Employee Benefits Report

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Health Insurance February 2009 Volume 7 • Number 2

2009: The Year of Meaningful Healthcare Reform?

President Obama ran on a platform of healthcare reform aimed at ensuring every American access to affordable coverage. In November, Senate Finance Committee Chairman Max Baucus (D-Mont.) unveiled his own a healthcare plan that appears to deviate in some ways from President Obama's. So what can we expect and can the new administration deliver on its promises?

This much we know. Inefficient and poor quality care costs the nation at least $50 to $100 billion every year. Billions more are wasted on administration and overhead due to inefficiencies in the healthcare system.

While there are some differences between the Obama and Baucus plans, both aim to provide incentives to improve quality of care while reducing costs, and both hope to reduce inefficiency and waste with state-of-the-art electronic health information technology systems, prevention and chronic disease management services, and market reforms designed to increase competition.

The plans' major options include:

- guaranteeing eligibility for all health insurance plans;
- creating a National Health Insurance Exchange to help Americans and businesses purchase private health insurance;
- providing new tax credits to families who can't afford health insurance and to small businesses;
- requiring all large employers to contribute toward health coverage for their employees or toward the cost of the public plan;
- requiring all children to have health care coverage;
- expanding eligibility for the Medicaid and SCHIP programs; and
- allowing flexibility for state health reform plans.

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This Just In

The Supreme Court recently ruled in *Kentucky Retirement Systems v. Equal Employment Opportunity Commission* that a state pension plan did not violate the Age Discrimination in Employment Act (ADEA) when it imputed less service to an older worker who was disabled than it might have provided to a younger disabled worker.

The Court based its 5–4 split decision on the fact that the disparate treatment of participants was not actually motivated by age. A strongly worded dissent suggests that the decision may create uncertainty for benefit plan sponsors and participants.

Employers who have struggled with ADEA in coordinating disability and retirement benefits may take some comfort from this decision, but the case itself illustrates that careful drafting and articulation of a rationale for plan provisions is important.

Beyond Panic: What to Do About (401)k Investments

How bad was 2008 for investors? It doesn't get much worse. Since 1825, the first year of the Standard & Poors Index, only two years have registered declines of greater than 50 percent, 1931 and — you guessed it — 2008.

Over the past two decades, 401(k) plans have become the most widespread type of employer-sponsored defined contribution plan in the nation. In 2006, some 50 million American workers had 401(k) plans, comprising 16 percent of all retirement assets, according to the Labor Department.

Last year stock investors overall lost nearly $10 trillion. The losses have forced retirees out of retirement, persuaded aging workers to stay in the workforce, and caused almost everyone to worry about their retirement plans.

Not surprisingly, many workers are wondering whether to move their retirement accounts from stocks into more secure avenues, such as money markets or Treasury bonds that offer low interest and lower risks.

Financial experts agree that many factors should influence one's choice to move money out of stocks – most importantly the age of the investor. The younger the investors, the more time they have to recoup the losses. But, in general, experts say it's not a good idea to dump stocks when they're trading at very low values.

Here's another way of looking at the situation: while a share of stock might decrease in value during a down economy, it still represents the same level of ownership that it did when purchased. The value of a share of stock may decrease in an economic downturn, but it also may increase during a strong economy. Selling now does nothing but lock in a loss. The old saying goes that you should buy low and sell high — and selling off your stock during an economic downturn flies in the face of this tried and true axiom.

Plan Sponsors Beware

Industry experts warn employers to be very careful about how they sponsor the investment vehicles in their employee retirement plans and to refrain from giving out financial advice.

"With the downturn in the market, people who lost money in 401(k) plans are looking for someone to blame," said Christine Soscia, vice president and plan consultant at Las Vegas-based InVest Financial Solutions for Business.

In February 2007, the Supreme Court ruled unanimously that workers could sue employers to recover losses when their 401(k) accounts were mishandled.

"Never give investment advice to participants," suggests Soscia. "You are not licensed to give financial advice. That's why you need a good adviser, and it's good to consider a specialist in 401(k) plans."

