

## **Compliance Corner: 11-Month Extension of COBRA Coverage**

*By CONEXIS Compliance*

The provisions of the COBRA law provide certain people that have received Social Security Disability Certification the opportunity to extend their COBRA continuation for an additional 11 months after their original 18 months continuation has expired.

While the original COBRA law of 1985 did not include this provision, an amendment was quickly added to provide an extension of benefits that would coordinate with the under age 65 Medicare coverage available through Social Security. In 1997, the Health Insurance Portability and Accountability Law expanded the eligibility of this coverage.

To better understand the reasoning of this extension of COBRA coverage, we must look at both the COBRA and Social Security Disability timelines.

Let's first discuss the eligibility and premium requirements of the extension.

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## **U.S. Forecasters Predict Health Spending Will Reach \$4 Trillion in 10 Years**

*Managed Care Weekly Digest*

One in every five dollars will be devoted to healthcare by 2015 in the U.S., with spending reaching more than \$4 trillion, federal forecasters predict in a February 22, 2006, *Health Affairs* Web Exclusive.

In their annual projection on healthcare trends, economists and actuaries from the National Health Statistics Group at the Centers for Medicare and Medicaid Services (CMS) predict that health spending will consistently outpace the growth in the gross domestic product (GDP) over the next 10 years, with health spending expected to consume 20% of GDP - up from 16% today.

The forecasters predict that national health spending growth will average 7.2% over the coming decade - 2.1 percentage points faster than GDP growth, but slower than in recent years.

The CMS group also predicts that the growth in hospital spending will exceed projections made

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- The COBRA continuant's date of Social Security Disability must be before the COBRA coverage begins or within the first 60 days of COBRA coverage
- Social Security Disability Certification must be received before the original 18-month COBRA continuation is exhausted
- Notice of Social Security Disability Certification must be given to the employer or their elected COBRA administrator within 60 days of receipt
- Should Social Security Disability eligibility cease, the employer or their COBRA administrator should be notified within 60 days
- During the 11-month extension, the COBRA premium will be 150% of the active employee premium amount

As you see, only people that meet the Social Security Disability criteria may be eligible for the 11-month extension of COBRA coverage. If eligible, the 18-months of COBRA plus the 11-month extension will coordinate with the Social Security Medicare Disability waiting periods.

The process of obtaining Social Security Disability Certification is a tedious and exhausting process that often takes 3 to 9 months. But, once approved, the participant receives their Social Security Disability Certification letter that identifies important dates.

- Date of Disability
- Date of Social Security Disability Income eligibility
- Date of Social Security Disability Insurance (Medicare under age 65)

Let's understand how these dates and timeline effect COBRA extension eligibility.

***Date of Disability*** – this begins the Social Security Disability clock. This is the date Social Security declares the participant was disabled. Not the date of the letter, but, the "you were disabled as of this date". For COBRA extension eligibility, the date of disability must be before COBRA coverage begins or within the first 60 days of COBRA coverage.

***Date of Social Security Disability Income*** – there is a 5-month Disability Income waiting period that begins from the date of disability. This date has no relevance to the 11-month COBRA extension eligibility.

***Date of Social Security Disability Insurance (Medicare under the age of 65)*** - for most disabling conditions (end stage renal disease has a shorter waiting period) there is a 24-month wait for Medicare Insurance benefits. This waiting period begins when Social Security

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benefits begin – on the Social Security Disability Income Date.

From the disability date, there is a 29-month wait before Medicare Disability Insurance begins.

Let's look at how the COBRA timeline compares. A person is unable to work because of their medical condition. They must quit their job. This is an 18-month COBRA Qualifying Event. Let's assume the person's date of disability and COBRA coverage begins on the same day. At the end of the 18 months of COBRA coverage, the person still has eleven more months before their Medicare Insurance begins. This is the reason for the 11-month extension of COBRA coverage – to fill the gap between original COBRA ending and Medicare Benefits beginning. 🍷



## U.S. Forecasters Predict Health Spending Will Reach \$4 Trillion in 10 Years

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in 2005, while they expect prescription drug spending to grow more slowly than projected in 2005. Greater-than-expected discounts associated with the new Medicare Part D drug benefit play a role in the lower drug spending estimates for 2006, but the major effect of the new benefit is still anticipated to be a shift in drug spending from private payers and Medicaid to Medicare.

