Employee Benefits Report

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ACA Spurring Interest in Self-Insurance

Between 2000 and 2010, the percentage of people with employer-based health plans enrolled in self-insured plans increased nearly 10 percent, according to the U.S. Agency for Healthcare Research and Quality. The Affordable Care Act (ACA) creates new incentives for smaller employer groups to consider self-insuring.

What Is Self-Insurance?

Employers providing health benefits to employees have three basic choices: buying a fully insured plan, self-insuring or offering employees a choice of fully insured and self-insured plans. With an insured plan, the employer pays a flat per-enrollee premium to an insurer that administers the plan and pays claims. Like an insured employer, a self-insured employer has a written plan. However, it pays for its workers' claims directly as incurred and retains the risk of higher-than-expected claims.

So Why Do Employers Self-Insure?

State laws that regulate fully insured group plans usually do not apply to self-insured plans. And some provisions of the federal Patient Protection and Affordable Care Act of 2010 pertain to fully insured plans but not to self-insured plans.

Self-insurance offers a variety of potential advantages to employers, including:

- Autonomy, control and flexibility of plan design, in-

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This Just In…

The Affordable Care Act prohibits its group health plans or group health insurers from imposing any waiting period that exceeds 90 days. (Neither plans nor insurers must impose any waiting period.) In March, the Internal Revenue Service, the Employee Benefits Security Administration, and the Health and Human Services Department proposed regulations that would clarify how waiting periods would apply to employees with variable hours.

A group health plan that conditions eligibility on an employee regularly working a specified number of hours per period (or working full-time) would be able to take "a reasonable period of time" to determine whether a variable-hour employee meets this condition. This "measurement period" can last no more than 12 months, beginning on any date between the employee's

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cluding exemption from state-mandated benefit requirements;
- Lower administrative costs than a commercial carrier would charge;
- More timely and complete access to data on health claims, which can help employers make more informed decisions about plan design;
- Ease of altering their contract with a third-party administrator (TPA) or stop-loss insurer without affecting employees' choice of providers;
- Improved cash flow generated by keeping funds in-house until needed for payment of claims; and
- Avoidance of state insurance premium taxes.

Once the Affordable Care Act is fully implemented, several provisions will affect fully insured small group plans (100 or fewer employees) that will not affect self-insured plans:

- Community rating will apply. Insurers will be allowed to vary premiums only according to actuarial value of the plan, geographic region, age, tobacco use and family size. Your group's health status or actual claims experience will not matter.
- Risk adjustment will begin. The ACA allows the transfer of funds from plans with enrollees having lower than average costs to plans with employees having higher than average costs.
- Plans offered to small groups must cover "essential health benefits" (EHBs). The EHBs include items and services within ten general categories, including prescription drug coverage and mental health and substance-use-disorder services.

The EHBs will likely drive prices up for many small group plans. And with community rating and risk adjustment, healthier groups will essentially subsidize the cost of covering less-healthy groups. Therefore, if you have a relatively young, healthy group, you may save money by self-insuring.

Self-insurance has potential disadvantages, however. These include:

- Financial risk of unexpectedly large claims;
- Regulatory compliance, which is easier with a fully insured plan;
- Loss of some discounts. Insurers and larger employers have the clout to negotiate discounts with health providers that smaller employers lack.

Although some self-insured employers administer their plan, most outsource plan administration and claim processing to a third-party administrator. They can also mitigate some of their risk by purchasing stop-loss insurance, which will reimburse a covered employer for claims above a specified dollar level.

Note that a stop-loss policy is a contract between the carrier and the employer, not a health policy covering individual plan participants. This means the pre-existing condition and guaranteed renewability requirements that apply to health insurers do not apply to stop-loss insurers. Stop-loss insurers can refuse coverage or drop coverage if a group experiences too many claims.

start date and the first day of the first calendar month following the employee's start date. The measurement period will not be considered out of compliance with the 90-day waiting period limitation if coverage is made effective no later than 13 months from the employee's start date, plus the time remaining until the first day of the next calendar month. Plans cannot impose a waiting period in addition to the measurement period. For more information on implementing the Affordable Care Act in your workplace, please contact us.

However, the ACA will make changes that will allow self-insured employers to switch back to a fully insured plan at a later date without having to worry about an insurer refusing to cover the group or specific individuals. When fully implemented, the ACA will not allow health insurers to:

- Refuse to write small group plans based on health status.
- Exclude specific individuals from a small group based on health status. Insurers must "take all comers," regardless of health status.
- Charge higher premiums based on the health status of your group or the gender of your employees. It will also limit how much premiums can vary based on age.

