enrollment is a great opportunity to introduce new tools and resources to a captive audience, and it's the perfect time to help employees become better healthcare consumers all year long.

Here are some tips for making the best of your open enrollment season.

✷ **Focus on communication.** Change is a big deal, so you need to develop and implement a strategy early to prepare employees for what's coming. Employees need time to digest information, and you need time to reinforce it on a regular basis. Deploy a "multi-channel" communications campaign spread over time. Use a strategic combination of print, Web, email and face-to-face communication at

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This Just In…

Convenience is fueling growth in online employee benefits enrollment. About 40 percent of employees in a recent study indicate that they enrolled in their benefits through Web-based technology only, an increase from 12 percent five years ago.

The use of Web-based technology for some or all of enrollment in employee benefits has increased 165 percent in the last five years, according to a study from The Guardian Life Insurance Co. of America.

Just 38 percent of enrollees did so with paper only, a decline from the 58 percent who used that approach five years ago. One in five (21 percent) use a combination of paper and computer, an increase from 11 percent in 2005.

open enrollment meetings to drive a consistent message. While it's important to communicate thoroughly and introduce new ideas, don't overload employees. Strike the right balance in what, how and when you communicate.

✷ **Anticipate a rush.** The most diligent of employees will call on the first morning open enrollment begins. Plan accordingly by having the necessary staff in place to anticipate an upsurge in calls. But don't slack off, because 75 percent of all enrollments are done in the last three days, due to procrastination.

✷ **Select reasonable enrollment deadlines.** Make sure you're giving employees reasonable business-related deadlines, such as a Wednesday at 5 p.m. EST. This approach will also give you the opportunity to remind them the day before and reduce the likelihood of a last-minute stampede. Setting deadlines on a Friday, a holiday or at midnight will only invite problems.

✷ **Be available.** Even if you have provided self-service options, people still like to talk to a live person during open enrollment. Set up and review a set of FAQs that cover what are likely to be common questions.

✷ **Personalize.** People relate much better to examples relevant to their situations than to abstract concepts. It helps to provide testimonials from other people in similar circumstances or to offer tools that allow employees to model and make decisions based on their own circumstances.

✷ **Be honest and direct.** Are costs increasing? Benefits shrinking? Be frank. At a minimum, ensure employees fully understand the "5 C's of enrollment"—cost, coverage, changes to plans, comparisons to the previous year's plans and current options. Be clear with employees on the actions they need to take.

✷ **Expect "pushback."** In response to continued double-digit healthcare cost increases, you may be preparing to communicate aggressive health benefit changes to employees. If so, expect noise. Think of it this way: If all is quiet, you haven't done your job.

Collect the wisdom

This year's enrollment information can help you properly plan for the next open enrollment period. Did the HMO gain in popularity? Did employees sign up for plans that offered more choice? What were the questions, snafus and bottlenecks? That's powerful information for future action. Gather data to help you learn about employees' desires and predispositions—by job title, region, etc.—as well as to determine what your team can do better next time. ■

Smart Tip: Move Open Enrollment Dates

If the end of the year seems like a hectic time to prepare for open enrollment, consider moving your health plan's start date from January 1 to another time of year, such as March 1. This can help avoid open enrollment rush as well as potential delays at the underwriting department of your insurer.

Making Wellness Programs Work for You

In study after study, employee wellness programs have been shown to reduce absenteeism, staff turnover rates and healthcare costs, while improving productivity and morale.

Wellness programs run the gamut from a monthly newsletter with wellness information to health risk assessments backed up by a full menu of exercise and wellness classes, with a plethora of options in between. For these programs to run properly and produce results, they must have a clear operating plan with an attainable and measurable goal. Where to start and what to offer?

