Employer based benefits

- Began as an incentive to attract skilled employees during the labor shortage following World War II

- Favorable legislation created to provide tax-incentives for employers

- Private industry employers spent an average of $28.13 per hour worked for employee compensation in June 2011*

- 70.4% of these costs were for wages and salaries, 29.6% were in benefits*

* Bureau of Labor Statistics
Employer based benefits

Total spending on health care projected to rise*

What was once the solution to a big issue has become the big issue that needs a solution!

* Congressional Budget Office (CBO)
How We Got Here

2007

Massachusetts Healthcare Reform legislation signed into law July 1, 2007

2008

Global economic crisis

2010

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 30th.
Coming Soon!

2012
- Participant fee disclosure for retirement plans

2013
- Cap on Health FSA salary reductions ($2,500 per participant)

2014
- Insurance coverage mandates
- Elimination of pre-existing conditions
2012 - Fee Disclosure

- **408(b)(2)** – Requires fiduciary to receive and analyze fee and expense information or face prohibited transaction

- **404a-5** – Requires fee and expense information be distributed to employees in participant directed account plans

- May need to benchmark plans to prove to DOL that sponsor was paying attention
The Health FSA cap is a tax year (calendar year) limit, not a plan year limit.

- If your organization offers an “off-calendar” FSA plan, make certain you amend the limit in 2012.

Unlike the limit on dependent care contributions, the Health FSA limit is at the participant level - there is no “household max”.

- Example: A married couple both participating in a health FSA, can each contribute up to $2,500 in 2013.

Employer FSA contributions are not capped.

It may not be as bad as it seems: the average Health FSA annual election is $1,636.

Source: Evolution Benefits survey 2010
A Closer Look at 2014

- **Individual Coverage Mandate**
  - Beginning in 2014, individuals who choose not to elect coverage will pay a penalty of $95 (the penalty will increase in future years).

- **Employer Coverage Mandate**
  - Employers with 50 or more employees will face a penalty of $2k per employee, excluding the first 30.

- No pre-existing condition exclusions allowed.
2014 Healthcare in the US

[Cartoon showing a flowchart with phrases like 'Taxes', 'Mandates', 'Penalties', 'Fees', 'Waste', 'Fraud', 'Abuse', 'Amnesty', and a speech bubble asking 'Where does it say I pay LESS for health care?']

- Rollover option for Health FSA accounts (eliminate Use-or-Lose)
- Allows FSAs/HRAs/HSAs to pay for OTC medicines
- Allows HSA funds to be used to purchase health insurance
The legal battle over health care reform continues, especially whether or not it is constitutional for individuals to be required to purchase health insurance.

- 26 states have already challenged the mandate
- The Appeals Court for the 11th District, voted by a 2-1 margin that Congress has exceed its authority by requiring coverage.
- The 4th U.S. Circuit Court of Appeals reaffirmed the government’s right to require individual coverage.

It’s a fight that seems to be heading to the Supreme Court and will be a major issue in the 2012 elections.
In a survey conducted by Harvard Business Review and Unum, HR leaders said that the biggest challenge they face will be demonstrating to employees their value as they deal with the effects of Health Care Reform.

- **40%** Saw a change in medical benefits plan design or carrier in the last 2 years.
- **36%** Transferred costs from the company to the employee (90% of those responding).
- **70%** Are offering voluntary benefits to close the gap (examples include FSAs and HSAs).
Sentinel has seen more employers altering their existing plan designs to cope with the increased costs and legislative changes. This has created an additional cost burden to participants.

**What can be done?**
- Optimize tax-advantaged plans such as FSAs and HSAs to realize increased tax savings to your organization and your employees.
- Compliment a fully-insured or self-insured group health plan with a Health Reimbursement Arrangement (HRA).
Buyer Beware

- Making a change in a benefit program has never been more complicated...

- Did you know?
  - HSAs cannot be contributed to in the same tax year employees make any contributions to an FSA.
  - Plan design is critical. HRAs require their own plan document and may also require coordination with Medicare.
  - FSA and HRAs have significant limitations if they are packaged with HSAs.
With Massachusetts minimum credible coverage (MCC) requirements instituted in July 2007 (and soon to expand to all employers in the United States in 2014) there is very little room for many employers to make plan design changes and obtain meaningful premium savings.

MCC does not allow for more than a $2,000 individual deductible or $4,000 family deductible unless it’s an HSA qualified plan design.

