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10945 REED HARTMAN HWY. SUITE 307 • CINCINNATI, OH 45242-2852
(513) 792-0450 • FAX: (513) 792-0453 • www.riedmiller.com

THIS JUST IN

The average American household is on track to replace 56 percent of pre-retirement income. However, experts estimate most employees will need about 70 percent of pre-retirement income, with lower earners in the 90 percent range to maintain the same standard of living. Social Security only pays the average retiree about 40 percent of pre-retirement income. (Source: Fidelity Investments) For more information on retirement planning, see P. 3.

As of mid-January, nearly 24 million Medicare beneficiaries had prescription drug coverage under the new Medicare laws, according to the U.S. Department of Health and Human Services (HHS). HHS also reported that about 6.4 million retirees are enrolled in the Medicare retiree subsidy, and that about 1 million retirees have employer coverage that incorporates or supplements Medicare's coverage. Another estimated 500,000 retirees are continuing in coverage that is as good as Medicare's. Eligible individuals can join a Medicare Part D plan offering coverage for 2006 until May 15, 2006.

Sponsors of plans covering prescription drugs have until March 31 to inform the Centers for Medicare & Medicaid Services (CMS) whether their plan provides "creditable coverage" for Medicare Part D, or whether benefits equal or exceed those under Medicare Part D. You must make this disclosure online at www.cms.hhs.gov/apps/ccdisclosure/default.asp. For more information on Medicare Part D, please see our October issue.

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Benefits Administration

Disease Management: Does it Work?

A recent study by Mercer Human Resource Consulting showed a significant increase in employers offering disease management (DM) programs between 2004 and 2005. At least 67 percent of larger employers (those with 500 or more employees) surveyed used some type of disease management technique. Smaller organizations are also embracing disease management; the Mercer survey shows that 41 percent of employers with fewer than 500 employees use at least one DM technique.

What is it, and does it work?

Some experts attribute 60 to 70 percent of employer health costs to chronic conditions. Part of the reason is that an estimated 60 percent of chronic disease sufferers do not take their medication regularly or properly, which increases hospitalizations and office visits.

A comprehensive disease management program will help identify those with or at risk of developing chronic conditions, develop appropriate treatment or prevention plans and then help people comply with their treatment plans. In short, disease management programs help people learn to take better care of themselves. They usually involve a combination of nurse counseling, behavior modification programs, communications, support, and involvement by the participant's physician.

How successful are disease management programs? As overall spending on DM nears $1 billion in the U.S., more employers will want evidence whether DM works.

Disease Management – continued on Page 4

Managing Prescription Drug Costs

A survey of managed care organizations, health insurers, pharmacy benefit managers and third-party administrators predicted prescription drug costs will increase an average of 12.4 percent for 2006. That's less than the average annual increase during the late 1990s, but it's still a bitter pill for employers to swallow.

Employers have already shifted a considerable portion of prescription drug costs to their employees. According to a survey by Mercer Health & Benefits, employees paid at least 30 percent of their prescription drug costs in 2004 at more than 100 of the 429 companies surveyed. But there's only so much "cost-shifting" that can go on before employees pinched by increasing costs will forgo filling needed prescriptions. Employers realize this, so as of 2005, only 21 percent of those surveyed by Mercer said they would scale back drug benefits or shift more costs to their employees.

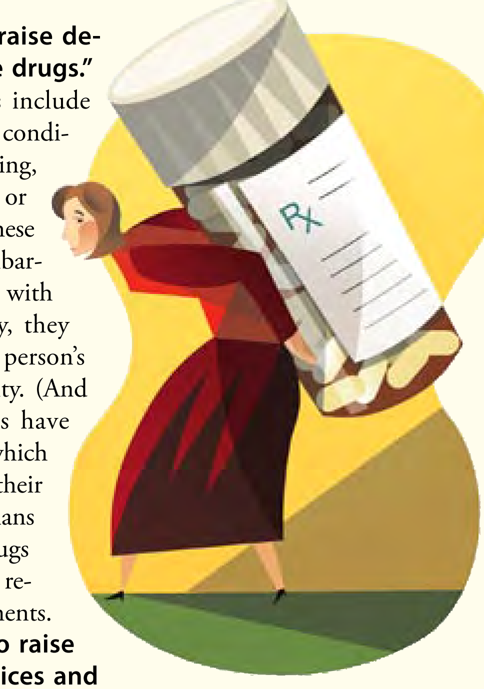
So what can employers that have ruled out more cost-shifting do to control their prescription drug costs? The following methods can help:

✔ **Encourage the use of generic drugs.** The average retail price of a prescription for a brand-name drug in 2000 was $65.29, compared to $19.33 for a generic-drug prescription. Generic equivalents do not exist for all brand-name drugs; however, an FDA (Food and Drug Administration) study from 2004 showed that "…drug costs per day can fall by 14 to16 percent if patients use generics instead of branded drugs, depending on their medical needs. Patients whose needs can be fully satisfied with generics could enjoy reductions of 52 percent in the daily costs of their medications."

Tiered co-payment systems help steer plan participants to less-costly generics by offering lower deductibles for generic equivalents than for brand-name drugs. Tiered co-payments are becoming more popular: in 2004, 64 percent of employers offered them, up from 28 percent in 2000. Some plans use a multi-tier arrangement, with average co-payments of $10 for generic drugs, $22 for preferred drugs and $25 for non-preferred drugs.

In a move that seems counter to managed care trends, some plans have begun waiving co-payments entirely for generic drugs, to encourage participants to fill their prescriptions. These plans operate under the assumption that making it easier for participants to take their medications regularly will reduce other health care costs, including office visits and hospitalizations.

✔ **Require a pharmacy review panel to pre-authorize or pre-certify medications.** One type of pre-certification is called step therapy, which requires employees to try less costly drugs before the plan will cover more expensive ones.



✔ **Exclude coverage or raise deductibles for "lifestyle drugs."** So-called lifestyle drugs include those that treat chronic conditions related to natural aging, such as baldness, wrinkles or weight gain. Although these conditions might be embarrassing or inconvenient, with the exception of obesity, they have little impact on a person's overall health or longevity. (And many weight-loss drugs have significant side effects, which don't always balance out their benefits.) Some health plans also limit or exclude drugs such as Viagra and those relating to infertility treatments.

✔ **Educate employees to raise awareness of drug prices and effectiveness.** Twenty-five percent of employers offer Web-based tools to assist in this effort.

✔ **Promote recently approved over-the-counter drugs.** Pharmacy benefit providers can encourage the use of new, less expensive over-the-counter drugs by mailing coupons to plan participants who have been taking similar prescription drugs.

✔ **Include a mail order feature** in your prescription drug plan. Only 25 percent of employer plans offered mail order drugs in 1993. By 2003, the percentage jumped to 70 percent. Intended for those who take drugs on an ongoing basis for long-term or chronic conditions, these programs save money through volume sales.

✔ **Use network pharmacies.** These also create savings through volume purchasing. Your drug plan contracts with specific pharmacies or pharmacy chains and negotiates discounts for members. The plan then covers in-network pharmacy purchases more generously than out-of-network purchases to encourage employees to use network pharmacies.

✔ **Hire a PBM (pharmacy benefit manager).** Health plans or larger employers often hire PBMs to administer their prescription drug benefits. PBMs buy drugs directly from the manufacturers and are therefore able to negotiate large discounts.

✔ **Reduce co-pays for drugs to treat chronic conditions.** Pitney Bowes reduced drug co-pays after studying common factors among employees with the highest health-care costs. It found that chronic diseases such as asthma and diabetes were one factor leading to annual health costs of $10,000 or more. The other factor was a failure to regularly fill disease-related prescriptions. So Pitney Bowes moved every drug used to treat diabetes, asthma and hypertension to its lowest co-pay level of $10.

✔ **Reverse copays for drugs where lower-cost options are available.** A drug like Nexium is generally prescribed for eight to 12 weeks; however, many participants will stay on the drug longer. Consider

Prescription – continued on Page 4

Retirement Education: Ignorance is *not* Bliss

The average person spends 18 years in retirement. Most anticipate a time of relaxation, freedom and travel. However, without adequate planning, retirement can bring financial stress instead.