If you're ready to take the plunge, start with a company wellness committee, responsible for:

- ✔ Establishing goals and objectives
- ✔ Creating a detailed action plan
- ✔ Ensuring employee participation
- ✔ Getting and maintaining management support
- ✔ Managing the wellness program
- ✔ Evaluating effectiveness and making changes

You can start modestly with a weekly email with links to healthy lifestyle articles or host a weekly "bring your own healthy lunch day." If you can, offer free or discounted fitness club memberships or incentives for participation in outside smoking cessation or weight loss programs. You will increase a program's likelihood of working if you authorize employees to participate during work hours, such as on their lunch break.

Some organization offer free health screenings and health risk assessments for free to help employees understand what's going on with their health and what they can do to improve it.

Penalties or incentives?

Rewarding employees' achievements is a great way to keep them excited and living a healthier lifestyle. Offering incentives like gift cards, certificates of achievement, and even a day off work can be effective ways to keep participation levels up.

But if participation is still lagging, consider what many companies are now doing — assessing penalties for not participating, on the theory that some people may be more motivated to take action if they risk losing \$100 vs. gaining \$100.

An annual health care trends survey by Hewitt Associates Inc. found that 47 percent of employers either already use or plan to use financial penalties during the next three

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to five years for employees who do not participate in certain health improvement programs. Of those companies, 81 percent say they will penalize employees through higher health insurance premium contributions. About 17 percent said they may increase deductibles, while another 17 percent said they were considering higher out-of-pocket expenses as penalties.

When asked what types of behaviors or programs they were planning on penalizing, 64 percent cited smoking, while 50 percent said they would penalize those not participating in disease management or lifestyle behavior programs. Indicating that they may assess penalties in more than one area, 45 percent of employers responding to the survey said they would penalize workers for not participating in biometric screenings.

Although a growing number of employers are leaning toward penalties, the majority of survey respondents continue to use financial incentives to encourage employees to participate in wellness programs. This year, about 63 percent are offering employees cash incentives for completing health risk questionnaires, up from 35 percent in 2009. In addition, 37 percent of employers are providing cash incentives to employees who participate in health improvement and wellness programs, up from 29 percent in 2009.

The key for any organization is to find the right mix of strategies and plan designs that will motivate employees to be healthier. We can help you tailor a wellness program to your needs, goals and budget. Please contact us for more information.

How to Build a Winning Wellness Program

From "do it yourself" to hiring a wellness consultant, there are many ways to create a wellness program. One of the best ways to garner excitement and interest (and great ideas) is to engage your employees with a contest for your new or expanded wellness program.

To frame the competition correctly, first ask yourself and your team the following questions:

- What do we want our wellness program to accomplish?
- How do we plan to accomplish it?
- How does this mission support or further our overall mission?
- What financial resources and personnel are available?

From the answers, craft a wellness program mission statement that ensures submissions will be practical.

Now post your program parameters, contest guidelines and deadline. Have the wellness program committee review the ideas submitted, and select a winner. Make a big deal out of it, because it is!

FSAs vs. HSAs: Which One When?

Spending accounts let employees or dependents set aside money, before taxes, for qualified healthcare expenses. Spending accounts can also incentivize employees to participate in health improvement programs, and offer tax benefits to the employer as well.

The most popular options in this category are health savings accounts (HSAs) and flexible spending accounts (FSAs). While they are similar, there are a few key differences worthy of your attention. Both of these accounts are great ways to help employees save money for healthcare costs. But which is right for your company?

HSAs

An HSA is a savings account available to people who are enrolled in a high-deductible health plan and who have no other health insurance. As the name implies, high-deductible health plans require higher de-

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ductibles and out-of-pocket expenses than other types of health insurance policies, but the premiums generally cost less per month.

Either the employer or employee or both can contribute to an HSA. Employer contributions do not count as taxable income to the employee, while the employee can take an above-the-line deduction for any contributions he/she makes. If you offer employees a flexible spending account or cafeteria plan, they can make contributions to their HSA with pre-tax dollars through their FSA.

