Employer-sponsored long-term disability (LTD) plans typically replace 60% of pre-disability earnings, with some companies providing a slightly higher replacement percentage. When an employer pays the premiums for the LTD plan, benefits are taxable to the employee in the event of a disability. For executives or senior level employees with upper-range salaries—and thus upper bracket taxation—the tax hit on the disability benefit can generate a significant gap between pre-disability earnings and the amount of actual disability benefit received.

Suppose a senior level employee with an annual salary of $200,000 becomes disabled, and the company-sponsored LTD plan replaces 60% of salary. This individual receives an annual disability benefit of $120,000, or $10,000 monthly. This benefit will be reduced by an additional 25%-35% (depending on the executive’s other taxable income sources, deductions, the state income tax rate, etc.). So, this highly paid individual could see the monthly disability benefit fall to $6,500, creating a huge gap between the pre-disability salary and disability benefit and causing a radical adjustment in the employee’s standard of living.

What can employers do to help their executives and senior level employees fill this gap, or avoid creating such a huge gap in the first place?

The executive employee in the example was taxed on the disability benefits when paid because the employer had paid for the LTD plan premiums. If, however, the disability premium is paid by the employee with after-tax dollars, or is paid by the employer but imputed as income to the employee, any benefits paid are not subject to tax.

An Internal Revenue Service ruling (Rev. Rul. 2004-55) permits employers to allow employees to elect on a year-by-year basis whether to include any premium paid by the employer as income. The election must be irrevocable and must be made before the beginning of the plan year. An employee can make a different election for each subsequent plan year. If a disability occurs in a year when premiums are included in income, then disability benefits paid are not subject to tax. (The ruling also could be applied to short-term disability benefits.)

This approach enables employers to give executives the flexibility to determine whether, for the particular executive’s financial situation, it is important that any disability benefits paid flow free from tax. Executives can change their minds,

It is with great satisfaction that we bring our newsletter to you. In this quarterly issue, we will discuss pertinent financial and benefits topics which affect you and your employees. If you have a topic for future discussion, please email us at: newsletter@jjbenefits.com.
Health Risk Assessments Are First Step to Cost-Saving Wellness Initiatives

Common sense tells us that, generally, individuals in better health are likely to have lower overall health care costs. Yet, employers sometimes balk at implementing programs aimed at employee wellness, unsure whether the cost of such programs will pay off in a reduction in employees’ health care expenditures. Now, a study demonstrates that wellness programs that involve use of health risk assessments can reduce individual health care costs by hundreds of dollars a year.

The study from Thomson Medstat, an information solutions provider, estimated the health care cost savings associated with wellness programs offered to a group of nearly 60,000 retirees and dependents. According to the study, the key to the success of the wellness programs in reducing costs was the health risk assessment, a tool that measures an individual’s specific health factors, along with the individual’s overall health status. The study found that when a health risk assessment was used as a guide for determining appropriate wellness services, health care cost savings were substantially more than they were when the initial assessment was not completed.

Specifically, individuals who took a health risk assessment and also participated in one other wellness program component—such as telephone-based lifestyle management counseling or onsite medical screenings—saw their annual health care costs drop by an average of $442. Those who took a health risk assessment and also participated in two additional program components saw an average reduction of $569. But those who simply participated in wellness program services without first taking a health risk assessment saw only a small drop in their health care costs—on average, $30 annually.

According to the study, this suggests that information gleaned from health risk assessments can focus individuals on which wellness initiatives are most appropriate and most beneficial for them.

Health risk assessments can actively engage employees in understanding the connection between their lifestyle choices and behaviors and the possible health-related consequences. For example, through a health risk assessment, an individual carrying 30 pounds of excess weight can learn the potential impact of these pounds on his or her blood pressure and cholesterol readings, musculoskeletal functions, and blood sugar levels. Though most people realize, on some objective level, the risks of being overweight, a health risk assessment personalizes this information and can provide the impetus and motivation one needs to participate in and stick with a weight loss regimen that includes healthy eating, increased physical activity, and continued weight monitoring.

Similarly, health risk assessments for individuals with chronic conditions can motivate participation in disease management programs.

To encourage employees to make use of health risk assessments, some employers offer incentives, such as a cash contribution to a health savings account or health reimbursement account to employees who take an assessment, and an additional amount if they follow up the assessment with completion of an appropriate wellness program. You can be creative with incentives and use those that you think will be most likely to encourage employees to participate in a health risk assessment, and that balance your desired investment in a wellness program with the expected results.

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annually, in line with their current financial situation (impact of an income loss) and their perceived chances of becoming disabled (current overall health).

By creating a situation that allows disability benefits to avoid tax, the employer helps the executive or senior level employee to narrow the gap between pre-disability earnings and post-disability benefits. An alternative—or additional—remedy looks at ways to fill that gap, by supplementing the basic company-sponsored LTD plan with additional, enhanced coverage. As noted above, typical LTD plans replace 60% of pre-disability earnings. They also may limit the maximum monthly benefit that can be paid, or exclude certain types of compensation that figure heavily into an executive’s annual pay (such as bonuses or other incentives). A supplemental plan can moderate the impact of these limits and/or exclusions, by including incentive compensation, eliminating or raising the monthly benefit cap, and raising the replacement percentage. While the executive’s pre-disability income won’t be matched, the gap between it and the disability benefit can be substantially reduced.