Without the traditional plan design change tool employers are focusing on cost sharing strategies.
Cost sharing changes

- What is the most current trend?
- MA Division of Health Care Policy and Finance conducts an annual survey of small employers 3-50 employees
- 1,555 employers solicited, 774 returned, 53% response rate

<table>
<thead>
<tr>
<th>Coverage level</th>
<th>2007</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>75%</td>
<td>72%</td>
<td>75%</td>
</tr>
<tr>
<td>Family</td>
<td>75%</td>
<td>68%</td>
<td>72%</td>
</tr>
</tbody>
</table>

- Employer cost sharing went up in 2010 as rates continued to increase?
Hypothetical situation

- 35 employees with $2.2 million annual payroll in Greater Boston
- 28 employees on health insurance, 11% rate increase
- Current cost sharing 70 / 30 for Individual and Family coverage
- Company has been in wage freeze since late 2008
- 3% merit increase totals $66,000
- Picking up 100% of health insurance increase totals $36,000
- Cost sharing goes from 70 / 30 to 73 / 27

Is this a temporary change?
Cost sharing changes

- Many employers are beginning to realize that a percentage cost sharing of the rate provides a significant benefit to family employees

<table>
<thead>
<tr>
<th>Coverage level</th>
<th>2010 median rate</th>
<th>2010 median employer cost sharing</th>
<th>2010 annual median tax free benefit to employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>$479</td>
<td>75%</td>
<td>$4,311</td>
</tr>
<tr>
<td>Family</td>
<td>$1,262</td>
<td>72%</td>
<td>$10,904</td>
</tr>
</tbody>
</table>

- $6,593 annual difference in benefit cost!
Cost sharing changes

- Much like the retirement plan transition to defined contribution plans from defined benefit plans, health plans are beginning the same evolution.

- More and more employers are adopting a different approach to individual + spouse and family insurance coverage.

- Interim strategies are modest with 3-5% more required per year with a 3-5 year plan to get close to par depending on an organization’s goals.

- Beyond the cost sharing percentage savings, many employees choose to drop coverage altogether and move to a spouse’s policy if available, accelerating savings.

- Larger employers putting in place “dual” cost sharing strategies for employees with and without “access” through a spouse.
But wait….

- On January 1, 2011, the oldest Baby Boomers turned 65

- The US Census Bureau defines the Baby Boomers as those born between January 1, 1946 and December 31, 1964

- Every day for the next 19 years, 10,000 more will cross that threshold

- By 2030, when all Baby Boomers will have turned 65, 18% of the nation’s population will be at least that age versus just 13% today*

* Pew Research Center population projections

Sentinel Benefits & Financial Group
Custom Solutions for Life and Wealth
Social Security

1950

Today

2041 (Projected)
The Trickle Down Effect

- Adjusting to the “new norm” after 2008 is affecting many Americans...
  - 45% of people who took hardship withdrawals in 2009 made them again in 2010
  - **Retirement Savings Stopped** for 36% of Americans Older Than 44
  - **$4.6 trillion** – gap between what Americans need for retirement & what they have saved

The State of US Retirement (Sept 2010)
Possible changes to protect us from ourselves

- **Auto-IRA** for employers who don’t have a retirement plan
  - Employee could opt out

- **SEAL Act of 2011** (Savings Enhancement by Alleviating Leakage in 401(k) Savings)
  - Prohibit more than 3 loans
  - No credit card loans
  - Allow repayment into IRA’s if terminated

- **Lifetime Income Disclosure Act of 2011**
  - Would require DC plans to disclose “Annuity Equivalent” of account balance on statements
Looming labor shortage?

- Low turnover may become a thing of the past
- More than one in three surveyed employees hopes to be working elsewhere in the next 12 months *
- Employers’ primary focus has been on cost, less on employee satisfaction
- Benefits satisfaction and employee loyalty are closely correlated
- Benefit appreciation steadily increases with each generation from Gen Y to Gen X to younger Boomers to older Boomers
- Employee benefits likely to continue to be an important tool to attract and retain employees

*Job Openings and Labor Turnover – October 2010 Bureau of Labor Statistics
Sentinel Benefits offers a comprehensive single resource to provide consultative and administrative expertise to over 1,500 clients:

- Insurance Brokerage Services*
- Reimbursement Plan Services (FSA, Commuter, HSA, Fringe Benefits)
- Health Reimbursement Arrangements (HRA)
- COBRA Administration

If you are interested in learning more about how Sentinel can reduce the burdens that you face as an organization, please don’t hesitate to contact us.

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*Insurance brokerage services offered through Sentinel Insurance Agency