Tax consequences

While some employees might be considering moving their retirement funds, others might be considering making withdrawals — a bad idea, except in dire emergency. Withdrawals from a 401(k) retirement savings account before the holder reaches the age of 59 1/2 are subject to an excise tax, which can be up to 20 percent of the amount withdrawn — on top of the income tax that must be paid on that money. In short, withdrawing money from a 401(k) before a worker is 59 1/2 is costly and significantly reduces the value of the retirement savings account.

Unless they are facing extenuating circumstances, employees should hold their investments for the long term and not react rashly to changes in the economy. An investment into a retirement account is meant to be held for the long term.

Obviously exceptions apply, and employees should use best judgment in determining their 401(k) account's structure. But if they bought a stock to hold for 30 years, remind them not to lose sight of that investment timeline just because its price has dropped.

Modest moves

There are still moves that employees can make to protect their investments. The most important thing for employees to remember about a retirement savings account, and about money management in general, is that the more diversified the assets, the more pro-

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What's in it for employers?

Both the Obama and Baucus plans include a number of provisions designed to lessen the burden on companies. They start with a promise to reduce costs of catastrophic illnesses for employers and their employees. The most recent data available reveal that the top five percent of people with the greatest health care expenses in the U.S. account for 49 percent of overall healthcare expenditures. The Obama and Baucus plans would reimburse employer health plans for a portion of the catastrophic costs they incur above a threshold if they guarantee such savings are used to reduce the cost of workers' premiums.

Small businesses (as well as individuals) can also count on tax credits for premiums. The plans would create a new Small Business Health Tax Credit to provide small businesses with a refundable tax credit of up to 50 percent on health insurance premiums they pay on behalf of their employees. To be eligible for the credit, small businesses will have to offer a quality health plan to all employees and cover a "meaningful share" of premium costs.

Large employers that do not offer meaningful coverage or make a meaningful contribution to the cost of quality health coverage for their employees will be required to contribute a percentage of payroll toward the costs of the national plan. Small businesses will be exempt from this requirement.

Not everyone is on board, of course, and the final reform bill might differ greatly from the initial proposals. But according to an article in *The Wall Street Journal*, if the proposal becomes law, the typical family will save some $2,500 in medical costs annually, and business-sector costs will fall by about $140 billion a year. These decreasing employer costs will help expand employer-provided health insurance to 10 million previously uninsured people.

NHIE: Another Acronym Comes to Town

The centerpiece of expected health-care reform will be the new National Health Insurance Exchange, designed to help individuals purchase new affordable health care options if they are uninsured or want new health insurance. Through the Exchange, any American will have the opportunity to enroll in the new public plan or an approved private plan. The Exchange will require that all the plans offered are at least as generous as the new public plan and meet the same standards for quality and efficiency.

Insurers would be required to justify an above-average premium increase to the Exchange. The Exchange would evaluate plans and make the differences among the plans, including cost of services, transparent.

The Exchange has been touted with the following features:

- **Comprehensive benefits.** The benefit package will be similar to that offered through the Federal Employees Health Benefits Program (FEHBP), the program through which members of Congress get their own health care. Plans will include coverage of all essential medical services, including preventive, maternity and mental health care.
- **Affordable premiums, co-pays and deductibles.** Participants will be charged fair premiums and minimal co-pays or deductibles for preventive services.
- **Simplified paperwork.** The plan will simplify paperwork for providers and will increase savings to the system overall.
- **Easy enrollment.** All Exchange health insurance plans will be simple to enroll in and provide ready access to coverage.
- **Portability and choice.** Participants will be able to move from job to job without changing or jeopardizing their health care coverage.
- **Quality and efficiency.** Hospitals and providers that participate in the new public plan will be required to collect and report data to ensure that standards for health care quality, health information technology and administration are being met.

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tection they have against shifts in the economy. If a 401(k) is held mostly in stock, employees might consider expanding into other assets, such as bonds or even cash.

