



Creative Use of Benefit Designs Can Satisfy Employer and Employee Needs

By Tammy Cappo
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With healthcare rates continuing to increase at an alarming rate, employers are seeking healthcare strategies that cut costs yet still maintain an attractive benefit package. Popular methods of cost control include employee premium contributions or a move to a deductible plan.

Below is an outline of each concept along with related pros and cons:

PREMIUM CONTRIBUTIONS

Some municipal employers have chosen to take the path of least resistance through cost sharing and the use of employee premium contributions. Premium contributions may be collected on a pre-tax basis through an IRC, Section 125 "premium only plan (POP)." The POP provides a savings to both the employee and employer. The employee realizes a savings because the employee contribution is made on a "pre-tax basis," and the municipality realizes a savings because it is no longer required to pay FICA taxes on the employee contribution amount. While this option allows the employee to continue to enjoy his or her current, or possibly new benefit design, it does not change employee behavior. In order to affect a change in behavior, the employee must have some "skin in the game."

NON-QUALIFIED DEDUCTIBLE PLANS

Moving to a plan with an "in-network" deductible is becoming increasingly popular. Along with the deductible, these plans generally include increased copays, a limited number of visits, and in some cases, a closed drug formulary, all providing cost savings. Services such as doctor visits, therapy and prescriptions require copays and are not subject to or applied towards the deductible.

In order to maximize employee savings and limit the amount of change, some municipal employers have chosen to coordinate these types of healthcare plans with an integrated Health Reimbursement Account (HRA). An HRA, or health reimbursement account, is a medical care reimbursement account that is funded solely by the employer and reimburses the employee for medical care expenses incurred by the employee or his or her dependents. The municipal employer can choose to fund all or only a portion of the deductible. While moving to this type of plan does increase out of pocket costs for the employee, with the municipal employer fully funding the deductible, employee behavior still may not change. With the employee having everything paid for through municipal reimbursement, the employee may still not have any "skin in the game."

QUALIFIED HIGH DEDUCTIBLE HEALTH PLANS

Employers can also choose to offer their employees a Qualified High Deductible Health Plan (QHDHP). For the plan to be qualified, the minimum individual 2009 deductible is \$1,150 and a family is \$2,300. Benefits under a qualified high deductible

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plan are all subject to the calendar year deductible. Once the deductible is met, benefits are paid at 100 percent.

The QHDHP can be offered in conjunction with a Health Savings Account (HSA) or an HRA. A health savings account is an employee-controlled account that enables employees to take cost into consideration when seeking health care services. Employees can save account dollars in an HSA on a tax-advantaged basis to use for future needs. The HSA can be funded via employee funds or a combination of employee/ employer funds. Although this concept is growing rapidly in the corporate arena, local government has been slow to adopt it.

MEIT Offers Support and New Plans

It is increasingly important for municipal officials to understand the various concepts available to them before entering negotiations. The MEIT will be sponsoring a seminar on all of the above healthcare cost containment concepts and more. The seminar will include healthcare professionals and guest speakers who've incorporated these concepts into their benefit structures

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The American Recovery and Reinvestment Act Provides a Temporary Subsidy for “Qualified” COBRA Participant’s Premium Payments

On Feb. 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act (*referred to as the “Economic Stimulus” Act*). In addition to the many enhancements designed to stimulate the economy, Division B Title III of the Act entitled “Health Insurance Assistance For The Unemployed” added a section which will provide a temporary subsidy towards the cost of COBRA premiums for “involuntarily terminated” workers. The benefit typically provides premium assistance for up to nine months in the amount of 65 percent of the cost of COBRA continuation coverage. The COBRA Qualified Beneficiary is required to pay the remaining 35 percent of the cost for the COBRA continuation coverage period.

The following Questions & Answers will provide you with an overview of the most common provisions affecting local government.

Does this Act apply to government employers and what benefits are affected?

The premium assistance benefit applies to COBRA continuation coverage provided under Public Health Service Act, Employee Retirement Income Security Act and the Internal Revenue Code. Therefore it applies to local government employers. It applies to group health plans, vision-only plans, dental-only plans, Health Reimbursement Arrangements and some EAP’s. It does not apply to Health Flexible Spending Accounts.

When did the assistance begin?

Assistance became available for the

period of coverage beginning on and after the enactment date. For many plans this was March 1, 2009, but could have been available as early as Feb. 17, 2009.

Who is eligible for the subsidy?

The act requires that premium assistance is available to all “Assistance Eligible Individuals.” They include COBRA qualified beneficiaries who have had the qualifying event of being *involuntarily terminated* from employment between Sept. 1, 2008 and Dec. 31, 2009. (*To date, involuntarily terminated has not been defined by the federal regulatory agencies but it is expected to be expansive.*) There are maximum income limitations typically beginning at \$125,000 (*single*) or \$250,000 (*joint filers*) for the taxable year in which the subsidy is received.

