



Comment

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Compliance Corner: Medicare Entitlement as a First Qualifying Event

By Ouida Peterson
CONEXIS

Let's first review Medicare Entitlement – not everyone age 65 is eligible for Medicare benefits – and even some that are eligible, delay their entry into Medicare. The concept of Medicare "entitlement" is frequently misunderstood by employers and employees alike. To be entitled to Medicare, the following conditions must be true:

- the individual is eligible for Medicare benefits;
- the individual has taken the steps required to enroll in the program; and
- the enrollment in Medicare Part A or Part B has become effective.

Rarely will Medicare Entitlement directly result

Survey Shows Slower Growth in Consumer-Driven Health Plans Than in Other Plans

Managed Care Weekly Digest

The cost of health plans that encourage members to be better healthcare consumers grew at a significantly slower rate in 2005 than other types of plans, U.S. employers reported in a survey released by the Deloitte Center for Health Solutions.

The cost of consumer-driven health plans, such as health savings accounts or health reimbursement arrangements, increased by an average of 2.8% from 2004 to 2005, according to the survey of 152 major U.S. employers. That compares to an 8% increase in total premiums for health maintenance organizations, an 8.5% increase for point-of-service plans and a 7.2% increase for preferred provider organizations. Traditional or indemnity plan costs increased 6.4% last year, according to the survey. The average for all types of plans was 7.3%.

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Survey Shows Slower Growth in Consumer-Driven Health Plans Than in Other Plans

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"Employers are increasingly turning to consumer-driven health plans to reduce costs and help workers and their families make better healthcare decisions," said Tommy G. Thompson, the independent chairman of the Deloitte Center for Health Solutions.

The survey also found that businesses are projecting similar rates of cost growth in 2006, including 2.6% for consumer-driven health plans, 7.4% for health maintenance organizations, 7.3% for point-of-service plans, 7.5% for preferred provider organizations, and 6.6% for traditional or indemnity plans. The average for all types of plans is projected to be 7.1%.

Not surprisingly, 40% employers said consumer-driven health plans offer "the most effective approach for managing costs and maintaining quality care," while 35% said preferred provider organizations were the most effective. Eighteen percent selected health maintenance organizations, 6% said point-of-service plans, and just 1% said traditional or indemnity plans.

Consumer-driven health plans combine discounts inherent in managed care programs with incentives to encourage members to become better consumers of healthcare. Typically, these plans are designed using

accounts, such as tax-advantaged health savings accounts or health reimbursement arrangements that often include some level of employer contribution, in combination with front end deductibles. They also provide the member with tools that provide clinical, cost and quality information so they can make personal health decisions that best meet their needs.


A Deloitte study released in November found that 43% of U.S. companies either have a consumer-driven health plan in place (22%) or will be offering one in the next 2 years (21%). Another 51% said they are reviewing consumer-driven options and may offer one in the near future if they can be proven to be attractive to employees while saving money. 🍎

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in a COBRA Qualifying event – an active employee loses their benefits because they activated their Medicare? What employer sponsored health plan would have that provision? But, the Medicare Entitlement date may be taken into account the qualifying event occurs after they become Medicare Entitled.

When the qualifying event is the end of employment or reduction of the employee's hours of employment, and the employee became entitled to Medicare benefits less than 18 months before the qualifying event, COBRA continuation coverage for qualified beneficiaries other than the employee lasts until 36 months after the date of Medicare entitlement. For example, if a covered employee becomes entitled to Medicare 10 months before the date on which his employment terminates, COBRA continuation coverage for his spouse and children can last up to 36 months after the date of Medicare entitlement, which is equal to 26 months after the date of the qualifying event (36 months minus 10 months). 



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The Healthcare Guessing Game: Are Savings Accounts a Boon or a Curse?

Chicago Tribune (KRT)

Al Meginnis signed up for a health savings account (HSA) and an accompanying high-deductible health insurance policy last year, and so far he has been pleased.

"I jumped at it because it made a whole lot of sense," said Meginnis, director of Lutheran Social Services of Illinois' Behavioral Health Services Center in Elgin, Ill. The account also covers his wife and son, and is less costly than traditional health insurance, he said.

