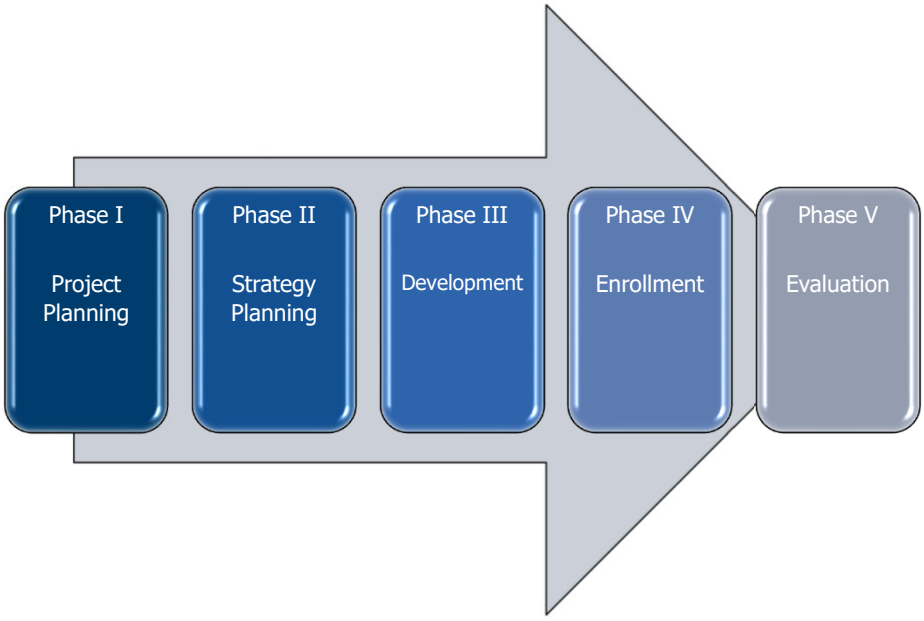
APPENDIX

Ancillary Benefit Plans Appendix Topics Include:

- Choice Based Model
- EAP
- Long-Term Care Insurance

Choice Based Model

A Process to Implement Flex Choice Benefit Programs



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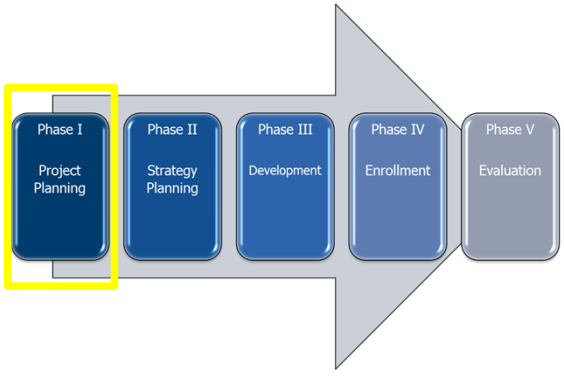
Phase I: Project Planning

- ❑ Identify project team
- ❑ Set objectives
- ❑ Review current benefits
- ❑ Review competition
- ❑ Initial design
- ❑ Administrative assessment



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Project Organization

Project Team (Interdisciplinary)

- Project Manager
- Administration Leader
- Plan Design Leader
- Communication Leader
- Financial Monitor

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Project Schedule—Flex Roadmap

- Overview vs. Detail
- Interrelationship of various activities
- Milestones
- Schedule slippage
- Late project intensity

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Many Factors Are Prompting Organizations to Re-Examine Their Business Strategies

- Linking flex to your business strategy
- Rapid technological change
- Enhanced competition and new competitors
- Mergers, acquisitions, and joint ventures
- Globalization
- Changing regulatory environment
- Speed to market

313

People Are Key Component of Business Strategy

The right people, doing the right things, the right way, at the right cost, with the right return

314

Benefits Play an Important Role

- Represent major investment, but
- Most programs:
  - Originated in a different environment
  - Evolved incrementally, often driven by statutory considerations

Many organizations now find major disconnects between the objectives of their benefit programs and their strategic priorities

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GAP Analysis—Example

Stated Objective: The ABC Company* benefit program will provide flexibility for employees to choose benefits which support their needs

Supporting Elements

- Multiple medical plan options provided
- Offer supplemental life insurance options

Mis-Aligned Elements

- Dependent's coverage must match employee's
- Employees are not allowed to reallocate benefit investments to better meet individual needs (e.g., reduce life insurance to help pay medical premiums)
- Additional elective or nontraditional benefits are not provided that may be highly valued by employees (e.g., spending accounts, legal services, financial counseling, complementary and alternative medicine)
- Some benefits are not available to all employees

*Disclaimer: The company name and names of people depicted in this case study are entirely fictional and are used solely for education purposes. Any resemblances to actual companies and people, including names or logos, are coincidental

