Employee Benefit Overview – Trends and Options

Erik Kass, Consultant, National Insurance Services &
Lance Pfarrer, Account Representative, National Insurance Services
October 30, 2017
• Medical Benefits (ACA, Funding, FSA, HDHP and Wellness)
• Ancillary Benefits (Dental, Vision, Life, Disability, Other)
• Retiree Benefits (Payouts, OPEB)
• Restructuring Retiree Benefits
Medical Benefits
Medical Benefits:
Affordable Care Act (ACA)

Key concepts
- Offering coverage to 95% FT employees for ALE’s (Employer Mandate)
- Affordability
- Tracking hours
- Uniform Summary of Benefits and Coverage (SBC) Updated for 2017

Key dates 2018
- January 31 – Individual forms 1095-C
- February 28 – Non-electronic IRS forms 1094-C
- April 2 – Electronic IRS forms 1094-C
Medical Benefits:
Funding Options

• Fully-Insured
• Self-Insured
• Pooled plans (Cooperatives and Consortiums)
Medical Benefits:
Flexible Spending Plan (FSA)

• Standard vs Limited Plan
• Limited Purpose (Dental and Vision)
Medical Benefits:
Moving to a Higher Deductible Health Plan (HDHP)

- Traditional plans do not encourage consumerism
- Lack of consumerism cause runaway claims that may increase premiums
- Goal of HDHP is to empower employees to improve their decision-making skills
- Most HDHP are combined with a health reimbursement arrangement (HRA) or health savings account (HSA) that employees can use to cover the higher out of pocket costs
Medical Benefits:
Moving to a Higher Deductible Health Plan (HDHP)

Health Reimbursement Arrangement (HRA)

1. Flexibility in plan design
   1. Single Plan Deductible - Open
   2. Family Plan Deductible – Open
   3. Co-pays allowed

2. Employer may only contribute to the account
   1. Flexible Spending Account used for Employee Contributions
   2. District has the choice to retain ownership or to relinquish ownership of employer deposits (vesting schedule)
   3. No limit on annual contributions

3. Funds can only be used for qualified medical expenses

4. Claims are adjudicated by a third party administrator and are not the responsibility of the employee

5. Funds can be used to cover medical premiums upon vesting and separation

© National Insurance Services of WI, Inc.
Medical Benefits:
Moving to a Higher Deductible Health Plan (HDHP)

Health Savings Account (HSA) - 2018

1. Requires a Qualified High Deductible Health Plan (HDHP)
   1. Single Plan Deductible - $1,350
   2. Family Plan Deductible - $2,700
   3. No co-pays until deductible is met
2. Employer and Employee may contribute to the savings account
   1. District relinquishes ownership of employer deposits immediately
   2. Limit of $3,450 Single and $6,900 Family combined contributions
3. Funds can only be used for qualified medical expenses
4. Individual is required to maintain records of expenses incurred
5. Requires Limited Purpose Flexible Spending Account
6. Requires alternative option for any staff not eligible to participate in HSA
   1. Staff over 65
   2. Staff covered under another non-HDHP, including FSA
7. Funds can not be used to cover medical premiums until an individual reaches age 65
Medical Benefits:
Moving to a Higher Deductible Health Plan (HDHP)

Health Savings Account (HSA) Alternative Plan
Employer makes annual contribution to an HRA. Employee also has a Flexible Spending Account (FSA) which the employee contributes their own funds into. The combination of the two have the same tax-free benefits of an HSA plan, without the plan design restrictions and employee eligibility concerns.

Integrated Health Reimbursement Arrangement (HRA)
Employer makes contributions to an HRA on behalf of active employees who are enrolled in the group-sponsored medical insurance plan. Funds can be used tax-free for qualified medical expenses.
Medical Benefits:
Wellness Plans

- Popular
- Does it work to lower premiums?
  - Most ineffective
  - Low participation under 24%
- Why ineffective?
  - Planning
  - Strategy
  - Execution
  - Lack of hard metrics
  - Lack of relevant incentives
Medical Benefits:
Wellness Plans – How to get ROI

• Investing in well planned, strategic programs can lower health costs by 26.5%
• Plans that show the greatest return:
  o Health assessments/biometric screenings
  o Plans tailored to aggregate report from assessment
  o Communicate well and often – employees need to know exactly how to participate
  o Offer group programs: lunch and learns, weight loss contest, company race, etc.
  o Inclusive programs: make some
Medical Benefits: Wellness Plans Tips