Meginnis said he's saving \$2,400 this year on premiums alone and added that he has saved even more by being more of a health consumer. He said the Web site of his healthcare company, United Healthcare, provides estimated prices for various services. "I can figure out pretty easily what it's going to cost to do something before I decide to do it," he said.

Once he rejected an orthopedist's recommendation for more than \$600 in physical therapy for arthritis in his knee after questioning whether the therapy would help him. A second orthopedist recommended a "wait-and-see" attitude on physical therapy but also prescribed a brand-name painkiller that would cost \$50. He asked for a generic version and saved \$40.

But when it comes to healthcare, Meginnis is more willing to embrace new ideas than other

employees at Lutheran Social Services. The agency dropped its traditional health insurance plan last year and converted to a vanguard product – an HSA paired with a high-deductible health plan—in July to reduce escalating healthcare costs.

Employees don't like accounts

Larry Lutey, the agency's vice president of human resources, said many employees "don't like the HSA, to be quite frank," because it's a new way of thinking about buying medical services, and workers think it costs them more. "If my position had been an elective one," he added, "I would have been voted out of office this year."

Lutey said employees are unhappy with HSAs because "it feels like they're paying more upfront. The perception is, this is a very expensive type of plan. Even though there is money in [employee] accounts to cover these expenses, people end up feeling they're paying more out of pocket."

In an era of surging healthcare costs, HSAs have grown rapidly since Congress began encouraging their use in 2004. And now President Bush wants to give them a big boost with generous tax incentives and favorable regulation, with the aim of overhauling traditional health insurance in America.

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Like the 1,400 workers at Lutheran Social Services, the nation and Congress are deeply divided over whether HSAs are one way to help fix an ailing healthcare system. Critics say they favor the healthy and the rich at the expense of the sick and the poor, while proponents say such claims are overstated, even inaccurate.

HSAs allow people to salt away a specified amount each year tax-free, while it gains interest, to pay for relatively routine medical bills. The savings accounts must be coupled with a high-deductible health insurance policy, usually with the deductible starting at about \$1,000. More companies are offering such accounts these days, and many employers are contributing to their employees' accounts.

HSAs shift more of the burden of healthcare costs to consumers, who then may have an incentive to curb such costs because they are spending their own money rather than that of their employer or an insurance company. But once the high-deductible policy kicks in, the system works more like traditional health insurance.

"It takes the insurance companies out of the middle of it, and we contain our own costs," said Rep. Anne Northup (R-Ky.), a member of the House Appropriations Committee. "That's very important." But she conceded that consumers need more information to shop for cost-effective care, and Bush is pressing healthcare companies to provide that data.

Democrats are linking Bush's proposals to his failed Social Security privatization plan and his beleaguered Medicare prescription drug program.

"Underlying all of this is [Republicans'] main purpose of trying to get rid of entitlements," said Rep. Pete Stark (D-Calif.), a member of the House Ways and Means Committee. "They would like to turn Medicare into a voucher."

Rep. Henry Waxman (D-Calif.) added, "The president's HSA plan combines the worst elements of the president's failed Social Security privatization plan and his Medicare prescription drug fiasco."

But Rep. Sam Johnson (R-Texas), a Ways and Means member and sponsor of a Bush-like plan to expand HSAs, said some but perhaps not all of the president's plan could win congressional approval this year. One key Senate GOP staff member said there is a 50-50 chance the plan could pass, but said Republicans might have to tilt the legislation to provide bigger tax incentives for low-income Americans in order to attract Democratic votes. A major question is whether Bush's proposals will erase the public's doubts about HSAs.

About 3 million people currently are enrolled in HSAs out of the 245 million Americans covered by health insurance, and Johnson said the accounts

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do tend to be more attractive to healthy workers. Many analysts doubt there will be significant healthcare savings because once a deductible is met, consumers have less incentive to save money.

'Level the playing field'

Bush said he wanted to "level the playing field" between traditional health insurance and HSAs. He would allow people who buy HSA-related high-deductible policies outside their workplace to deduct the premiums from their income taxes. Also, they could get a tax credit to offset payroll taxes paid on these premiums.

