McGraw Wentworth

The ViewsLetter

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Employee Communication - Watch The Spin

Effectively communicating with your workforce is crucial. However, a recent Towers Perrin study of 1,000 working Americans suggests that employees don't trust corporate communications. Employees feel employers are spinning their internal communications too much.

The collapse of ENRON, the fiscal mismanagement of Tyco and other stories of corporate corruption have made employees increasingly cynical about the credibility of organizational leadership. As a result, only 37% of the individuals polled agreed the management of their organization communicates openly and honestly with employees. Only 2% less, or 35%, disagreed.

The perception of honesty varies widely depending on the issue. Benefit and pay information received the highest ranking for honesty. In addition, employees understood this information more than they understood any other type of employee communication.

The lowest ranked and least understood communications include the company financial challenges, business strategies and benefits to employees for meeting the company's needs.

The source and delivery of the information also impacted credibility:

- 48% indicated that they receive more credible information from their supervisor than the organization's CEO.
- 45% found information more credible if delivered in a face-to-face meeting rather than in a formal media notice.
- Only 27% believed information received from external news media was more credible than internal company distributed media.

For the future:

- 94% of employees want to hear the truth about the future of the company.

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About the ViewsLetter

We welcome you to the third quarterly issue in Volume Seven of the McGraw Wentworth ViewsLetter. It is our mission to be the leader in the employee group benefits brokerage and consulting industry to mid-sized organizations.

We have established the ViewsLetter as an integral part of our commitment to keep you informed of benefit trends, legislative and marketplace developments that may affect your group benefit programs.

We 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 at www.mcgrawwentworth.com.

Employee Communication - Watch The Spin, cont.

- 94% of employees would like to hear the truth about the future of their pay and benefits.
- 93% of employees would like to hear the truth about the future of their position.

Many organizations are approaching a busy season for employee communication. Typically, during late third quarter or early fourth quarter, organizations tackle the communication process for annual open enrollment. Lately, companies have had to deliver tough messages on benefit plans. Employees harbor a healthy dose of skepticism when it comes to the corporate message.

In developing a benefits communication strategy, once a year is not good enough anymore. Employees do not understand or believe employers are absorbing the largest impact from benefit increases. They also question their employer's role in increasing costs. Health care cost increases are not going away any time soon. Open, honest communication with your employees and building an environment of shared responsibility will make the open enrollment process more acceptable. Benefits communication should be an ongoing process, not a once a year dilemma:

- **Create a "look"**: Adopting a theme or a "look" to all information on your benefit plans will help employees instantly recognize it.
- **Educate employees on benefits and cost issues**: Employees should understand how your plan operates and how the number of claims filed affects plan costs.
  - If your plan is self-funded, your employees need to know that your organization pays the cost of claims. The number of claims directly impacts the cost of the plan. The more often employees file claims, the more expensive the plan becomes. This message is important if you are self-funded and experience-rated. Participants must use benefits wisely.
  - Health care is expensive. Because employees may pay only $10 or $20 for an office visit, they may not know the true cost for primary care physicians as well as specialists. They also need to know that emergency room visits may be much more expensive than urgent care treatment in your area.
  - Don't forget prescription costs. Although many plans have created financial incentives to steer employees to generic drugs and preferred brands, education about prescription drugs is still important.
- **Send reminders on family status changes**: You often see articles on eligibility audits that reveal a sizable number of ineligible individuals still covered under a plan. Typically, employees simply forget to let you know when a dependent reaches the limiting age, when they get divorced, or when other status changes occur. Family status reminders will help employees remember to notify Human Resources of status changes.
- **Consider your audience**: Recognize some of your employees will not understand all the information first time around. Working in benefits daily, we tend to forget that they are complicated. Employees need to be given information in manageable doses and in plain English.

Adopting a long-term, continual process to keep employees informed will foster a team approach to managing cost. In addition, difficult messages

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DID YOU KNOW?

According to the *Creating Healthy Corporate Cultures for Both Genders* study Lluminari conducted:

- 20% of respondents said work regularly interfered with responsibilities at home and kept them from spending time with their families.
- 54% of respondents said they "often to always" come home from work tired and almost 50% come into work already tired.
- 40% of respondents said they experienced distress from too much pressure or mental fatigue at work.
- Almost half of all respondents said they did not take their allocated vacation time.

are easy to deliver when your organization communicates with employees regularly. MW

Tax Treatment of Disability Benefits

The IRS recently released Revenue Ruling, 2004-55 on taxing disability benefits. The Revenue Ruling is consistent with how most plans currently administer their disability plans and is consistent with Private Letter Rulings the IRS has released in the past.