The act provides for a new or extended election period for any Assistance Eligible Individual that was not actively covered by the COBRA continuation coverage on Feb. 17, 2009. Any Assistance Eligible Individual is to be given a notice of their right to elect coverage within 60 days, which was April 18, 2009. Once the notice is provided, it is assumed that the individual will have the customary 60 days to elect COBRA coverage. If elected, COBRA coverage is effective as of the first full period of coverage beginning on or after the enactment date (*March 1, 2009*).

How much is the assistance?

The assistance is equal to 65 percent of the Assistance Eligible Individual’s monthly COBRA continuation coverage premium, in-

cluding the two percent administration fee. The COBRA qualified beneficiary (the involuntarily terminated employee) must pay the remaining 35 percent of the COBRA continuation coverage premium. The employer is not permitted to pay any portion of the COBRA qualified beneficiary’s share of the premium. If the employer pays any or all of this cost, the premium assistance benefit is not available.

How will the municipality be reimbursed?

The municipality will be reimbursed through payroll taxes, via the IRS form 941. The current IRS form 941 is being revised. The subsidy will pay 65 percent of the COBRA continuation coverage premium directly to the employer in the form of a payroll tax credit. After receiving the COBRA qualified beneficiary’s reduced payments, the employer may offset their payroll tax by the remaining assistance amounts.

How long does the assistance last?

COBRA qualified beneficiaries may receive assistance for a maximum period of nine months following the enactment.

This Question & Answer informational review is designed to give you a brief overview of the new COBRA provision included in the 2009 American Recovery and Reinvestment Act. For answers to specific issues you should discuss the issue with your municipal solicitor or COBRA administrator.

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unilaterally and through negotiations. Look for additional information in the mail.

And, starting in January 2010, the MEIT will be offering two new plans that should interest municipal employers. These programs will have no up-front deductible, but do have employee cost sharing on all services, with the exception of preventive care. Depending on the plan that you choose, cost sharing (employee out of pocket expenses) can either be 20 or 30 percent, with maximum annual expenses limited to \$4,000 for individual and

\$8,000 for family coverage. Copays have been maintained on the closed formulary drug plan.

Benefit grids for these products will be mailed to you in the near future. Simple to explain and administer, these plans are another step into consumer driven health care and will hopefully be another solution to the ongoing struggle with benefits and cost. Under these two new plans, employees will have some “skin in the game” because they’ll be required to pay a portion of costs for every healthcare purchase.



Mini-COBRA May Be Coming to Pennsylvania

For employers with 20 or more employees, Congress passed the Consolidated Omnibus Budget Reconciliation Act (COBRA) health benefit provisions in 1986. It applies to plans in the private sector and those sponsored by state and local governments. This federal law provided coverage for the continuation of group health that otherwise would be terminated.

COBRA contains provisions giving certain former employees, retirees, spouses and dependent children the right to temporary continuation of health coverage at group rates. This coverage, however, is only available under specific instances.

Recently, the American Recovery and Reinvestment Act of 2009 (*the ARRA is known as the stimulus bill*) amended COBRA to provide a premium assistance of 65 percent of the COBRA premium under certain situations and for a limited amount of time. There are approximately 38 states with varying Mini-COBRA statutes. The state legislature is currently considering SB 442; A bill that would enact Mini-COBRA legislation. If passed in its current format, it would allow those qualified participants to enjoy the premium assistance offered by the ARRA through the end of this year.

What is Mini-COBRA?

Mini-COBRA, like COBRA, is a statute that gives certain former employees, retirees, spouses and dependent children the right to temporary continuation of health insurance coverage at group rates. However,

unlike COBRA, this statute requires employers, including local government employers, with employee of two - 19 employees with a group policy to comply with this new structure. This would include employees and their eligible dependents that terminate coverage because of qualifying events will be offered up to nine months coverage at their no more than 105 percent of their previous employer's group rate.

The coverage continuation included under this act must include the same benefits as are under the group policy. The employer is required to notify the covered employee or eligible dependent within 30 days of the qualifying event. The covered employee or eligible dependent has 30 days to notify the employer of his or her desire to enroll in the policy; the employer will then have 14 days to notify the insurance company of the election to enroll. The coverage will have begun at the date of the qualifying event. And, there will be no break in coverage as long as the premiums are paid and the participant is eligible to participate.

We anticipate that the state will be developing regulations in order to implement and administer the program. You should discuss this benefit with your health care provider and your municipal solicitor.