In our next issue, we'll discuss some self-insured plan structures and stop-loss insurance. To discuss self-insurance options in more detail in the meantime, please contact our office.

Vacation Time: The Ultimate Wellness Benefit?

"On average, Americans feel they can go about their daily routine for approximately six months (173 days) prior to feeling like they need a vacation. Unfortunately,…the average American goes about 11 months (47 weeks) between such breaks," according to the fourth annual Springhill Suites travel survey.

The Health Benefits of Vacations

Regular vacations could be the ultimate wellness benefit. They reduce stress-related illnesses and lower risk of death by almost 20 percent in middle-aged men, according to a study published in 2000 by the State University of New York at Oswego. Twenty years' worth of data from the Framingham Heart Study found that women who took two or more vacations a year cut their risk of a fatal heart attack by half. Evidence also shows that physical ailments can decrease or go away entirely during vacations, and they tend to stay away for a period after an employee returns to work.

Employee vacations benefit employers as well. Employee burnout rates decrease significantly during vacations, and life satisfaction increases. After a vacation, many employees find their work more interesting and become more efficient at their jobs, and the rate of absenteeism actually decreases. Conversely, when people don't take the time off that they need, their health deteriorates—emotionally and physically—often resulting in medical expenses and more time away from the job.

The Unused Benefit?

Despite the health benefits of vacations, many employees fail to take their allotted time. A survey by Harris Interactive Inc. found that Americans left an average of 9.2 vacation days unused at the end of 2012, up from 6.2 days in 2011. Workers worry about losing their jobs, and many feel that if they take a vacation, they could be replaced. Some fear they'll be seen as lazy for taking time off. But taking time off has nothing to do with commitment, as workers who take time for themselves are actually better employees.

According to the 2012 ERC Absence Management Practices Survey, the average employee loses 3.9 work days to unscheduled absences per year. Mental health, stress and "other" reasons (not illness, vacation or family needs) account for 20 percent of these absences. Other studies have found a correlation between overtime and absenteeism.

Encouraging your employees to take their vacation time could help reduce stress and unscheduled absences. Employers need to communicate the message that it's okay to take time off, and develop policies that are consistent with that message.

Supporting Time Off

The Bureau of Labor Statistics reports that 77 percent of all private industry workers had access to paid vacation time. The percentage dropped to only 51 percent among workers in the lowest quartile by wage earned and only 37 percent among part-time workers. Despite the common perception of the stressed executive, lower-wage jobs often entail more stress, making vacation time just as important for your lower-paid employees.

To ensure employees have time off when needed, some employers have switched from a traditional package of sick leave and vacation leave to a system of paid leave banks. From 2002 to 2010, the proportion of employers offering paid leave banks jumped from 28 percent to 40 percent, while the pro-

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portion of employers offering traditional sick leave and vacation leave packages declined from 71 percent to 54 percent. A paid leave bank combines personal, sick and vacation days into one pool; details vary by employer. Some add a number of paid holidays, with the total number of days off based primarily on tenure. Organizations frequently permit rollovers into the following year, with a cap on the number of days that may be saved. Some employers allow employees to "buy" or "sell" a certain number of additional days each year to take unpaid leave.

Flexible time-off plans provide some advantages. The employer can eliminate situations where employees call in at the last minute pretending to be sick, when in fact they could have requested time off in advance. Employers that permit rollovers can also minimize a flood of end-of-year vacation requests from employees on a "use it or lose it" vacation benefit plan.

Most companies do require that all time off be pre-approved and, as a rule, limit the number of employees who may be out on a given day. This may reduce scheduling flexibility, especially for employees without seniority. But employers say that having this control allows them to balance workers' time off so that it does not adversely affect productivity. While there will always be those who still call in at the last minute, flexible leave programs can help foster an environment of mutual respect between the employer and employee.

For more information on structuring a vacation or leave bank and other employee benefit programs, please contact us.

SIMPLE IRAs: The Low-Cost Retirement Plan

Only 28 percent of small and medium-sized organizations offer retirement benefits to their full-time employees. And the reasons are simple: Many don't want to deal with the administrative hassles and cost of a 401(k). SIMPLE IRA plans provide these employers with an alternative.

A SIMPLE IRA plan (Savings Incentive Match PLan for Employees) allows employees and employers to contribute to traditional IRAs set up for employees. It works well for small employers not currently sponsoring a retirement plan, as it does not have the start-up and operating costs of a conventional retirement plan.