- Create a wellness committee – invite your consultant/broker
- Provide employees with wellness documents: newsletters, flyers, posters, etc. You should be able to get these from your consultant or broker at no cost.
- Check to see if your medical insurance carrier provides health coaching, medical screenings, challenges or seminars at no cost.
- Independent wellness vendor charges for biometric screenings cost between $50-$75 per employee, add coaching and it goes to around $75
- Gold plan: Onsite or Near site Wellness Clinic
Ancillary Benefits: Dental and Vision

- Dental is the most requested benefit after Health
- Dental can be fully insured or self-insured
- Full Service Vision tends to be more of a voluntary benefit for WI schools
- It’s all about the network:
  - Are they taking advantage of savings?
  - Staying in-network keeps rates under control
Ancillary Benefits: Life Insurance Benefits

- Dependent spouse and child coverage increases benefit at low cost
- Imputed income reporting
- Beneficiary designations
- Accelerated Death provisions
- Waiver of premium
- Upon employee termination: Notify employees about conversion
Ancillary Benefits:
Disability Insurance Benefits

- Short & Long Term Disability plans are income protection
- Not a “should” but a “must”
- 3 in 10 will need disability insurance
- Proactive programs to encourage return to work
Ancillary Benefits:
Other Benefit Plans

- Education
- ID Theft
- EAP
- Cancer
- Accident
- Pet
Early Retiree Benefits
Early Retiree Benefits:
Retiree Health Insurance Benefits

When promises were made:

- Benefits were negotiated in the past to incentivize higher salaried employees to retire early
- School Districts take care of their staff (retention)
- Health Insurance was affordable
- Coverage was denied for pre-existing conditions making staying on the group plan the only real option for early retirees
Early Retiree Benefits: GASB Shines a Spotlight on OPEB Liabilities

- 2004: GASB 45 required public organizations to actuarially determine the unfunded liability
- Required to report liability on financial statement
- Schools became aware of the large liabilities they were facing
Early Retiree Benefits:
Retiree Health Insurance Benefits

Public Sector

Private Sector

20 25 30 35 40 45 50 55 60 65 70 75 80 85

Employer Coverage  Gap  Medicare

GAP
Early Retiree Benefits: OPEB Liability Options

- Fund the liability with an OPEB Trust
- Restructure your post-employment benefits – move to a defined contribution plan
Early Retiree Benefits:
Tax-Advantaged Options for Retiree Payouts

Options for unused sick leave, incentive pay or unused vacation

• Disperse in a regular paycheck – pay FICA and all payroll taxes
• Deposit funds into a Special Pay Plan (SPP)
  o Tax deferred, no FICA
  o Unlimited use
• Deposit funds into an HRA
  o Tax-free including FICA
  o Use for medical premiums and expenses
Restructuring Early Retiree Benefits
Restructuring Retiree Benefits: Defined Benefit vs. Contribution Plans
Restructuring Retiree Benefits:
Defined Benefit vs Defined Contribution
Restructuring Retiree Benefits: Defined Contribution Considerations

- The timing of contributions
- Transitioning employees
- Vesting
- Funding options
Restructuring Retiree Benefits: Timing of Contributions

Retirement contributions

• One lump sum
• Multiple payments
• HRA or 403(b)/401(a) saves FICA tax
• HRA is completely tax free

Active employee contributions with retirement access

• Interest increases value of benefit
• Vesting schedule
• If employee leaves, funds revert back to employer
Restructuring Retiree Benefits:
Easing the Transition for Employees

Creating Employee Tiers
• Grandfathered employees
• New or recent hires
• In between
Restructuring Retiree Benefits: Encouraging Retention: Vesting Options

- Lump sum at retirement = Length of credible service
- Annual deposits = forfeit if they leave employment prior to vesting
Restructuring Retiree Benefits:
Funding Choices: Employer Benefits

HRA
No FICA Tax
No limits on contributions

403(b)/401(a)
No FICA Tax
Limits on number of years and amount of contributions
Restructuring Retiree Benefits:
Funding Choices: Participant Benefits

HRA

- No FICA Tax
- Use for premiums & expenses
- Tax-free
- Surviving eligible spouse & dependents can continue using the funds for medical. Cannot name a beneficiary

403(b)/401(a)

- No FICA Tax
- Unrestricted use
- Tax-deferred
- Surviving eligible spouse & dependents can name a beneficiary