Whether you are required to follow COBRA, or the new Mini-COBRA, the employer requirements are very stringent and the fines are more than you want to pay. You should be discussing the ramification of the Mini-COBRA program on your municipality and

review your current COBRA administrative processes, if you have 20 or more employees. No matter how many employees your municipality employs, you should consider if there is premium assistance available to your recently involuntarily terminated employees and how the ARRA of 2009 will impact your administrative responsibilities.

As of the writing of this article, HB 1089 had passed the House of Representatives and is in the Senate Appropriations Committee awaiting Third Consideration.

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Pension Funding and the 2010- 2011 Minimum Municipal Obligation (MMO) Report

By **William C. Asay**, CEBS
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We're all well aware of the declining stock market and the huge losses most of the municipal pension plans suffered in 2008. We also know that another actuarial valuation for police, general and fire pension plans is to be completed using a Jan. 1, 2009 date. What we don't know is how much will the 2010 MMO's increase and how will they affect budgets?

Act 205 Requirements

First, let me explain the requirements of Act 205 when completing the 2010 MMO. To begin, you'll need to use the certified numbers from your last actuarial valuation report and Act 205 forms submitted to the state (*that may be the 2007 or 2009 actuarial reports*).

Since the state won't be distributing Act 205 forms until late summer or fall 2009, you'll be able to use the certified numbers from your 2007 actuarial report when determining 2010 MMO's. This may allow you to control your 2010 pension costs; that an-

nual cost will be close to the 2009 MMO, depending on payroll.

If you use the 2007 actuarial report to create your 2010 MMO's and your annual cost has increased, and in some cases dramatically, the difference between the amount contributed and the higher amount that was actually needed based on the 2009 actuarial valuation is a loss in the next actuarial valuation. And, you'll start out being that much behind. It could take significant gains in 2010 and 2011 when calculating the 2011 actuarial valuation just to break even.

Breaking Down the Issues...

The above is the remedy already included in the pension statutes that can help you with your 2010 MMO's. However, the state legislature is aware of the current funding concerns of local government and has been working on an alternative to ease funding requirements. The state and school districts also have funding issues. Just like the state pension systems, many local government systems also suffered large investment losses. In many cases, local government plans had better returns than state government pension systems and some did worse.

Over the next few months, you'll hear

many ideas and see proposed legislation to fix the short term problems of your municipal budgets. However, from a purely pension funding perspective, the problem is long term and any short term fix may just exacerbate the long term issue. Actuaries can only use life expectancy tables and assumptions to estimate costs. And, exact costs will not be known for many years. If the state enacts legislation that reduces your costs now, you will be transferring the actual costs to future years.

How to Reduce Future Costs

Some ideas to reduce future costs include: reducing benefits (*no chance*), increasing return (*you have some control, but not a lot*), increasing employee contributions (*tough negotiations*), getting more funds from the state (*good luck*), or increasing pension payments from the municipal general fund.

Since you are the plan fiduciaries, and funding is the responsibility of the governing body, this is where the issues will either be resolved or ignored. The governing body must take the time and make the effort to understand its options. There is no magic bullet, state or otherwise, that's going to fix your pension funding problem.

IMPORTANT NOTICE...

Drug Copay Changes Effective Jan. 1, 2010

MEIT employer groups with less than 50 covered individuals are rated as part of the Highmark small group rating pool. As stewards of the pool, it's Highmark's duty to design and offer only those programs that are structured to contain costs while providing quality affordable health care.

Effective Jan. 1, 2010, Highmark is implementing its "Optimal Drug Copayment Levels" to small group benefit plans. Optimal Drug Copayment Levels are meant to help contain prescription drug costs.

These changes will only affect four benefit plans within the MEIT – all others will remain unchanged. The plans affected along with the applicable changes are:

| Plan Name | Current copay/ formulary levels | Copay/formulary level as of 1-1-2010 |
|---------------------------------|---------------------------------|--------------------------------------|
| PPOBlue \$750 Deductible Value | Closed \$15/\$30 | Closed \$8/\$40 |
| Mail Order | Closed \$30/\$60 | Closed \$16/\$80 |
| PPOBlue \$1000 Deductible Value | Closed \$15/\$30 | Closed \$8/\$40 |
| Mail Order | Closed \$30/\$60 | Closed \$16/\$80 |
| PPOBlue High Deductible Value | Closed \$15/\$30 | Closed \$8/\$40 |
| Mail Order | Closed \$30/\$60 | Closed \$16/\$80 |
| PPOBlue \$1500 Deductible Value | Closed \$15/\$30 | Closed \$8/\$40 |
| Mail Order | Closed \$30/\$60 | Closed \$16/\$80 |

*Should you have questions, please contact
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MEIT Board Adopts Major Change Altering the Taxability of the Disability Programs

The MEIT Board recently adopted a change in the administration of the disability programs that could save a participant receiving disability benefits thousands of dollars. This election could benefit any participant if the municipality elects to participate in the program.