Noted financial adviser Jane Bryant Quinn adds these suggestions for employees:

- **Save more money.** When diminishing values reduce the size of your nest egg, employees need to add more cash to reach their savings goals. Employer matches are still the most effective way to build assets. Take full advantage of them and switch to automatic deduction plans if possible.
- **Learn what diversification means.** Employees are not diversified just because they own a handful of mutual funds. They need to choose funds of different types — meaning stocks and bonds for growth and value, with an index fund (one that follows the entire stock market) at the core.
- **Don't jump around.** Many employees moved into stock funds two years ago, jumped to fixed-interest funds this year (giving up on stocks), then moved back to stocks after the market rise in May 2008. Switchers usually get the worst of all worlds, especially when fees and commissions eat into returns. Better to create a diversified plan and stick to it.

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A Biopsy in Bangkok? Medical Tourism On the Rise

Let's say one of your employees needs a hip replacement. If he gets it done in the US, your health plan will pay approximately $43,000. But the same procedure in Thailand or Costa Rica costs only about $12,000. In India, it's even less, at $7,000, according to the Medical Tourism Association, a non-profit international association.

The appreciable savings has led to a new wrinkle in healthcare. Medical tourism is where people who live in one country travel to another country to receive medical, dental and surgical treatments because of affordability, better access to care or a higher quality of care.

Experts in the field say as many as 150,000 U.S. citizens underwent medical treatment abroad in 2006 — the majority in Asia and Latin America. That number grew to an estimated 750,000 in 2007 and could reach as high as six million by 2010, according to a study by Deloitte LLP. Patients are packing suitcases for everything from face lifts to heart bypasses to fertility treatments.

Cash for care

It's easy to understand the incentive for insurance firms and companies that pay healthcare insurance premiums, but what's in it for the patient who is already covered? Why would anyone want to travel 10,000 miles just to be stuck in a hospital bed in Bangalore? The answer is incentives such as up 25 percent of the savings, a companion airline ticket, and all paid travel expenses.

Polls suggest that only a few consumers would opt for surgery abroad if the incentive is $1,000 or less. But raise the ante to more than $1,000 and the equation changes. Among people who have sick family members, about 45 percent of the underinsured or uninsured said they would get on the plane; even 19 percent of those who have insurance say they're game. When the incentive exceeds $5,000, the percentage of takers climbs to 61 percent among the uninsured or underinsured and 40 percent among those with insurance.

Still a novelty?

A survey by the International Foundation of Employee Benefit Plans found that just 11 percent of employers cover medical tourism under their plans. Nevertheless, according to the National Business Group on Health, another nine percent of large U.S. employers are interested or very interested in sending employees off shore for major surgeries over the next five years. Start-up firms like GlobalChoice, IndUShealth, and PlanetHospital help make all the arrangements and coordinate care between the US and overseas providers.

Undoubtedly, medical tourism will become more popular as time goes on since it's simply an extension of globalization. Only this time, we're outsourcing the patient.

If your company isn't ready to consider medical tourism yet, there are other ways you can control the costs of employee medical care. For information, please contact us.

AMA Guidelines on Medical Tourism

The American Medical Association urges employers, insurance companies and other entities that facilitate or offer incentives for medical care outside the U.S. to adhere to the following principles:

1. **Medical care outside of the U.S. must be voluntary.**
2. **Financial incentives to travel outside the U.S. for medical care should not inappropriately limit the diagnostic and therapeutic alternatives that are offered to patients or restrict treatment or referral options.**
3. **Patients should only be referred for medical care to institutions that have been accredited by recognized international accrediting bodies (e.g., the Joint Commission International or the International Society for Quality in Health Care).**
4. **Prior to travel, local follow-up care should be coordinated and financing should be arranged to ensure continuity of care when patients return from medical care outside the U.S.**
5. **Coverage for travel outside the U.S. for medical care must include the costs of necessary follow-up care upon return to the U.S.**
6. **Patients should be informed of their rights and legal recourse prior to agreeing to travel outside the U.S. for medical care.**
7. **Access to physician licensing and outcome data, as well as facility accreditation and outcomes data, should be arranged for patients seeking medical care outside the U.S.**
8. **The transfer of patient medical records to and from facilities outside the U.S. should be consistent with HIPAA guidelines.**
9. **Patients choosing to travel outside the U.S. for medical care should be provided with information about the potential risks of combining surgical procedures with long flights and vacation activities.**