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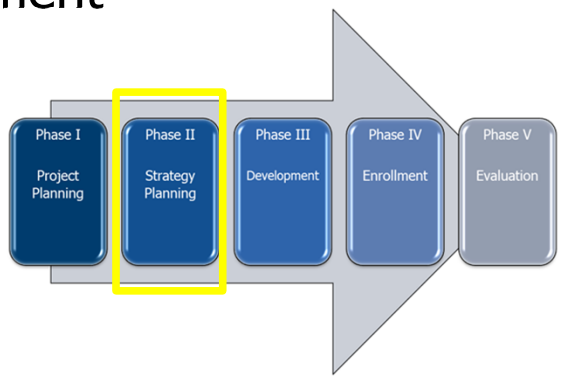
Phase II: Strategy and Planning

- ❑ Plan Design
- ❑ Pricing
- ❑ Administrative Assessment



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Plan Design Considerations

- Core vs. Optional
- Is it competitive?
- Does it meet needs?
  - Employer
  - Employee
- "Clean Sheet" vs. Refining existing program
- Sacred cows
- Winners vs. Losers
- Can employer afford it?
  - Short-term
  - Long-term

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Medical Plan Design Considerations

- Is there a target plan?
  - If so, which one?
    - What will make employees shift?
- What types of plans are offered?
  - HMO/POS/PPO
  - Managed indemnity/out-of-area
  - e-health
  - Carve outs
- Address employee concerns
  - Other services: Preventive, alternative medicine
  - Accessibility
  - Affordability

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Plan Design

Sample **Medical** Plan Options
Managed Care Based Program

Design Features	HMO	POS	Catastrophic	Out of Area	No Coverage
Deductible/ Copay	$10 office visit 3-Tier drugs copay	$15 office visit 3-Tier drugs copay	$1,500 annual deductible	$250 annual deductible	N/A N/A
Coinsurance	100%	90%	100%	80%	N/A
Out-of-Network Coverage	None	70% after $500 annual deductible	N/A	N/A	N/A
Availability	Limited to network service area	Limited to network service area	Available to all participants	Available only if the POS and/or the HMO is *not* available	N/A

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Plan Design Considerations Dental

- What is the targeted plan?
- How is managed care positioned?
  - Replace indemnity
  - Add as network option
  - Role of PPO vs. DHMO
- Address employee concerns:
  - Service covered:
    - Preventive
    - Adult orthodontics
  - Accessibility
  - Affordability

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Plan Design

Sample **Dental** Plan Options
Managed Care Based Program

Design Features	DHMO	PPO	No Coverage
Preventive Basic Major Annual Maximum	100% 80% 50% N/A	100% 80% after $50 deductible 50% after $50 deductible $1,500	N/A
Orthodontic	50% No $ maximum	50% after $50 deductible $1,500 lifetime maximum	N/A

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Plan Design Considerations Disability

- What is core coverage?
- How is paid time off (PTO) coordinated?
- How are short-term and long-term disability coordinated/managed?
- Address employee concerns:
  - Buy-up of richer benefits
  - Use of sick days for illness of another family member

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Plan Design

Sample **Disability** Plan Options
Typical Flex Program

Plan	Core	Buy-up Plans
STD	1st day accident; 8th day illness 26-week duration 50% of pay to $300/week	1st day accident; 8th day illness 26-week duration 67% of pay to $500/week
LTD	N/A	After STD expires: 40% of pay to $5,000/month or 60% of pay to $10,000/month Opportunity to purchase "cost of living adjustment" (COLA) coverage

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Plan Design Considerations Life Insurance

- What is core coverage?
- How many choices are too many?
- Role of universal life
- Ancillary coverage
  - Dependent coverage
  - AD&D

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Plan Design

Sample **Life Insurance** Plan Options
Typical Flex Program

Plan	Core	Contribution Coverage
Employee Life	1 X Annual Pay to $50,000	1, 2, 3, 4 or 5 X Annual Pay
Dependent Life	N/A $2,500 or $5,000/child Larger amounts through GULP	$5,000 or $10,000 spouse
AD&D	N/A	1, 2, 3, 4 or 5 X Annual Pay
Group Universal Life	N/A	Savings fund

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Plan Design

Other Optional Benefits

- 401(k)—Salary deferral
  - Responsive to employee needs
  - Plan sponsor needs to monitor maximum benefit, contribution and distribution rules
- Cash—In lieu of coverage
  - Responsive to employee needs
  - Incentive to enroll in spouse's plan

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Plan Design Other Benefits

- Financial planning
- Group auto
- Group homeowners
- Education assistance
- Paid time off
- Sabbaticals
- Long-term care
- Rx
- Vision
- Fitness programs
- Non-traditional benefit practices:
  - Key drivers
  - Company commitment
  - Benefit/program offerings

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Flex Pricing Overview

A few key terms

- Flex prices: The price tags the employees see for each benefit option he/she can choose when enrolling in the flexible benefit program. They may or may not reflect the true cost of providing the benefit
- Flex credits: The pool of "dollars" the employer provides to each employee to buy benefits from among the various options. Leftover credits are sometimes eligible for conversion to cash
- Adverse selection: The process by which an employee picks the option he/she expects to provide the best value for his/her situation (and often providing the highest employer cost)

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Pricing Overview

Remember:

- Premiums (or premium equivalents) are facts
- Price tags and credits are policy decisions used to support specific communications and financial objectives