Tweaking your company’s LTD plan to make it more executive-friendly can be an important element in attracting and retaining this valuable level employee.
International Outsourcing of Medical Care Gains Attention

U.S. health care annually posts cost increases. When other aspects of doing business became too expensive to handle within the U.S. borders, many employers successfully outsourced these functions to overseas locations. Many companies’ technology support, for example, is based overseas, as are call centers. Might international outsourcing also be a solution for the high cost of certain medical procedures?

Medical tourism—the practice of traveling to another country to receive medical care—has been around for a while, but primarily was used by individuals for cosmetic procedures not covered by insurance, and which could be obtained at a much cheaper price in another country. More recently, however, medical tourism has been in the news as a way to secure affordable alternatives to a number of high-cost, yet common, medical procedures.

Why the interest? First and foremost, the potential cost savings can be dramatic. Wockhardt Hospitals, located in India, is one of many medical centers abroad that promotes its services to international patients. On its Web site, it advertises its cost for open heart surgery at $7,500, total knee replacement at $6,300, hip resurfacing at $7,000 and gastric bypass at $9,500—prices that are a fraction of the cost of what they would be in a U.S. facility.

But price alone is not what’s bringing more attention to the prospects of internationally outsourcing medical procedures. Wockhardt, along with many other hospital facilities abroad, is accredited by Joint Commission International, the international arm of the Joint Commission on Accreditation of Healthcare Organizations. Many of the physicians practicing in these facilities are educated in the U.S., and have U.S. practice experience and specialty certifications. The facilities themselves may boast state-of-the-art technologies, and may offer comforts and nurse-to-patient ratios not usually seen in the States. These factors, added to the ease of international travel today, make going to India—or Singapore, Thailand, South Africa, or any number of Central and South American or Eastern European locations—for a medical procedure seem a viable option.

There are, of course, other considerations. How will a patient handle medical record transfer and language barrier issues? How will care be coordinated among any U.S. physicians the patient has and the overseas doctors? What if something goes wrong during the procedure…what if any recourse will the patient have, without the protection of U.S.-based malpractice laws? And how do U.S. tax laws that offer favorable treatment for medical expenses and the cost of employer-sponsored health insurance apply when medical costs are generated overseas?

A new industry has sprung up to address some of the many needs that arise when an individual travels abroad to seek medical treatment. These firms may provide assistance with anything from passports, transportation and lodging, to locating an appropriate medical facility, to transferring and/or translating medical records, to coordinating pre- and post-procedure care between the physicians in the overseas destination and those at home. Some are actively marketing their services to employers as a way to manage the hospital- and surgical-related component of a company’s health care plan.

Media reports in recent months report growing interest from employers—especially those that are self-insured—for these services. Few specific employer names appear in these accounts. However, with sizeable cost savings as an incentive, and a growing number of service providers to put such programs in place, it’s likely that we’re seeing just the beginning of discussions on international outsourcing for medical care.

given to having health insurance coverage. According to the survey, young workers have set their financial priorities in areas other than health insurance coverage. Seventy percent would rather contribute a portion of their monthly earnings to paying down credit card debt, building their savings accounts, or contributing to their 401(k) plans, than paying for health insurance coverage. Forty-four percent would rather pay their cell phone bills. And only 8% ranked health benefits as a top item they look for when considering a job.

Employers that offer health benefits programs can reach out to this group in a number of ways to emphasize the importance of joining the company-sponsored health plan. Since most young people will have seen for themselves few—if any—medical bills, they may have no real sense of the cost of medical treatment, whether it be for a severe condition or catastrophic event, or even routine care. Sharing cost information with them through a variety of media (company newsletters, e-mails, paycheck stuffers, posters/table-toppers in the lunchroom) can make the point simply and effectively. Once they are more in tune with what a health care event could cost them out-of-pocket, young workers may be more likely to consider the options available to them. Lower-cost health plan options—including high deductible plans coupled with a health savings account—could appeal to young workers who might appreciate the expense of a catastrophic event, but are otherwise healthy.

Moving young workers into appropriate health plan coverage might result in some expressions of “I was lucky,” when these individuals later look back on their uninsured days.
When young, one tends to feel invulnerable. Reflecting this, young people often take the kinds of risks that, when looked back upon after a few years of added experience, often elicit the remark, “I was lucky.” A recent survey conducted on behalf of Aetna and the Financial Planning Association shows that this risk-taking behavior shows up in young people’s views toward health insurance, with many saying they would choose to pay their monthly cell phone bill rather than pay a health insurance premium.

As a group, young adults are among those least likely to have health insurance. According to research funded by the Agency for Healthcare Research and Quality, 36% of individuals age 19 to 24 were uninsured for all or part of 2003. An Issue Brief from the Commonwealth Fund states that young adults age 19 to 29 are among the largest and fastest growing population segments without health insurance, with 13.7 million uninsured in 2004, an increase of 2.5 million over 2000’s levels.

It’s easy to see how people in this age group become uninsured. Most young people have coverage under their parents’ health insurance policies (or a state children’s health insurance fund) until they reach age 19; college students may keep this coverage until they graduate. After that time, coverage ends, and many young folks are not replacing their former dependent coverage with coverage of their own. The Commonwealth Fund Issue Brief states that nearly two out of five college graduates, and one-half of high school graduates who do not go on to college, will be uninsured for part of their first year after graduation.

While it’s understandable how this loss of coverage occurs, what’s disturbing about the survey cited at the beginning of this article is the lack of priority that many young people have

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