

The ViewsLetter

VOL. One • No. 3

September 1998

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Employee Contribution Trends

In the February edition of the ViewsLetter, we reported that group medical plan costs were expected to rise between 3%-7% for 1998. Interestingly, a recent study conducted by KPMG Peat Marwick indicates that employee contributions are not uniformly following the cost increase trend. In fact, for some types of medical plans, employee contributions have reduced both in actual dollars and as a percentage of plan costs. For example:

- Between 1994 and 1997 HMO contributions for single coverage reduced from \$36 to \$32 per month. Family contributions decreased from \$160 to \$139.



- For traditional medical plans, single contributions reduced from \$29 to \$28; family traditional contributions reduced from \$93 to \$86 during the same period.

• As a percentage of plan cost, 1997 HMO contributions for single coverage represented 23% of plan cost; the figure was 27% in 1996. For the same period, the single contribution percentage for traditional medical plans fell from 17% to 12%.

- Family HMO contribution rates fell from 35% in 1996 to 30% in

1997. Family traditional plan contributions fell from 28% to 25% for the same period.

While PPO and Point of Service (POS) contributions show decreases in contribution as a percentage of plan cost, both types of managed care plans

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About the ViewsLetter

We welcome you to the third issue of the McGraw Wentworth ViewsLetter. Many of our readers are receiving the ViewsLetter for the first time. It is our mission to be the leader in the group benefits brokerage and consulting industry.

We have established the ViewsLetter as an integral part of our commitment to keep you informed of benefit trends, legislative developments, and market-

place developments that may affect your group benefit programs.

Of course, we also welcome your comments and suggestions regarding the ViewsLetter. You can pass your comments directly to your McGraw Wentworth Account Director or Account Manager, or you can reach us through our interactive web site at www.mcgrawwentworth.com. We look forward to hearing from you!

YOUR QUESTIONS

Q. An employee asked us to terminate his wife from our medical plan because they had a terrible argument and have decided to get a divorce. The dependent coverage is subject to a pre-tax contribution. Should we terminate her medical coverage?

A. For as common as this situation is, there is surprisingly little legal guidance for employers. The problem is that the spouse has not lost *eligibility* for coverage. If coverage is terminated and a substantial medical claim is incurred, a court may frown upon the employer's decision to remove the spouse, especially if the spouse does not have other medical coverage.

Because the employee has not sustained a Family Status Event, the employer will be compelled to continue deducting pre-tax contributions even if the spouse's coverage is terminated. Terminating coverage for a dependent in such a circumstance appears "mean-spirited" at best. The same is true if the employee contribution covers both spouse and children and does not change if the spouse is terminated.

Most employers want to avoid being drawn into such situations and need a practical approach to handling this problem. In the above circumstances, employers may consider the following:

● **Establish a "Cooling Off" Period.** Find a reason to delay responding to the employee for a week or two – your goal is to provide a "cooling off" period. Maybe it is the start of the insurer's billing cycle and you won't be reporting changes for another three weeks – tell him that, and explain that he should contact you again in another few weeks if he still wants to terminate his wife's coverage at that time. Do not tell him that you will terminate his wife's coverage if he follows-up on his request.

● **Get it in Writing.** If the employee follows-up with you a few weeks later, explain to him that you are concerned about terminating his wife's coverage and tell him why – his wife hasn't lost eligibility for coverage, contributions (if pre-tax) will be the same / will continue even if her coverage terminates - whatever circumstances apply. Ask him to submit his request to you in writing for consideration.

● **Consider Carefully.** If the employee submits his request in writing and seems intent on following through with the request, you should carefully consider the circumstances.

Many employers would simply decline the employee's request, explaining that as plan fiduciaries, they have an obligation to act in the interest of all plan participants, including the dependents of employees. The employer would also assure the employee that at the time of the divorce, the spouse will have lost eligibility for coverage and will be removed from the plan.

Contribution Trends, cont.

registered actual dollar contribution increases. For example, PPO family contributions decreased from 33% of plan costs in 1994 to 27% in 1997. In dollar terms, however, contributions increased from \$135 to \$136. Similarly, family contributions to POS plans reduced from 27% to 25% of plan cost while showing a dollar increase from \$138 to \$145.

Results by plan type and company size are summarized in the employee contribution dollar and percentage charts on page three.

contributions for PPO plans, but the increases are not keeping pace with the cost of these plans.

