

# BENEFIT

## *Plan Developments*



A monthly report covering plan design and legislative changes

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## Bush Proposes New HSA Tax Breaks

Arguing that a consumer-directed approach to health care has the potential for providing more Americans with medical insurance while reining in rapidly escalating costs, President George W. Bush has called for enhancing tax incentives associated with Health Savings Accounts (HSAs) and other types of consumer-directed plans. Among other proposals, Bush advocates raising the limit on tax-deductible contributions to HSAs and creating new deductions and tax credits for the purchase of individual health insurance policies.

In the president's State of the Union address on January 31, Bush said, "We will strengthen health savings accounts—making sure individuals and small business employees can buy insurance with the same advantages that people working for big businesses now get. We will do more to make this coverage portable, so workers can switch jobs without

having to worry about losing their health insurance."

To accompany the State of the Union address, the White House released a plan for expanding HSA-related tax breaks that would cost an estimated \$59 billion over five years and \$156 billion over ten years. The president proposes raising the limit on tax-free contributions to

HSAs to cover all out-of-pocket medical costs and granting individuals who purchase HSA-compatible insurance policies an income tax deduction on premiums equivalent to the tax break currently available on employer-sponsored insurance. Bush's plan would also provide a 15.3% credit for payroll taxes paid on HSA contributions made by individuals.

To help "vulnerable Americans," the president further advocates providing lower-income families with a refundable tax credit of up to \$3,000 to purchase an HSA-compatible policy and fund the account. In addition, Bush would like to make it easier for employees who are changing jobs to take their HSAs with them.

Established by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, HSAs are tax-advantaged savings accounts used in conjunction with high-deductible health plans (HDHPs). Under current rules, the ceiling on tax-free contribu-

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tions to HSAs is set at the lower of the deductible amount or a maximum of \$2,700 for individuals and \$5,450 for families, with catch-up contributions of \$700 permitted for those over age 55. Employers are permitted to make tax-free contributions on behalf of employees. Earnings accumulate tax free, and withdrawals are not taxed, provided they are used to pay for qualified medical expenses. HSA enrollees may roll over any unused funds from year-to-year, building up savings that may be used to pay for medical expenses in retirement. After age 65, enrollees can take distributions for any reason without penalty, but non-medical withdrawals are taxed.

As the cost of providing health insurance strains the budgets of many businesses, a small but growing number of employers are offering HSAs as a benefit option. According to a recent report by Mercer Health & Benefits, just 2% of all employers with 10 or more employees offered a consumer-directed health plan in 2005. The study also found, however, that larger companies are adding consumer-directed plans to their benefits packages at a much faster rate than smaller firms. According to the trade association America's Health Insurance Plans, an estimated three million Americans are currently enrolled in HSAs.

Advocates of consumer-directed plans argue that people who have more of their own money invested in health care are likely to use health care services more judiciously and shop around for better deals from providers. But HSA opponents contend that consumers will find it difficult to take charge of their own health care if, for example, they have little hospital and physician choice in their local area, lack adequate pricing and quality information, or are faced with a medical emergency. Critics of the consumer-directed approach also point out that HSA enrollees may try to save on out-of-pocket costs by skimping on preventive care and other necessary medical services, leading to more expensive problems later.

According to White House estimates, the president's HSA expansion plan could increase the number of Americans with HSAs from the currently projected figure of 14 million to 21 million by 2010. But because the majority of Americans lacking health insurance pay little or nothing in federal tax, skeptics of the proposed plan dispute whether HSAs would go far in helping the uninsured obtain coverage. Instead, the plan's detractors reason, generous tax incentives for HSA enrollment would encourage those who are richer and healthier to sign up for the plans, while most Americans with lower incomes or chronic illnesses would still be unable to pay for or—due to medical conditions— even obtain health coverage.

Commenting on the president's HSA expansion proposals, Bill Vaughan, a senior policy analyst for Consumers Union, said, "Giving tax breaks only encourages healthier and wealthier people to opt-out of traditional employer-based insurance, leaving behind a fractured insurance pool that hurts the older and sicker."

Vaughan added, "Tax deductions do little or nothing for those people who are uninsured and devastated by high health care costs. Most uninsured are in the 0% or 10% tax bracket so tax deductions do little or nothing for them." Vaughan also dismissed the proposed tax credits for lower-income families, observing that credits of \$1,000 to \$3,000 would be "almost meaningless" given the high cost of family health coverage.

As the controversy surrounding HSA adoption heats up, opponents of the president's plan point to recent studies indicating that high-deductible and consumer-directed plan participants may be less satisfied with their health coverage than those in traditional managed care plans. According to a survey by the Employee Benefit Research Institute (EBRI) and the Commonwealth Fund, 42% of consumer-directed health plan enrollees and 33% of high-deductible plan enrollees reported feeling extremely or very satisfied with their health coverage, compared with

63% of enrollees in comprehensive health insurance plans.

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## Employee Satisfaction With Benefits Correlated To Job Satisfaction

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Workers who are happy with their benefit packages are also likely to express satisfaction with their jobs and loyalty to their employers, according to an annual survey on employee benefits trends conducted by MetLife. Moreover, many workers place a high value on workplace relationships and work/life balance when deciding whether to change jobs, the study found.

