BENEFIT
Plan Developments

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Association Health Plans Bill Passes House

A measure allowing small employers to band together to obtain affordable group health care coverage was approved by the House of Representatives on July 26, and has moved to the Senate for consideration. The proposed legislation would create association health plans (AHPs), permitting small businesses to pool their purchasing power and buy health coverage across state lines. Because they would operate nationally, AHPs would not be subject to state health insurance mandates.

House members passed the Small Business Health Fairness Act (H.R. 525) by a 263-165 vote. The House has approved a number of AHP bills in previous years, but the measures failed in the Senate.

Proponents of H.R. 525 claim AHPs would lower overhead costs for small businesses providing health coverage by as much as 30%, and decrease the number of uninsured American workers. Critics of the bill, including patient advocacy groups and insurers, contend the plans would fail to provide adequate insurance coverage and potentially penalize companies with older and sicker employees, causing their premiums to rise. In addition, AHP opponents suggest the state's lack of oversight could lead to health insurance fraud.

"Small business owners and their employees are clamoring for relief from the high costs of health insurance. It's high time Congress did something about it," said Rep. Sam Johnson (R-TX), a member of the House Education and the Workforce Committee and the bill's lead sponsor.

"This bill has had unwavering support in the House for nearly a decade now. The other body is taking a serious look at the legislation this year, and it's a priority in the president's health care agenda," Johnson added. "I look forward to working with our colleagues to make this bill law this year."

An alternative proposal, introduced by Rob Andrews (D-NJ) and Ron

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Andrews further argued that AHPs have the potential to exploit American workers, comparing them to now defunct plan types that failed to pay promised benefits.

Kind (D-WI), both members of the House Education and the Workforce Committee, would create a national health insurance pool of state-licensed insurers for small businesses and would not preempt state laws. The Democratic plan would also subsidize health insurance premiums for small businesses and their employees.

Referring to H.R. 525, Andrews said the Republican-backed "health plan for small businesses will only exacerbate the problem of the uninsured and eviscerate the protection of a patient's right to important procedures and benefits like mammograms, hospital stays after Cesarean sections, mental health benefits and rights to appeal HMO decisions."

Andrews further argued that AHPs have the potential to exploit American workers, comparing them to now-defunct plan types that failed to pay promised benefits. This point was also emphasized by Georgetown University assistant research professor Mila Kofman in a study on the potential for insurance fraud among AHP providers.

"The regulatory approach contemplated in the AHP legislation would leave many businesses and workers at the mercy of scam operators," Kofman warned. "The consequences are predictable: bankruptcy, delayed or foregone medical care, and loss of coverage for America's businesses and workers."

Kofman and other AHP critics claim the U.S. Department of Labor (DOL), which would be responsible for regulating plans at the federal level, lacks the tools and resources to police plans as effectively as state insurance regulators.

Sandy Praeger, secretary-treasurer of the National Association of Insurance Commissioners (NAIC), agreed with Kofman's assessment, warning that allowing "federal AHPs to operate outside the authority of state protection will expose consumers to more fraud and insurance scams."

But AHP supporters maintain that the plans would bring badly needed relief to small businesses currently struggling to afford health care coverage for their employees. Senator Olympia Snowe (R-ME), senior member of the Senate Finance Committee, has introduced a Senate version of the House bill, S. 406.

Commenting on the passage of H.R. 525, Snowe said, "The American people have consistently and overwhelmingly told Congress that access to health insurance and the explosive growth in premiums are a major concern.

"In the interest of basic fairness, as well as the continued health of small business employees and our economy, this dire situation must be addressed," Snowe added. "The time for providing relief to the men and women who are the foundation of job creation and sustained economic growth has arrived. The Senate must pass AHP legislation this year so millions of small business owners can provide affordable health insurance choices to our nation's most indispensable employees."

Long-Term Care Issues Neglected In Retirement Planning

Most Americans are aware of the need to save money for retirement, but relatively few make adequate provisions to cover potential health care and nursing home costs, according to a study by Prudential Financial.

Results of two national surveys of adults between the ages of 30 and 69 showed that 42% of retirees and 57% of non-retirees think they are not financially ready for retirement, and 40% of both retirees and non-retirees believe they are ill-prepared to deal with health and fitness issues in retirement. Seven in 10 respondents agreed that rapidly rising health care costs could shrink their prospects for a comfortable retirement.

Asked which financial goals they considered very important, respondents approaching retirement cited not running out of money in retirement (90%), not becoming a financial burden to loved ones (78%), and affording necessary medical care or nursing home care (70%).

Among respondents of all ages, 20% predicted they would require nursing home care in the first 10 years of retirement, and 42% in the second decade of retirement. Of those who anticipate needing nursing home care, 91% said they are concerned they could run out of money in retirement. By contrast, just 8% of those not expecting to require nursing home care consider it likely they would exhaust their financial resources in retirement.