In addition to the KPMG Peat Marwick survey, there are



We can draw several conclusions from the employee contribution information:

- Employers sponsoring traditional medical plans may take a paternalistic view toward providing benefits, which in turn is reflected in lower employee contribution assessments.
- HMO contribution levels have generally kept pace with plan costs. Some employers may reduce HMO contributions to encourage enrollment in lower cost HMO's.
- Employers are raising contri-

numerous other national, regional and Michigan-based data sources which provide employee contribution and other benchmarking information. If you are interested in seeing how your benefit offerings and costs compare to those of your competition, please contact your McGraw Wentworth Account Director for information. You can also contact us directly at 248-822-8000 or via the internet at www.mcgrawwentworth.com. **MW**

NOTABLE THOUGHT

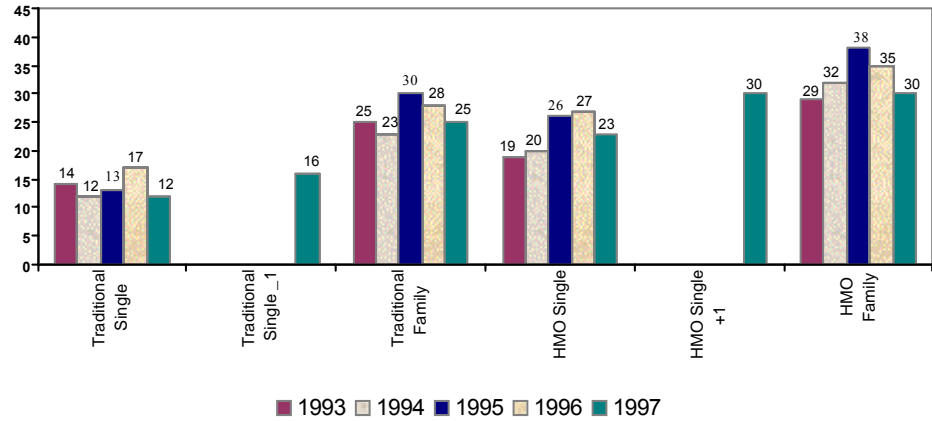
"You got to be careful if you don't know where you're going, because you might not get there."

- Yogi Berra

A Look at Employee Contribution Trends

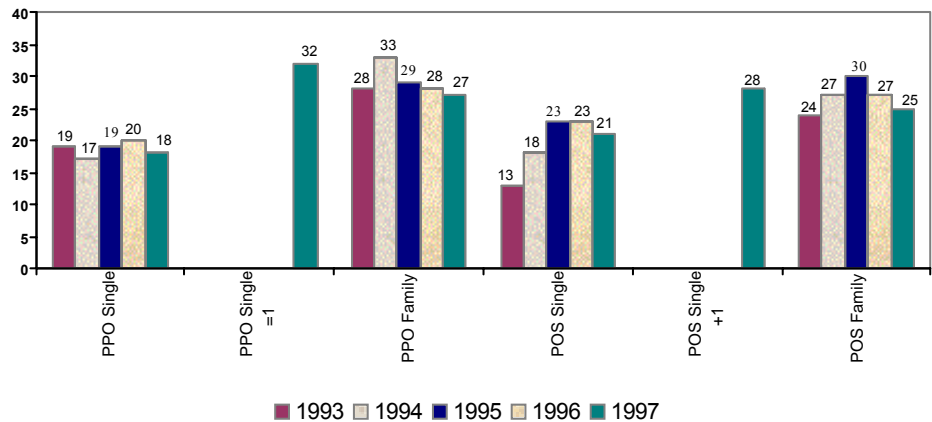
Percentage of Premiums Paid by Workers in Traditional and HMO Plans

All Firms, 1993-1997



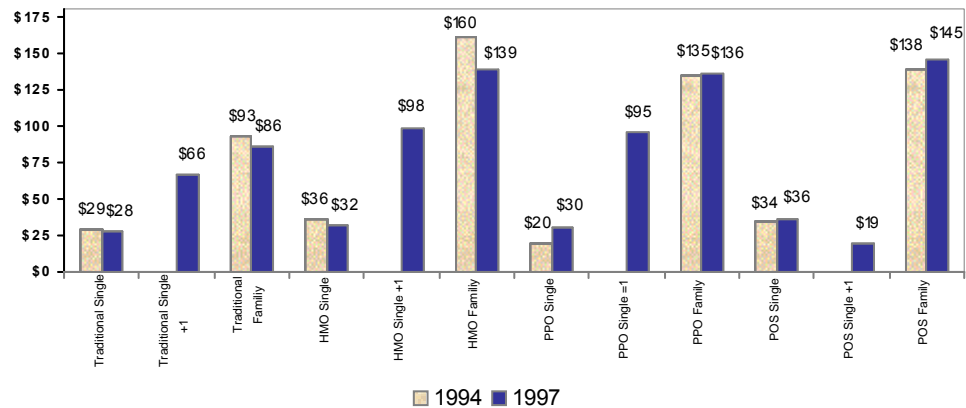
Percentage of Premiums Paid by All Workers in PPO and POS Plans