An aging baby-boom population that is nearing eligibility for Medicare, declining rates of health insurance coverage, and the changing nature of health insurance (such as the rise of health savings accounts, or HSAs) are some of the factors influencing health spending growth. Although it's too early to assess HSAs' effect on the healthcare market, federal analysts are unsure whether they will dramatically decrease spending rates the way managed care did in the 1990s.

Total hospital spending growth is projected to be 7.9% in 2005. By 2015, spending on hospital care is expected to reach \$1.2 trillion, double the 2005 level. This year's projection for hospital spending is higher, in part because of the effects of a hospital construction boom that is picking up steam in urban areas. Hospital spending growth is expected to

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exceed growth in personal healthcare spending in 2005 and to keep pace with it over the next decade.

Spending on prescription drugs is anticipated to reach \$446 billion in 2015, up from \$188 billion in 2004. The average annual spending growth for prescription drugs over the decade would be 8.2%, two percentage points below that projected in 2005. For 2006, the forecasters are projecting that total prescription drug spending will grow 7.7%.

"The prescription drug plans were able to negotiate discounts and rebates that came in larger than we thought, and this has helped mitigate what drug spending would have been," says John Poisal, deputy director of the National Health Statistics Group at CMS. "It doesn't mean drug spending won't continue to grow, but it has helped to temper that growth."

Medicare spending is projected to grow from \$309 billion in 2004 to \$792 billion by 2015. Medicare growth is expected to spike to 25.2% in 2006, primarily due to the implementation of the new drug benefit and the added burdens of paying costs that had been absorbed by other sectors. Total Medicare spending growth is expected to slow to 5.4% in 2007 but is predicted to average 7.5% between 2008 and 2015.

Total Medicaid spending is expected to grow from \$293 billion in 2004 to \$320 billion in 2006. With the implementation of the Medicare Part D benefit, Medicaid drug spending will likely decrease, dramatically slowing spending growth for the program. But the respite is expected to be temporary. In 2007, Medicaid spending growth is projected to rebound to 8.5% and average 8.6% a year until 2015, when spending is expected to reach \$670 billion.

State, local, and federal government spending on public health is projected to grow 10.5% in 2005, more than double the 2004 rate - mostly because of Hurricanes Katrina and Rita. CMS analysts project that federal public health spending will increase 24.3% in 2005 - a more than fourfold increase over growth in 2004 - reaching \$11.3 billion. Driving this acceleration is the increased funding for federal health disaster prevention and relief.

### Other highlights from the report:

- Private health insurance premiums are expected to grow 6.8% in 2005, down from 8.4% in 2004, the third consecutive year in which premium growth will have slowed. The slowdown is due to the underwriting cycle and slower growth in projected medical benefits per enrollee.

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- Growth in out-of-pocket spending is predicted to remain stable at 5.6% in 2005, and out-of-pocket payments are expected to actually decrease 1.0% in 2006. Consumers are expected to spend \$421 billion out of pocket on healthcare by 2015, up from \$248.8 billion in 2005. The out-of-pocket share of personal healthcare spending is projected to decline from 15.1% in 2004 to 12.6% by 2015.
- Growth in total physician spending is expected to decelerate from 9.0% in 2004 to 7.5% in 2005 reaching \$430 billion. The CMS researchers predict that by 2015, physician spending will likely near \$850 billion. However, they acknowledge that this is probably an underestimate, since it incorporates Medicare payment cuts for physicians from 2006 through 2013. In fact, Congress has already eliminated the cut planned for 2006.
- Nursing home spending is projected to grow 5.6% in 2005, from 4.3% in 2004. Public spending is expected to drive this acceleration. Medicaid spending on nursing home care is predicted to grow faster than Medicare over the decade. By the end of 2015, the authors predict that Medicaid will cover nearly half of all nursing home spending, compared with less than 45% in 2004. The effects of an aging population will be most evident on nursing home spending, which is projected to grow from \$121.7 billion in 2005 to \$216.8 billion by 2015.
- Driven by increases in public spending, home health spending is expected to grow 13.2% in 2005, reaching nearly \$49 billion. Public spending now accounts for 75% of all home health spending; it is projected to top 80% in 2015, when spending on home health is projected to reach \$103.7 billion. Although home health is a relatively small percentage of the total national healthcare bill, it represents the fastest-growing healthcare sector. 🚫