Even among survey participants nearing retirement, long-term care insurance awareness is not high, results showed. Of respondents between the ages of 55 and 64, 20% claimed to have a sound understanding of long-term care insurance, 37% said they know enough to make a decision about whether to obtain coverage, and 43% said they would need help with understanding long-term care insurance coverage and options. Respondents in this group with lower levels of retirement savings were more likely than those with greater financial resources to say they would need help in understanding long-term care insurance.

DOL Reports Slowdown In Benefit Cost Increases

The rising cost of employer-provided benefits slowed between June 2004 and June 2005, while growth in wages and salaries remained relatively stable over the same period, according to statistics published in the U.S. Department of Labor's "Employment Cost Index."

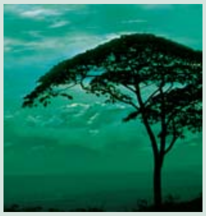
Overall compensation costs for civilian and private industry workers rose 3.2% from June 2004-June 2005, compared with gains of 3.9% and 4%, respectively, for June 2003-June 2004. Wages and salaries for civilian workers rose 2.4% in 2004-2005 (virtually unchanged from the 2.5% gain of the previous year) and 3.9% for private industry workers, down from 4.4% in 2003-2004.

At the same time, benefit cost increases for civilian workers slowed considerably, to 5.1% for 2004-2005, from 7.2% for 2003-2004. For private industry workers, benefit cost increases declined even more sharply to 4.9% in 2005, from 7.3% the previous year. For union members, benefit cost gains decelerated dramatically to 4.1% in 2004-2005, from 11.3% in 2003-2004. By contrast, benefit cost increases for nonunion workers declined more modestly to 5.1% in 2004-2005, from 6.3% the previous year.

New Roth 401(k) Option To Launch In 2006

The Roth 401(k), a new type of qualified retirement plan that will become available starting in 2006, may prove to be an attractive benefit option for companies employing highly compensated individuals not eligible to contribute to a Roth IRA, or younger workers who expect to be in a higher tax bracket when they retire.

As the name suggests, the Roth 401(k) incorporates elements of both traditional 401(k) plans and the Roth IRA. Included in the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, and slated to arrive January 1, 2006, the Roth 401(k) will allow workers to make Roth IRA-type contributions to 401(k) plans without Roth IRA income restrictions and contribution limits.



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Roth IRA contributions are nondeductible, but earnings within the account accumulate tax free, and qualifying distributions are also tax free. Currently, only taxpayers with adjusted gross incomes below $110,000 a year for singles, and $160,000 a year for married couples, are eligible to contribute after-tax dollars to a Roth IRA. These income limits disappear under the Roth 401(k) rules.

Workers will also have the opportunity to save far more money in the new accounts than they could using a Roth IRA. The 2006 annual contribution limits for IRAs of all kinds are set at $4,000 for taxpayers under the age of 50, and $5,000 for older workers. The Roth 401(k), by contrast, will be subject to the more generous elective salary deferral limits that apply to conventional 401(k)s, which, for 2006, are $15,000 for taxpayers under the age of 50, and $20,000 for older people.

The Roth 401(k) has other advantages over the Roth IRA. Contributions are made through payroll deductions, rather than through separate arrangements with a bank. Because employers will administer these plans, contributing to them should be more convenient for workers than opening an IRA. An employee currently contributing to a traditional 401(k) plan could, for example, simply opt to have contributions diverted to a Roth version of the same plan.

Lawmakers have stipulated, however, that matching contributions made by employers must be invested in a traditional 401(k)—not a Roth—account. This means that, even if employees make all of their contributions exclusively to a Roth 401(k) account, they would still owe tax in retirement on withdrawals from funds contributed on a pre-tax basis by their employers.

Workers should also be aware that the 401(k) annual contribution limits apply to all 401(k) contributions, regardless of whether they are made on a pre-tax or after-tax basis. If employees contribute to a Roth 401(k), they may have to reduce or discontinue their contributions to their employer's conventional 401(k) plan to avoid exceeding these limits. Provided they remain within these limits, however, employees are allowed to put money into both types of 401(k) plans.

In addition, employees considering the Roth 401(k) option should know that—like the 401(k), but unlike the Roth IRA—the Roth 401(k) will require them to begin taking distributions after the age of 70½. On the other hand, the Roth 401(k) resembles the Roth IRA in that investors will not be permitted to withdraw their money tax free until they have held the account for at least five years, and are at least 59½ years old. The latter provision could make the Roth 401(k) less attractive to employees who are currently approaching retirement.

It also remains far from clear whether most employers who sponsor 401(k) plans will add the Roth 401(k) option to their plans as of January 1, 2006. To add to the confusion, questions linger about whether the Roth 401(k) will continue to be available after the EGTRRA provisions expire in 2010.

In a recent EBN QuickPoll survey of retirement plan sponsors, 13% of respondents said they expect to add the Roth 401(k) to their benefits package, 32% are considering doing so, and 48% do not intend to offer the accounts. But because the Internal Revenue Service may not issue final rules on Roth 401(k)s before January, some plan sponsors may wait until next year before deciding whether to add this option to their retirement packages.

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