Disability benefits can include benefits paid from a short- or long-term disability plan. The general guidelines are as follows:

- If an employee pays for the coverage with after-tax dollars, the benefits are not taxable.
- If an employee pays for the disability coverage with pre-tax dollars, the benefits are taxable.
- If the employer pays for the disability coverage, the benefits, for the most part, are taxable.

The Revenue Ruling addresses a situation where an employer allows employees to decide at the beginning of the plan year whether to have their disability premiums deducted on a pre- or post-tax basis. If the employee becomes disabled after choosing post-tax payment, the benefits are not taxable. If an employee becomes disabled after choosing pre-tax payment, the benefits are taxable.

The key plan parameters are:

- The employee's choice to pay with either pre- or post-tax dollars must be made for an entire plan year and be irrevocable for that year.

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YOUR QUESTIONS

Q. Recently, one of our employees moved from Canada to the United States. The employee originally waived coverage under our group health plan because she was eligible for coverage under the Canadian Health Plan. However, when she moved to the United States, she lost the Canadian coverage. She would like coverage under our group health plan as of the date she lost her Canadian coverage. Is it possible to add this employee to our group health plan? Wouldn't it be considered a special enrollment situation under HIPAA?

A. The answer has two parts:

1. *Does this event qualify for special enrollment rights under HIPAA?* No. The special enrollment rights under HIPAA are triggered when an employee or dependent loses coverage under other group health coverage or health insurance coverage. The coverage a foreign government plan provides does not meet the definition of a *group* health plan because benefits are not provided solely to employees and their dependents. Therefore, losing coverage under the Canadian Health Plan would not make the employee eligible for special enrollment under HIPAA.

2. *Can we add the employee to our group health plan?* Just because the event does not trigger the federally required special enrollment rights under HIPAA, it does not mean the employee cannot be added to your plan. It depends heavily on your plan document wording and your vendor's administrative practices:

   - Check your SPD and check with your vendor: More than likely, your SPD will allow you to add individuals to your plan if they lose their other coverage. Determine whether losing government health coverage would be considered a loss of coverage under your plan. If the wording is not entirely clear, ask your vendor. In many cases, individuals in this situation would be allowed to enroll mid-year.

   - Check your Section 125 document: If you add the employee mid-year and you require employee contributions, you also need to determine whether the contributions can be taken pre-tax. Review your Section 125 document to determine whether this event qualifies as a loss of other coverage according to your plan document. If so, contributions for coverage can be taken pre-tax.

Tax Treatment of Disability Benefits, cont.

- The employer can continue to abide by the employee's original choice year after year unless the employee affirmatively decides to change it.

The Ruling applies separately to short- and long-term disability benefits. For example, suppose the employer allows the employee to choose to pay for long-term disability benefits with either pre- or post-tax dollars, but the employer pays 100% of the premium for short-term disability benefits. In this situation, the short-term disability benefit would be taxable. The long-term disability benefits would be taxable only if the employee has chosen to pay the premiums with pre-tax dollars.

What if both the employer and employee contribute toward the cost of long-term disability benefits? If both employee and employer pay for disability benefits, the "three-year look back" rule will apply. Under this rule, an employee is taxed on the percentage of the premium the employer has paid for the three years before the employee becomes disabled (assuming employee portion is paid on a post-tax basis). For example, if the total premium for an employee's disability coverage for the three years before the disability was $250 and the employer paid 40% of that premium, then 40% of the disability benefit would be taxable using the three year look back rule.

This Revenue Ruling merely formalizes the approach many plans have taken for years. Your plan should outline the pre- and post-tax payment options for disability benefits. It should also make it clear that the employee must decide before the beginning of the plan year, and the decision is irrevocable for that year. MW

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TECHNICAL CORNER - CA Senate Bill 1386

Although your organization may be located in Michigan, California Senate Bill 1386 on keeping electronic data secure can affect it. Effective July 1, 2003, the law requires any person or organization conducting business in California to report any instance of unauthorized people gaining access to personal information in an electronic form. Personal information is defined as:

1. Social security number.
2. Driver's license number or California Identification Card number.
3. Account number, credit or debit card in combination with any required access codes.