In a survey of 885 employees and 1,514 human resource executives taken in 2005, 39% of employees reported feeling somewhat or very satisfied with their benefit packages, up from 36% in 2004 and 32% in 2003. Among those employees who said they feel very satisfied with their benefits, 65% indicated they are also very satisfied with their current jobs, and 67% said they feel a strong sense of loyalty to their employers.

Employees age 61–69 expressed the greatest levels of satisfaction with both their employer-provided benefits and their jobs, with 63% of respondents in this group indicating they are very satisfied with their benefits and 75% saying they feel loyal to their employers.

The quality of the benefit package provided by an employer is an increasingly important consideration for workers when deciding whether to remain in a job or look for new employment, the study showed. In 2005, 31% of the employees surveyed said benefit offerings were an important factor in the decision to come to work for their current employers, up from 25% in 2004 and 2003; furthermore, 38% of employees cited having satisfactory benefits as an

important reason why they remain in their positions, up from 35% in 2004.

The study also indicated, however, that the benefit package offered by an employer is not the leading consideration when a worker is deciding whether to join or stay with a company. When asked what factors were very important in this decision, quality of coworker and/or customer relationships was cited by 58% of the employees surveyed, work/life balance by 56%, working for an organization with a mission or purpose they support by 54%, the opportunity for financial growth and advancement by 52%, and the opportunity for skill building and professional growth by 51%.

“As the demand for experienced knowledge workers intensifies, employers need to understand what motivates—and inspires the loyalty of—today’s high-performing employees,” said Maria R. Morris, executive vice president, Institutional Business, MetLife. “In most cases, it’s not the corner office or a large paycheck, but rather, the opportunity to work for a company that fosters strong workplace relationships and inspires a sense of balance and/or purpose.”

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## Disability And Life Insurance Most Popular Voluntary Benefits

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Workers of all ages are more likely to take advantage of the disability and life insurance coverage offered by their employers than other types of voluntary benefits, according to a survey by Aon Consulting. The survey also found, however, that older and younger workers vary in their preferences for other types of voluntary benefits.

In a nationwide survey of employers, 45% of respondents reported that baby boomer workers (ages 45–60) purchase disability insurance, and 37% said Gen-



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eration X employees (ages 25–40) also choose this option. The survey also showed that baby boomers and Generation Xers value life insurance coverage, making it the second most popular benefit for both groups.

Differences between the generations emerge, however, when it comes to other types of voluntary benefits, the survey showed. Long-term care insurance ranked third in importance for baby boomers, while home/auto/liability insurance ranked third for Generation Xers.

“Obviously, there are generation-neutral issues, which are represented in the popularity of disability coverage and life insurance,” said Garry Sullivan, senior vice president with Aon Consulting. “At the same time, an increasing number of Baby Boomers have begun caring for their parents, which has prompted many of these workers to purchase long-term care insurance as a voluntary benefit for themselves. Similarly, many Generation Xers are buying their first homes, making homeowners insurance a popular voluntary benefit choice for this group.”

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## Health Management Programs May Cut Health Care Costs

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Employers looking to lower their health care expenditures while improving the health of their employees should consider implementing a “population health management” program, Bruce Hochstadt, M.D. and Patricia Curran, R.N. recommended in a two-part paper published by Buck Consultants.

The incidence of chronic illnesses such as heart disease, hypertension, diabetes, high cholesterol, depression, and arthritis is rising among American workers, the authors noted, and these conditions are often made worse by behavioral factors such as obesity, lack of exercise, stress,

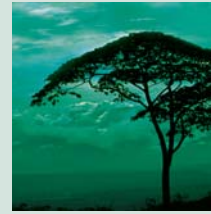
and substance abuse. At the same time, they added, previous attempts by health insurers to control health care expenditures and improve care through utilization management have largely been abandoned due to opposition from physicians and patients, leading to an escalation in the cost of treating these conditions.

As a result, the authors observed, nearly half of all patients suffering from chronic illnesses are not getting the care they need or following the therapies prescribed, while those who are receiving treatment are often at advanced stages of the disease, thereby driving up costs.

To address these problems, the authors suggested employers focus on helping employees to avoid illness and to treat their illnesses at the early stages by implementing a population health management program. As the first step, employers should conduct an analysis of their employees’ patterns of care, which allows them to identify gaps in care and categorize workers according to risk level. The analysis can be based on detailed health questionnaires completed by employees.

After establishing where the health problems lie within the employee population, employers should consider instituting care management programs in specific areas, Hochstadt and Curran advised. Employers are likely to see the greatest return on investment, the authors said, by concentrating their efforts on providing patient education and coaching for conditions that can be most easily prevented or managed through behavioral changes, including diabetes, cardiac problems, lower back pain, depression, high risk pregnancy, and respiratory illness.

To encourage participation in the analysis and subsequent care management programs, the authors recommended, employers should offer incentives, which may include cash, gift certificates, reduced health insurance costs, and the opportunity to participate in wellness initiatives, such as subsidized gym memberships or weight management programs.




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