Bush also has proposed that those with HSAs and their employers make annual contributions to cover out-of-pocket costs, not just the amount of the deductible, as under current law. These out-of-pocket expenses would be tax-deductible but limited to \$5,250 a year for individuals and \$10,500 for families.

To answer charges that HSAs do not benefit low-income people, Bush proposed a "refundable" tax credit to help uninsured Americans buy high-deductible policies in connection with HSAs. The maximum credit would be \$1,000 for one adult, \$2,000 for two, and \$3,000 for two adults with children. The credit would phase out for individuals earning \$30,000 or more and families earning \$60,000.

The president's proposal would allow policyholders to take their insurance to another employer if they change jobs, and it would allow them to purchase HSAs across state lines, which the White House said would greatly increase competition. Bush's plan also would allow companies to make higher contributions to the HSAs of chronically ill employees.

Karen Davis, president of the Commonwealth Fund, a health policy organization, said she thinks HSAs have problems. Many people will delay getting care to save money, she said, adding, "When you have high deductibles, it reduces the uses of both essential and less essential [medical services]."

Healthcare companies offering HSAs dismiss such claims. UnitedHealth Group said a 2005 study found their enrollees used more preventive services than those in traditional plans.

Sherry Gini, director of human resources for Goldberg Kohn, a Chicago law firm, said 37 of its 175 employees have signed up for an HSA plan. Attorneys liked the tax savings, she said, but in some cases the paperwork proved too burdensome, and employees have found the cost of prescription drugs to be much higher.

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Do accounts have a future?

Scott Spiker, chief executive of Chicago-based Destiny Health, said Bush's proposal to allow companies to sell across state lines would give a push to expansion of the accounts.

But Brian Diedrich, senior managing director of employee benefits at Mesirow Financial, a Chicago-based financial firm, said unless companies put money into their workers' accounts, they will not buy into the plans.

"I think people are very much in love with the [traditional health insurance] system," he said. "We're a long way from moving to a consumer-directed healthcare system."

What you need to know about health savings accounts (HSAs):

PLUSES

- Tax-free accounts could accumulate money over several years and turn into a sizable healthcare nest egg for healthy people with low medical expenses.
- The consumer is more likely to question healthcare expenses that currently do not get much scrutiny.
- High-deductible policies that must be linked with HSAs tend to be cheaper.

MINUSES

- May be attractive to young, healthy people who currently are uninsured.
- With incentives, they could drive down the cost of insurance for small-business employees.
- Low-income people don't have as much money to salt away as the well-to-do and often cannot afford the high out-of-pocket costs.
- Could cause some to delay or deny themselves needed care in order to economize.
- Chronically ill people would spend accounts each year and would face high deductibles.
- Could make healthcare for older, sicker people more expensive as young, healthier people abandon the risk pool.
- Could move consumers away from the employer-based insurance model and into individual insurance. But the individual insurance market does not cover people who are sick and is less well-regulated.
- Shopping for healthcare is difficult when little good information exists that can support comparison shopping. 🚫

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Health Savings Account Enrollment Nearly Triples to 3 Million

BestWire Services

The number of beneficiaries covered by high-deductible health insurance plans tied to health savings accounts has nearly tripled over the past 10 months to more than 3 million, according to new data compiled by America's Health Insurance Plans.

Created as part of 2003's Medicare Modernization Act, HSAs allow contribution of pretax funds by individuals or their employers into tax-free savings accounts that may be used to pay for qualified medical expenses. The plans must be attached to so-called "catastrophic" coverage through compatible high-deductible health plans.

AHIP doesn't expect to have a breakdown of the new enrollment data by market segment -- whether large group, small group, or individual -- for at least another month. However, Karen Ignagni, the group's president and chief executive officer, expressed in a conference call her sense that much of the increase is attributable to the participation of large group plans.

Because regulations for the accounts weren't promulgated by the U.S. Treasury Department until August 2004, many large employers already had made their benefit decisions for 2005 and thus didn't offer the plans last year.