The Basics

Any business with 100 or fewer employees that does not have another retirement plan can easily establish a SIMPLE IRA plan by using a form available on the IRS's website: Form 5304-SIMPLE or 5305-SIMPLE. The form you choose depends on whether you or your employees select the financial institution where your employees' individual IRA

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accounts will be held. Alternatively, you can use a SIMPLE IRA prototype available from a bank or financial institution or an individually designed plan document.

You can set up a SIMPLE IRA plan effective on any date from January 1 through October 1 of a year, provided you did not previously maintain a SIMPLE IRA plan. This requirement does not apply for new employers that set up a SIMPLE IRA plan as soon as administratively feasible after the business comes into existence. If you previously maintained a SIMPLE IRA plan, you can set up a SIMPLE IRA plan effective only on January 1.

All employees who received at least $5,000 in compensation from you during any two preceding calendar years (consecutive or not) and who you reasonably expected to receive at least $5,000 in compensation during the calendar year can participate in the SIMPLE IRA plan for the calendar year.

Employees have the option of making salary reduction contributions. For 2013, employees can contribute up to $12,000. Employees age 50 or over can make an additional catch-up contribution of up to $2,500 in 2013.

While employees can contribute or not, employers **must** contribute to the plan each year. They must either make a 1) matching contribution up to 3% of compensation, or 2) 2% nonelective contribution for each eligible employee. Under the "nonelective" contribution formula, even if an eligible employee doesn't contribute to his or her SIMPLE IRA, the employer must make a contribution equal to 2 percent of the employee's compensation.

Unlike other plans, SIMPLE IRAs have no filing requirements. They also do not require discrimination testing, which can be complicated and time-consuming. And while some other types of retirement plans have several types of fees, SIMPLE IRAs generally involve only a small per-participant or per-employer fee per year, payable to the financial institution(s) that holds your employees' SIMPLE IRA accounts.

Pros and Cons

Pros:

- Employees can choose to contribute pre-tax dollars, thus reducing employees' taxable income and the employer's payroll tax liability.
- Funds accumulate tax-free.
- Employees can manage their accounts by moving funds around within the financial institution that holds their account (subject to the institution's rules and fund participation requirements).
- The employer need not conduct annual discrimination testing.
- The employer has no annual filing requirements.
- The employer has minimal administrative responsibilities.

Cons:

- The employer must contribute each year, even when cash flow is poor.
- Employees are immediately 100 percent vested in their entire SIMPLE IRA account balance. This can counter their appeal as a tool to encourage employee loyalty.
- SIMPLE IRAs have lower contribution limits than some other retirement plans.
- Participants cannot take loans from their IRA accounts, unlike with 401(k)s. While this might discourage some employees from contributing to their account, it also preserves savings for retirement.

Funds will be taxed at the employee's regular income rate when withdrawn after retirement. As with other retirement plans, employees making withdrawals before age 59 ½ must pay an additional penalty of 10 percent. If withdrawals are made within the first two years of participation, the 10% additional tax is increased to 25%.

As you search for the right financial institution for you and your employees, you should have an idea of what sort of investment options your plan's IRAs should include and what level of service to expect. For more information on retirement benefit options, please contact us. ■

Navigators vs. Agents and Brokers

In a recent poll by Aflac, an overwhelming majority (76 percent) of workers surveyed admitted they were not knowledgeable about the federal and state health insurance exchanges created by the Affordable Care Act (ACA). The ACA also created new insurance programs, incentives and penalties, giving consumers and small businesses a whole new system to learn.

To help consumers and small businesses make choices about coverage options within the exchanges, the ACA requires each state to establish a program of "navigators." The U.S. Department of Health and Human Services recently released proposed regulations on the navigator program. These regulations would apply to navigators on federally facilitated exchanges, including state partnership exchanges, and to non-navigator assistance personnel in state-based exchanges funded through federal exchange establishment grants.

Navigators, as individuals or entities:

- Cannot be employees of health insurers or issuers of stop-loss insurance for self-insured health plans.
- Can be health insurance agents or brokers. Independent agents and brokers qualify, but to avoid conflicts of interest, they cannot receive commissions or fees from health insurers for their work as navigators.
- Must meet licensure or certification standards established by the states or exchanges, although states cannot require navigators to obtain an agent's license. In every state, agents and brokers must pass licensing exams and must also meet stringent continuing education requirements to keep their knowledge updated. Equivalent standards may or may not apply to the navigators.

Consumers new to health insurance or switching plans will likely need help in navigating the exchanges. However, employers with existing group coverage need not worry about their employees' ability to negotiate the healthcare maze. They will continue to get enrollment and other assistance from their health insurance brokers. In fact, many duties of the navigators will duplicate functions already performed by agents and brokers.

As always, we are ready to guide your business through the insurance-buying process. For more information, please contact us.