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## American Workers Increasingly Forgo Big Ticket Spending

### *Business Wire*

This tax season, an overwhelming majority (84 percent) of workers are expecting a federal or state income tax refund, about the same as in previous years according to the latest Principal Financial Well-Being Index. But how workers plan to use their windfall in 2006 has changed significantly since last surveyed, with a marked decrease in workers saying they'll spend it on big ticket items (7 percent, down from 16 percent in 2003) and pay down short-term debt (44 percent, down from 50 percent in 2003) to a notable increase in those who say they will save and invest the refund in 2006 (38 percent, up from 31 percent in 2003). The index surveys American workers at small and mid-sized businesses (firms with 10 to 1,000 employees), released each quarter by the Principal Financial Group and conducted by Harris Interactive.

"Tax time is a great time to take any refund you receive and invest in your future either by opening up an IRA account, or increasing the deferrals in your 401(k) plan." said Dan Houston, senior vice president, Retirement and Investor Services, The Principal. "What's very encouraging today compared to a few years ago is that American workers are increasingly demonstrating a discipline for saving and investing their hard earned dollars, and are less likely than in the past to say they will run out and turn it in for a plasma TV for example."

### **Time is Running Out to Redeem Flexible Spending Accounts**

For workers who participate in Flexible Spending Accounts (FSA), the study also examined how accurately they estimated expenses (such as medical or dependent care expenses) for reimbursement. FSAs are growing in popularity with their recent expansion beyond the private sector to include Federal employees. Recent rule changes have also created a grace period for health FSAs to allow employees to use funds in their accounts into early 2006. Houston explained, "This is a tremendous benefit for workers to set aside pre-tax dollars to pay for medical expenses not covered by insurance, but there is a catch. Any unused funds at the end of the period are forfeited, so it is important that workers estimate anticipated medical costs very carefully."

According to The Principal Financial Well-Being Index, of workers who participated in flex spending accounts, many (44 percent) estimated their actual medical expenses within \$100 in 2005. Another 39 percent underestimated their medical expenses and did not set aside enough pre-tax dollars in their FSA accounts, and 16 percent overestimated expenses and consequently could lose funds. The research validates, Houston said, that

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many workers are disciplined consumers of healthcare and are making good use of a highly valued employee benefit. For those who overestimated expenses, there may still be an opportunity for employees to tap into their funds due to the recent extension of the "use-it-or-lose-it" deadline. Many employers have extended the deadline for health reimbursement from Dec. 31 to March 15.

### Disability and Beating the Odds

When it comes to bad luck and misfortune, Houston says, no one has a crystal ball. Yet the latest Well-Being Index shows that workers today seem optimistic and are less likely to be worried than in the past about the prospect of "bad luck" events (such as a car accident, becoming seriously ill or dying) happening to them over the coming year. More than half of workers (51 percent) said none of a list of five events is likely to occur, up dramatically from only 37 percent in 2004. For example, people felt they are much less likely to be involved in a motor vehicle accident (15 percent today versus 26 percent in 2004), and fewer are concerned they'll become seriously ill or die (2 percent compared to 5 percent in 2004). More workers are increasingly concerned about the prospect of seeing a doctor for stress, anxiety or depression (rising slightly from 21 percent in 2004 to 24 percent today). Interestingly female respondents are significantly more likely to believe they'll need to see a doctor for stress,

anxiety or depression (32 percent) than males (18 percent). Males are significantly more likely to believe they'll be in a motor vehicle accident (19 percent versus 11 percent) or suffer a bad back that will keep them out of work (10 percent versus 5 percent) than females.

At the same time, an increasing number of workers reported actually having been in an accident or having an illness that caused them to be out of work for an extended period (more than three months) - 14 percent today versus 11 percent in 2004. The study shows that workers would most likely turn to workplace disability insurance benefits (41 percent), spouse or family (33 percent), personal savings (26 percent), withdraw from retirement savings (16 percent) or sell investments (13 percent) to help them financially maintain through a disability.