A major advantage to using a health savings account is the money carries over from year to year, so employees don't have to worry about the 'use it or lose it' policy. They can use money in their HSA for any qualified medical expense, including medical expenses in retirement.

FSAs

An FSA is a savings account set up by the employer for an employee to use for medical and dental bills or dependent care. Employees elect how much of their pre-tax salary to deposit into their account, reducing their income tax liability. Employees pay no monthly or yearly maintenance fees on their account. However, they need to figure out how much they're going to need for healthcare or dependent care expenses over the year, because they lose whatever is left in the account at the end of the year.

A flexible spending account will cover any medical expense considered deductible by the IRS. You can find a list on IRS Publication 502.

Pro and cons for employers

Employers have much to love about FSAs and HSAs. Because funds are pre-tax withdrawals, they decrease employee taxable income, resulting in lower costs for FICA, unemployment insurance, workers' compensation and other wage-based benefits. Payroll tax savings generally offset the cost of administration, and the employer can earn interest on account balances.

On the flip side, the FSA "at risk" provision requires that you reimburse an employee for incurred eligible expenses up to the full amount that he or she has elected to set aside during the plan year — regardless of how much he or she has actually contributed at that point. For example, let's say an employee elects to contribute $2,400 for the plan year and incurs $2,400 of eligible expenses at the end of the second month. At this point, the employee has only contributed $400 to his account, yet is entitled to $2,400 in reimbursement. If the employee remains with your organization, he will contribute the remaining $2,000 by year's end. However, he has no repayment obligation if he leaves his job before the end of the year.

It all may break even because an employee who leaves in the course of the year without spending all he has contributed to his account relinquishes the remaining funds, unless he continues participating through COBRA. Employees also forfeit to their employers any unspent amounts left in their accounts at the end of the year.

You can cap your company's liability by limiting the amount that employees set aside. Some employers use a two-tiered limit, limiting first-year participants to $1,000, for example, and then capping future participation at a higher amount, say $3,000.

Compare FSAs to HSAs on the next page

For 2010, the maximum annual HSA contribution for an eligible individual with self-only coverage is $3,050. For family coverage, the maximum annual contribution is $6,150. Individuals age 55 and older can make an additional catch-up contribution of $1,000.

Comparison: HSAs vs. FSAs

Health Savings Accounts:

- **Pro:** Pre-tax contributions.
- **Pro:** Funds carry over from year to year.
- **Pro:** HSA funds can be invested; interest accrues in employees' accounts. An HSA is similar to an IRA; in fact any financial institution that can handle an IRA can handle an HSA.
- **Pro:** Employees can use funds to purchase over-the-counter medications (expires in early 2011).
- **Con:** Must have a high-deductible health plan to qualify.
- **Con:** Some HSA accounts have high annual fees.

Flexible Spending Accounts:

- **Pro:** Pre-tax contributions.
- **Pro:** Employees have total control over how they spend their money, as long as it relates to health care or dependent care (depending on which type of account you open).
- **Pro:** Can use an FSA with all types of health plans, not only high-deductible plans.
- **Pro:** Can be used for "optional" medical procedures not covered by insurance, such as LASIK eye surgery, non-elective cosmetic surgery, braces, etc.
- **Con:** Money must be used by end of plan year or the employee loses it.

In addition to HSAs and FSAs, your company might also consider offering:

- **Dependent care FSAs.** Dependent care flexible spending accounts allow participants to contribute money on a pre-tax basis for common out-of-pocket dependent care expenses.
- **HRAs.** Health reimbursement arrangements are employer-funded accounts that reimburse participants for qualified healthcare expenses. Unused funds can roll over from year to year.
- **LFSAs.** Limited healthcare flexible spending accounts are available for participants who wish to remain eligible for a Health Savings Account.
- **CSAs.** Commuter spending accounts allow participants to contribute money on a pre-tax basis to pay for transit, vanpool, and parking expenses.

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