All Firms, 1993-1997



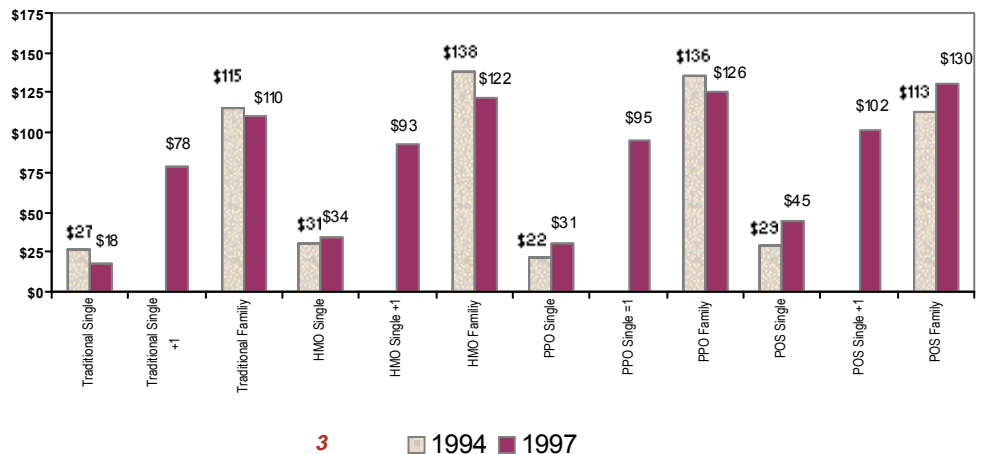
Average Employee Monthly Contribution for Premiums

Mid-Sized Firms, 1994 & 1997



Average Employee Monthly Contribution for Premiums

Large Firms, 1994 & 1997



Source: KPMG Peat Marwick Employer Survey, 1998

TECHNICAL CORNER

Q. Are your service providers ready for the millenium?

A. By now, almost everyone has heard about the "Year 2000" problems faced by the computer systems that manage much of the information which we use in our business and personal lives. The general problem originated with computer programs and software designed to read calendar years in two digits rather than four. As a result, many existing systems will be unable to differentiate "2000" from "1900", creating significant problems with data sensitive programs.

Most businesses are addressing the Year 2000 issue by upgrading their internal computer systems and software programs used to manage core business operations. However, businesses must also be concerned with whether the service providers with whom they transact business are correcting their systems as well. As you audit your service providers, you should be sure to include the insurance carriers and third party administrators responsible for pay-

ing claims on your employee group benefit program.

The Department of Labor recently issued a press release reminding em-



ployers of their fiduciary responsibilities with regard to Year 2000 systems programming. It is important to note, that as plan fiduciary, employers or their designated representatives also have responsibility for confirming that their benefits administrators and insurance carriers have met Year 2000 compliance standards. In order to be sure that your service providers are addressing the issue, we recommend the following action

steps:

- Request, in writing, that each of your current insurance carriers and third party administrators provide you with a written statement of their action plan to meet Year 2000 compliance.
- Follow-up, directly or through your group benefits broker/consultant, with your service providers to be sure that they are meeting key target dates outlined in their compliance plan.
- Confirm whether your service providers are in turn making sure that any outside programming or systems that they use in administrating your plan are also moving toward Year 2000 compliance.
- Document all correspondence with service providers in writing.

Regardless of your diligence in tracking Year 2000 compliance with service providers, you should be prepared to encounter some difficulties. If you've become aware of Year 2000-related problems that will affect the operation of your benefit plan you should notify your employees in writing. You may also want to meet with your property and casualty insurance agent to determine the extent of your Year 2000 coverage under your employee benefits fiduciary liability policy.

Our newsletters are written and produced by the McGraw Wentworth staff and are intended to inform our clients on general information relating to employee benefit plans. They are not intended to provide either legal or tax advice. Consult your legal counsel or tax advisor in matters that directly affect your benefit plans.

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DID YOU KNOW?

17.1% of surveyed HMO enrollees rated provider choice as the most important measure of plan performance.

Only 7.0% of enrollees identified personal (out of pocket) cost as the most important factor.

Only 6.7% felt that limits on care were the most important measure of HMO performance.

Source: The MEDSTAT Group, 1998