How lack of retirement readiness affects employers

Some argue that responsibility for retirement planning belongs to the employee. But employees with inadequate nest eggs can create problems for their employers. Inadequate savings can force employees to work beyond their desired retirement age. While older workers who want to continue working can provide valuable expertise, motivating an employee who would rather be on the golf course can be difficult. Older employees also contribute more to employers' health expenses, as do people under stress—which could result from worry about finances.

Retirement education can help

Employers can help their employees be better prepared for retirement by providing retirement education. Some pointers:

- **Consider** providing education on day-to-day money management. According to Liz Davidson, CEO of California-based Financial Finesse, a financial education provider, "Most 'retirement issues' are really basic money management problems. We generally see a 15-20 percent increase in 401(k) participation from companies that offer holistic financial counseling services."
- **Watch** the wording of 401(k) communication materials. They should never imply that contributing at the matching level is sufficient to ensure a secure retirement.
- **Encourage** employees to consult professionals to assess and select investment vehicles inside and outside of the employer's savings plan.
- **Provide** regular statements showing the value of retirement accounts and provide modeling tools so employees can see projections of their account balances if they continue working for the company.
- **Direct** employees to reputable and easy-to-use retirement Web sites.
- **Broaden** the scope of your retirement communications to include matters such as Social Security, health insurance and options for working at reduced hours or on a contract basis after retirement.
- **Provide** age-specific information. Younger workers need basic retirement savings information, while older workers need information on stable investments and ways to convert their 401(k) plan into retirement income.
- **Consider** automatic 401(k) enrollment for new hires. Employees can opt out or change contributions and investment options at any time; however, automatic enrollment removes the initial decision-making barrier and gets employees saving right away.
- **Conduct** retirement planning meetings that are separate from annual enrollment meetings. Review topics such as how much to save, maximizing retirement savings and making appropriate asset allocation decisions.
- **Consider** women's retirement challenges. Women generally start work later in life, live an average of six years longer than men, and make less money than men — all of which affect their retirement savings. According to a study by the Families and Work Institute, women age 50+ earn only 55 percent of what their male peers earn. Contrary to conventional wisdom, men's longer job tenure does not explain the gender pay gap; however, men's higher education levels and longer hours worked each week do explain part of the difference. The Institute also attributes part of the earnings gap to gender bias in pay and promotion. Many of these gender differences—including education levels and pay scales—seem to level out among younger generations.

To help your older female employees save adequately for retirement, consider targeting special retirement education programs for them. Make sure all employees over age 50 know about the special "catch up" contributions available to them. Consider promoting any education assistance programs you have to help female employees increase their education and skill levels—and their pay.

- **Make sure** your defined contribution plans offer "life cycle" fund options. Today, 26 percent of defined contribution plan participants invest at least part of their account balance in so-called life cycle funds. These funds balance asset allocation among equities and fixed income investments to offer a balance between risk and reward. Some life cycle funds offer a fixed allocation among equities and more conservative investments,

Retirement – continued on Page 4

The following statistics show that the typical worker clearly needs education on retirement basics:

Understanding Social Security: Only 19 percent of workers know when they will be eligible for unreduced Social Security Retirement benefits.

Inadequate Savings: 55 percent of workers between ages 24 and 64 do not have a retirement savings account.

401(k) Participation: Nearly 30 percent of employees do not take advantage of their employers' 401(k) plans.

Retirement Confidence Level: Only 25 percent of workers are very confident about having enough money to live comfortably in retirement.

DISEASE MANAGEMENT – continued from Page 1

Studies of disease management have yielded mixed results. A recent study conducted by the Congressional Budget Office to determine disease management's potential to reduce Medicare costs found insufficient evidence to show disease management programs reduce overall health spending.