In non-contributory disability plans (meaning the municipality pays the entire disability premium) a vast majority of the plans follow the basic rule of taxation. That is, if the **employer** pays the premium, the benefit payments are taxable to the employee receiving the payments as ordinary income, for federal tax purposes. If the **employee** pays the premium, with his after tax money, benefit payments are **not** taxable for federal tax purposes.

The Internal Revenue Service (IRS) granted an exception to this basic non-contributory benefits taxation rule. Revenue Ruling 2004-55 allows an employee to receive benefit payments on a tax free basis. This rule allows employees to opt to pay the income tax on the premiums paid by the employer for the disability plan. The IRS will treat the disability benefits received as tax-exempt. In order to qualify under this rule the following pre-determined criteria **must** be met:

1. The employer decides to offer the employee's the choice of a tax-free benefit for a non-contributory disability plan.
2. The non-contributory plan must be established or amended to allow for the Revenue Ruling 2004-55 election. (The MEIT has taken the action to satisfy this section and an amended joinder agreement is necessary.)
3. The employee's electing the 2004-55 exemption must make an annual irrevocable election, in advance of the plan year, requesting that premiums be included in taxable earnings.

Example: Your municipality offers a non-contributory, employer paid, long term disability plan with a benefit of 60 percent of pay, through the MEIT. Your employee becomes disabled and qualifies for payments. The employer paid annual premium is \$300. How would that adoption of this provision effect the payments to the participant?



| | Current Plan | Current Plan with RR 2004-55 |
|--|------------------------|------------------------------|
| Monthly Salary..... | \$3,500 per month..... | \$3,500 per month |
| 60% of salary | \$2,100 per month..... | \$2,100 per month |
| Taxable @ 20% | \$420 | None |
| Net Monthly Benefit | \$1,680 per month..... | \$2,100 per month |
| Annual Salary Before Disability | \$42,000 | \$42,000 |
| Total Annual Net Benefit..... | \$20,160 | \$25,200 |
| Difference in annual payments..... | | \$5,040 |
| Income Tax On Premium @ 20%...None | | \$60 per year |

(Your individual situation will vary and you should consult with a tax advisor.)

From a Practical Standpoint:

1. Since one of the requirements is an annual, irrevocable employee election, it is extremely important that your broker has the administrative efficiency to require the election forms be completed. Remember, the provision requires an annual employee election.
2. It may be assumed by the insurance companies that the participant will be more likely to stay on disability since more of the need is being covered. Since the benefit is not being taxed for income tax purposes and the insurance underwriter may assume the benefit will be paid longer, some disability insurance companies may add a small percentage to the premium. The MEIT carrier has not added anything to the premium.
3. The RR 2004-55 exception is not well known and the various disability insurance companies are not doing much to educate the municipalities. The disability insurance companies will ultimately need to increase their individual reserves to cover longer paying benefits.
4. This is a low or no cost benefit that can be offered in negotiations.

Shaler Police Sergeant Benefits from “10,000 Step Program”

Shaler Police Sergeant Carl Funtal participated in Highmark's 10,000 Step Program and truly reaped the benefits.

Over the three month program, he took close to two million, six hundred thousand steps! The program is designed to help individuals become more physically active by using a pedometer to track the number of steps they take each day; 10,000 steps is equivalent to about five miles of walking.

“I'm pretty big and I'm a runner, I also participate in a lot of sports,” said Funtal who will turn 50 in December. “The first week I walked 112,000 steps which was my lowest week...so, from there, I utilized my time differently and didn't run as often, but walked all the time and also ran in place even when watching TV sometimes.”

He walked 20 miles some days. “I broke it up and put about three hours a day into this,” said Funtal who lost 50 lbs. over three



months and didn't change his eating habits.

And, while his team won the Township competition, Funtal said he didn't participate to win. “I did this for my health...by losing the weight, I felt good.”

Funtal thinks the 10,000 Step Pro-

gram was effective and would like to see it run again but for a year rather than three months. “I think many people would see a lot of health benefits from it,” he added.

“If people walked a little in the morning and evening and on their lunch hour, they could get in extra steps without really interrupting their daily activities,” said Funtal.

He's been with Shaler for 19.5 years; first as a motorcycle officer and since January, a Sergeant. Funtal lives in Shaler with his wife, Beth, and family.

His family supported him during the three month program. “My wife would walk with me at times; my daughters would walk with me too...sometimes though, they'd just shake their heads and look at me as I loaded the dishwasher and peeled potatoes while walking in place!” said Funtal.

Watch for details in the future as MEIT may be offering this program again.