"The irony is that while most of us are optimistic about our futures, the reality is clear that accident and disability are more likely to impact us than we care to acknowledge," Houston said. "Clearly workers with employment disability benefits have an edge, and those that plan for their own individual needs are also ahead of the game." 🔥

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## Employers Hesitate Over Healthcare Alternative

*The Business Press*

As the nation scrambles to find ways to provide healthcare to an aging population, insurance brokers are talking up the new tax-free health savings accounts to Hansen Beverage Co. in Corona.

Meanwhile, Brickley Environmental in San Bernardino has opted against the so-called HSA health benefit, said Annor Gowdy, chief financial officer.

"It's not such a good deal," Gowdy said. "It costs the employee a lot of money in out-of-pocket expenses."

Brickley Environmental provides health benefits through a health maintenance organization contract with Kaiser Permanente. A senior vice president of administration for Stater Bros. Markets in Colton had initially determined the health savings account program lacked value for the company's management benefit plan, but has decided to study the program in further detail, said Jack Brown, Stater's chairman and chief executive officer. Most of the grocery chain workers are union employees and covered by trust funds.

Local employers are sometimes reluctant about offering the new health savings account plans, primarily because the plans are complex,

require a bank account and copious paperwork, and compete with HMO plans' low co-payments, say benefits brokers and an account administrator.

"California HMO pricing is extremely competitive. It's probably the lowest in the country," said Bob Lancaster, an employee benefits consultant with Hub International of California Insurance Services Inc. in Riverside, formerly Talbot Insurance. If consultants have signed up local companies for the health savings account-based plans, it would be "a very small group," he said.

The new health savings account plans are based on preferred provider organization, or PPO, models, which carry higher out-of-pocket costs. The plans allow greater freedom of choice, although costs may be higher outside health plans' contracted network of medical providers.

President Bush approved the program in December 2003 as part of the sweeping Medicare Prescription Drug Improvement and Modernization Act.

The health savings account, or HSA program, links high-deductible health plans with tax-free

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savings accounts out of which individuals withdraw money to pay for IRS-approved medical expenses up to certain high deductibles. Comprehensive coverage for major medical bills kicks in once the deductibles are met.

The health savings accounts function similarly to an individual retirement account. Contributions roll over year-to-year and "follow" workers from job to job. After age 65, account holders may withdraw savings for non-medical purposes without incurring a penalty.

Account holders may contribute 100 percent of their deductible up to the limit allowed by the Internal Revenue Service. Health savings account contribution limits for 2006 are \$2,700 for a single policy and \$5,450 for a family policy.

Are people rushing out to buy health savings account plans? "Probably not," said Gordon Colburn of Colburn Insurance Service and president of the Inland Empire Association of Health Underwriters. People still are accustomed to paying \$10 for a visit to a doctor through health maintenance organizations.

Most consumers are insensitive to healthcare costs, said Steven Larson, a physician and chief executive officer of Riverside Medical Clinic. "They have no idea what the costs are because they're not paying for it."

A healthcare spending forecast by the National Health Statistics Group with the U.S. Centers for Medicare & Medicaid Services shows HSAs and other consumer-directed health plans accounted for just 1 percent of all covered employees in 2005. The savings account plans are expected to "grow rapidly, but from a very small base," said the Feb. 22 report. So far, at least 3 million consumers nationwide have opted for health coverage through high-deductible, HSA-based plans, according to a Jan. 26 release from America's Health Insurance Plans in Washington, D.C. That number is less than 2 percent of those in private plans, according to a published report.

In early 2004 insurance companies began rolling out high-deductible plans designed for health savings accounts and banks began offering health savings account debit cards, checks and other withdrawal and reimbursement methods.

CIGNA Healthcare in Bloomfield, Conn., Aetna Inc. in Hartford, Conn., and Blue Cross of California, a subsidiary of WellPoint Inc. in Thousand Oaks, are among insurers offering high-deductible, health savings account-eligible plans to employers.

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Bank of America and Wells Fargo & Co., the two largest banks in the Inland Empire in terms of assets, provide health savings accounts. Inside Consumer Directed Care, in a Feb. 24 report, estimated there are 820,000 health savings accounts totaling \$967 million in assets and an average account balance of \$1,181.

Wells Fargo held 55,000 health savings accounts with a total deposit value of \$37 million by Dec. 31, said Drew Wineland, marketing consultant with Wells Fargo Institutional Trust Services in Minneapolis.