The inclusion of the social security number makes this a concern for employers, insurance carriers and third party administrators who commonly use the social security number as the benefit plan contract number.

The California law does not apply to encrypted information. This exception may lead companies to increase the amount of data they encrypt. The law does not regulate how much data to encrypt or how to encrypt it.

A key component of the law is that California residents must be notified if a security breach has compromised their personal information. A security breach is defined broadly as "unauthorized acquisition of computerized data that compromises the security, confidentiality or integrity of personal information." Companies must notify individuals even if it is reasonably believed that an unauthorized person may have acquired their information. When company employees use the data for business purposes, they are not considered to be breaching security.

This law almost seems to be a California version of the HIPAA Security Rule. However, it is much broader because it applies to any organization that uses or maintains a California resident's personal information electronically. It also requires the organization to notify the individual if there is a suspected security breach. The HIPAA Security Rule requires a plan to detect security breaches, but it does not direct the plan to notify the individual whose information was breached. Another key difference is that the California law allows those injured to sue. If a business fails to notify an individual of a security breach promptly, an injured customer may file a civil action against the business to recover any potential damages.

CA SB 1386 is a complex piece of legislation that may affect your organization. If you maintain a California resident's personal information electronically, you need to know how this law impacts your organization. MW

Battling The Buldge

UNUM Provident released the results of a study that should have employers taking notice. The rising incidence of obesity in our general population is typically a focus when discussing rising health care costs. The UNUM study released startling statistics on the impact obesity has on disability claims. The UNUM study reviewed 1.3 million short-term disability claims filed between 1996 and 2003. The claims reviewed were for conditions in which weight gain is a significant risk factor or a condition which weight gain is associated.

The study results are shocking:

- 4,000% increase in syndromes that are primary self-reported symptom based including fibromyalgia, chronic fatigue syndrome, irritable bowl and gulf war syndrome.
- 100% increase in claims due to hypertension and diabetes.
- 78% increase in musculoskeletal disorders.
- 63% increase in cancer.
- 46% increase in back disorders.
- 17% increase in cardiovascular disease.

Employers are not only suffering from increased health care cost; obesity is having a significant impact on disability claims and productivity cost.

Employers can have an impact on obesity. A recent survey commission by the American Association of Occupational Health Nurses, Inc. (AAOHN) shows employer-sponsored weight management programs play a tremendous role in helping employees lose weight. Nearly half of the survey respondents reached and maintained their weight loss goals. The respondents had many reasons why employer involvement impacted their result:

- Support groups of peers and co-workers created motivation.
- Trained professional guidance available from onsite nurses.
- Convenience for access to exercise classes, dieticians, and healthier food options in cafeteria.
- Encouraging environment from employer incentives to co-worker encouragement and support.

Employers who are interested in battling the bulge on their own turf should follow program guidelines suggested by the AAOHN:

- Management must be involved and interested in any initiatives.
- Recruit employee champions from all areas of the organization (from fit employees to overweight individuals).
- Promote the program often.
- Provide access to trained professionals.
- Encourage a team mentality to tackling weight management issues.
- Share successes, nothing is as motivating as having someone share their success with lifestyle change.

Obesity has an impact on many areas of an organization. Combating obesity can improve the bottom line, but also the attitude and outlook of your employees! MW

TREND TIDBITS

$ Medical plan cost is expected to increase at a slighlty lower rate in 2004 than in 2003 for all lines of coverage.

$ Costs for PPO plans with prescription coverage are projected to increase 14.4%; costs for HMOs with prescription coverage are expected to increase 13.7%. Interestingly, costs for high deductible PPO plans (plans with a deductible of $1,000 or more) with prescription coverage are expected to increase 14.7% in 2004.

$ Projected cost increases for prescription plans vary widely; they range from 10%-20%.

$ Dental trends remain fairly stable. Managed dental care costs are projected to increase 5.2% in 2004. Traditional dental plan costs are expected to increase 7.4%. Costs for dental plans with a passive PPO are expected to increase by only 6.8%.

Source: 2004 Segal Health Plan Cost Trend Survey

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THE VIEWSLETTER

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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