However, *Inside Disease Management,* an industry publication, found significant differences between the goals of public programs (such as Medicare) and employers. Public programs simply want to reduce the cost of treating disease. Employers, on the other hand, "…are more interested in seeing other metrics such as quality improvement and member satisfaction, and employers are more comfortable with softer savings," according to *Inside Disease Management* (July 1, 2005). In other words, employers also want to reduce the indirect costs of illness—such as absenteeism, lower productivity and lower morale.

Some employers, such as Pitney Bowes, have reported very favorable results with disease management. In 1995, Pitney Bowes' medical costs were growing rapidly, so the company started a disease management program focusing on asthma, diabetes, hypertension and depressions, its primary medical "cost drivers." Ten years later, the company reported that it lowered the cost of treating diabetics by 6 percent and asthmatics 15 percent per year. The company's medical director also calculated that disease management saved the company $2.5 million a year in "avoided costs." (Source: *Employee Benefit News,* January 2005)

To assure the success of your DM program, select a few specific goals, then design your program to achieve them. For example, to cut medical costs and absenteeism, you need to know what conditions contribute the most to medical expenses and which contribute most to absenteeism. Will these conditions respond effectively to DM?

Once you determine your goals and the medical conditions your program will target, determine the indicators you will use to evaluate progress. As closely as possible, put a dollar value on these indicators. Give your program time to work, say a year or two. After that time, if you're spending more on disease management than your program saves, your program needs redesigning.

We can help you evaluate your company's needs and tailor a disease management program to help you meet them. We'll help you identify the population to focus on and design action steps specifically for that group. For more information, please call us. ❑

PRESCRIPTION – continued from Page 2

limiting benefits for anti-ulcer drugs like Nexium and Prevacid to 12 weeks, then paying only a fixed amount after that. This will cover most or all of the cost for a less-expensive over-the-counter drug (such as Prilosec-OTC). If the participant continues to take higher-cost drugs, they will pay the difference.

We can help you evaluate prescription drug plans that use one or more of these cost containment methods. For more suggestions on controlling your company's prescription drug expenses, please call us. ❑

RETIREMENT – continued from Page 3

while "targeted maturity" funds change allocations with the participant's age. To simplify, the funds invest a greater portion of younger participants' account in equities, which are riskier but have greater potential for long-term gains. As a participant ages or nears retirement, the portion of money invested in more conservative vehicles, such as bonds, increases.

Vanguard, the investment firm, has found that offering a life cycle fund improves participation among newly eligible employees by six percentage points. These plans make participation easier by taking some of the guesswork out of retirement investments.

For more information on educating your employees about retirement plans, or finding the right retirement plan for your employees, please call us. ❑

Retirement education and your liability

Many employers hesitate to provide investment advice to employees because the Employee Retirement Income Security Act (ERISA) creates liability for plan fiduciaries. A fiduciary is an individual or an entity (such as a committee) who exercises discretion or control over the plan. ERISA requires fiduciaries to act solely in the interest of plan participants and beneficiaries, carry out their duties prudently, follow plan documents, diversify plan investments and pay only reasonable plan expenses. Fiduciaries who do not follow these standards can be personally liable for any losses due to the fiduciary's improper actions.

Fiduciaries can take actions to limit their liability. These include documenting the processes used to carry out fiduciary responsibilities and giving participants control over investments in their accounts. Labor Department regulations require ERISA plans to offer at least three different investment options so that employees can diversify investments within an investment category, such as through a mutual fund.

Fiduciaries must also ensure participants have enough information to make informed decisions about plan options. To meet this requirement, some employers rely upon the plan administrator. Others contract with outside education providers. If you choose this route, have an attorney specializing in benefits or labor law review any contracts to ensure you are not taking on any unwanted liability.

The Pension Protection Act (HR 2830) would make it easier for employers to provide investment advice. According to its sponsors, the Act would clarify "…that employers are not responsible for the individual advice given by professional advisers to individual participants; this liability is assumed by the individual adviser. Under current law, employers are discouraged from providing this benefit because liability issues are ambiguous and employers may be held liable for specific advice that is provided to their employees."

The House approved the bill in mid-December; at press time it awaited action in the Senate. ❑