Sterling HSA in Oakland manages an estimated 10,000 health savings accounts, 1,700 of which originate in Southern California, said Kevin Woodard, chief financial officer. The company does not release county-specific information, he said.

Between 70 percent and 75 percent of the accounts are for employer plans and 20 percent to 30 percent are individual accounts, he said. Who benefits?

Young professionals may benefit most from the new plans while the uninsured, who need catastrophic coverage to prevent bankruptcy from medical costs, can't afford the high deductibles, said Larson at Riverside Medical Clinic.

Employers need to help fund the health savings accounts, Larson said.

The plans may be good for employers and employees and serve as tax shelters for the wealthy, said Sterling's Woodard. "But I don't think the adoption rate will be nearly as fast as some proponents say," he said, mainly because of the program's complexity, inherent paperwork and bank account system.

Most employers don't understand how they can save money through health savings accounts, Colburn said. Monthly premiums for health savings accounts are lower than for traditional health maintenance organization plans, he said. For example, HMO premiums with \$10 doctor's office co-payments and 100 percent hospitalization coverage for a 39-year-old with a family cost \$754 a month, he said. A high deductible plan and a \$2,000 deductible cost \$326 a month with co-insurance kicking in after the deductible is met.

"The temptation employers are going to be confronted with is to look at this as a way to reduce expenses," said Bob Fredericks of Fredericks Benefits in Redlands. Employers need to offer a variety of plans and not rely solely on funding of the deductible by the employee, he said.

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HSA NATION: At least 3 million people are enrolled in health savings account plans.

There are 820,000 health savings accounts totaling \$967 million in assets; average account balance is \$1,181.

HSA Bank leads with 150,000 accounts and \$280 million in assets.

2006 IRS contribution limits:

- Single policy -- \$2,700
- Family policy -- \$5,450

Sterling HSA

- average annual account contributions: \$2,200;
- average use: \$500;
- average age of account holder: 52;
- of account holders, 60 percent are male.

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## Cash Strapped Commuters Finding Smart Solutions in Transportation Flexible Spending Accounts

### *PR Newswire*

When the Miami Transit Authority hired new employees recently, they weren't drivers or dispatchers. They were penny-pinchers, in a sense, hired to help Miami commuters find innovative ways to fund their everyday commute.

"We have been [focused on] getting the business community to realize the savings they can accrue by leaving their personal vehicle at home and opting to ride public transportation," said Roosevelt Bradley, director of the Miami-Dade public transit system which moves more than 64 million passengers annually.

In the aftermath of last summer's record fuel costs, and with current prices reaching an average \$2.48 a gallon, numerous entities nationwide are leaning on the tax-free advantages of Transportation Flexible Spending Accounts (FSAs) for getting public transit into commuters' embrace:


Many metropolitan cities including New York, San Francisco, Chicago and the District of Columbia (D.C.), plus the Harris County government in (Houston) Texas now offer incentive and education packages to commuters regarding Transportation FSAs.

Education facilities such as University of Chicago Hospitals, Drexel University in Philadelphia, and Georgia State University all provide "commuter benefits" via Transportation FSAs.

A Tennessee-based non-profit called 1Point Foundation has even launched a new Web site, [TaxFreeTransit.org](http://TaxFreeTransit.org), to raise awareness about the tax benefits of riding mass transit. It provides commuters, transit authorities, and HR director's useful information on Section 132 of the tax code that allows for the creation of Transportation FSAs.

Transportation FSAs are gaining in popularity as more Americans are relying more heavily on public transportation since last summer. According to the American Public Transportation Association, 88% of large and small U.S. transit agencies surveyed said their rider ship actually increased last November, even as gas prices declined. In some places, transit systems reported double digit increases, the survey reported.

In establishing Transportation FSAs, individual employees determine a certain amount of pre-tax salary to cover qualified costs of commuting to and from work. This means that funding for the accounts is taken out of the employee's paycheck before taxes, resulting in a lower tax base for the employee.

Mass transit commuters can contribute up to \$105 per month in pre-tax dollars; people who drive themselves to work can contribute up to \$205 per month in pre-tax dollars to cover qualified parking expenses. Commuters can participate in one or both of the programs. 

*Ridder/Tribune Business News.*