"The bottom line is that this shows the market for HSAs is definitely becoming broader, with companies offering HSAs in more markets and to a wider array of groups," Ignagni said.

Ignagni also noted she expects considerable discussion in Congress this year on whether to increase maximum allowable contribution limits for the accounts from the current caps of \$2,700 for self-only coverage and \$5,450 for family coverage.

Other potential changes to the plans may be allowing policyholders to roll over balances from flexible spending accounts; including chronic drug coverage as part of the carve-out of healthcare expenses that aren't counted toward a member's deductible; and possibly expanding tax deductions or credits for those who purchase the accounts in the individual market.

"Individuals who are not offered health insurance through their jobs, or who may not be employed in a full-time way -- for instance, consultants and contract employees -- don't have the same ability to take advantage of tax subsidies the way employers do," Ignagni said. "One of the things that has been circulated over the past couple of days is that the

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Analysts: Healthcare Costs to Keep Rising

AP Online

Within a decade, an aging America will spend one of every five dollars on healthcare, according to government analysts who see no end to increases in the cost of going to the doctor and taking medicine.

The nation's total healthcare bill by 2015: more than \$4 trillion. Consumers will foot about half the bill, the government the rest.

Hospital costs will rise more quickly than previously anticipated, reflecting a construction boom for urban hospitals. Meanwhile, drug costs are expected to be lower because of a greater reliance on generics, and because insurers administering the new Medicare drug benefit were able to negotiate steeper discounts than previously anticipated.

The projections, published in the journal *Health Affairs*, come as President Bush urges Americans to confront the rising cost of healthcare. In his State of the Union address last month, the president pushed health savings accounts, or HSAs, and the high-deductible insurance plans that go with them.

The administration predicts that Americans would become more thrifty consumers if they had to pay more of the upfront costs, which occurs with HSAs.

"We don't expect HSAs to proliferate so dramatically that we would have an impact similar to that of the managed care era of the '90s," said John Poisal, deputy director of the Centers for Medicare and Medicaid Services' National Health Statistics Group. Then, healthcare flattened out at 13 percent of gross domestic product.

Overall, the analysts forecast a 7.2 percent annual increase in healthcare costs over the coming decade. That's in line with the 7.4 percent increase in 2005.

Still, the overall economy is projected to grow at a rate of only 5.1 percent over the coming decade, which means healthcare will play an ever-growing role.

"These changes could force payers and providers to re-examine fundamental questions regarding the delivery and financing of healthcare services," the analysts said.

Another trend within the new government projections is an ever-growing reliance on the government to foot the bill for healthcare. By the end of the next decade, the government will pay for about half of the nation's medical costs.

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Overall, the most important factor in healthcare spending is income, the analysts said. As Americans make more money, they spend more to get healthy. People making \$90,000 are more likely to visit a doctor and get their prescriptions filled than those who make \$50,000, Poisal said.

Investment in research, equipment and people also drives the growth in healthcare spending, he said.

"It's consumption and investment," Poisal said. "But primarily it's about consumption."

Medicare spending will more than double, from \$309 billion in 2004 to \$792 billion, in 2015. Medicaid spending will grow from \$293 billion to \$670 billion during the same time span.

The country's aging population is expected to drive increases in two key areas of healthcare spending: nursing homes and home health.

Spending on nursing homes will grow from \$121.7 billion in 2005 to \$216.8 billion in 2015. Home health will grow from about \$49 billion last year to \$103.7 billion in 2015. It represents the nation's fastest-growing sector in healthcare.

Analysts expect annual health cost increases in the next decade to range from 6.8 percent in 2015 to 7.7 percent in 2008. 🌐

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Health Savings Account Enrollment Nearly Triples to 3 Million

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president is considering a level playing field, and we think that would definitely increase the ability of individuals to actually purchase coverage and protect themselves."

AHIP compiled the data by aggregating responses from member companies, which include nearly all health insurers and managed care plans that offer the HSA-eligible policies. In AHIP's last survey of the market, released in March 2005, the association found slightly more than 1 million people were covered by HSA-compatible policies. 🌐

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