330

Flex Pricing—True or False

- Most people think that any price is too high
- Most people miss the subtleties of flex pricing strategies
- Few people pay attention to price distinctions
- Few people have made a connection between the price and value of their options
- Most people have made up their minds how they will react to the flex program before they see the prices
- Few people understand the reasons behind the flex prices
- Most employers have been guilty of placing less importance on flex pricing than flex design

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The Facts About Flex Pricing

- Most people ***expect*** to pay a price . . . Not too high!
- No matter the outcome, people ***will try to guess*** what management is trying to pull when changing pricing structures
- The pricing and how it's administered ***will communicate*** the value of the flex program
- The pricing ***will influence*** workforce reaction to the program
- Employers often ***do not consider*** many ramifications of pricing

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Flex Pricing

Spectrum of Credit/Pricing Approaches

Approach	Description
1. Same number of credits for everyone	Each person receives the same amount of flex credit regardless of pay, dependent status or option elected
2. Base credit amount + pay-related amount	Each person receives the same amount of flex credits *plus* extra credits based on pay
3. Credit amount based on elections	Each person receives flex credits based on the option elected
4. Credit amount based on number of dependents	Each person receives flex credits based on the number of dependents he or she has
5. Any approach + benefit/lifestyle incentives (beware HIPAA regs!)	Each person receives flex credits based on a traditional approach plus additional credits for achieving certain benefit or lifestyle milestones
6. Any approach + profit/division incentives	Each person receives flex credits based on a traditional approach *plus* additional credits for organizational Performance milestones

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Flex Pricing as a Communications Tool

- Approaches "play" differently to different opinion groups
- Leadership's perspective
- Administrator's perspective
- Workforce's perspective

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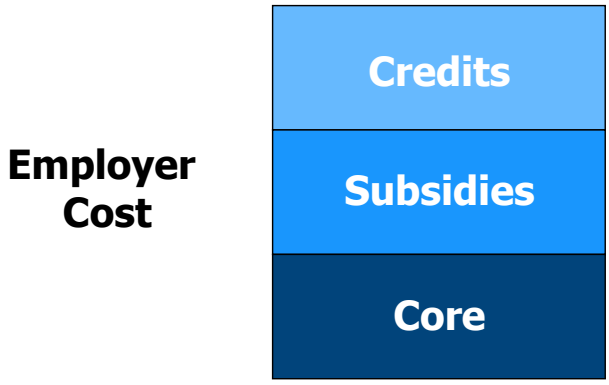
Flex Pricing as a Financial Tool

Flexible benefits target a specific employer cost objective for all included benefit programs combined



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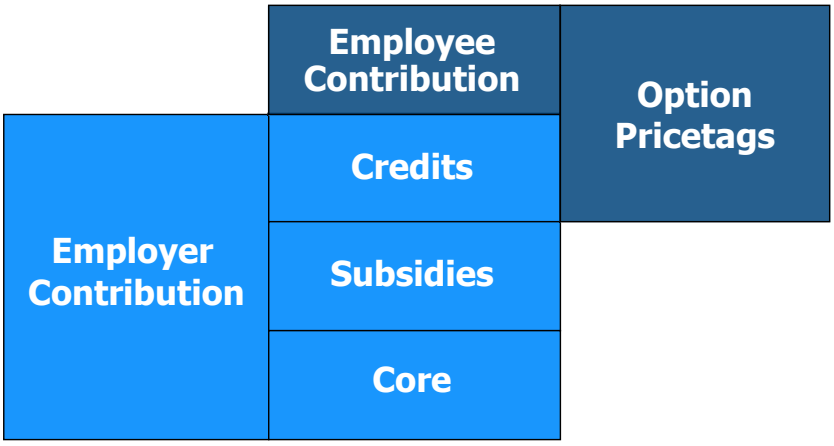
Flex Pricing as a Financial Tool

Employee contributions add to the employer contributions to comprise the total cost



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Flex Pricing as a Financial Tool

- As a stand-alone strategy, flex only controls cost by shifting cost to employees, either through design or credits/price tags
- Combined with other strategies, flex can add significant financial value without "mandating" takeaways from employees

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Flex Pricing as a Financial Tool

- Pricing reflects the employer's cost allocation policy to different groups of employees
- Allocation factors may include:
  - Family status
  - Age
  - Service
  - Geography
  - Employment status
  - Division
  - Other nondiscriminatory factors

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Flex Pricing as a Financial Tool

	Hidden Subsidy Single	Approach Family	True Cost Single	Approach Family
Actual Cost	$1,500	$4,500	$1,500	$4,500
Credits	$1,000	$1,000	$1,300	$3,900
Employee Contribution	$200	$600	$200	$600
Price tags	$1,200	$1,600	$1,500	$4,500
Hidden Subsidy	$300	$2,900		

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Flex Pricing as a Financial Tool

- Pricing is an iterative process
- Establish financial objectives (employer and employee)
- Project enrollment by option
- Project the cost of each option (including selection effect) and of the total plan
- Establish credits and price tags
- Perform impact and sensitivity analysis:
  - Projected employee costs and sensitivity to reasonable assumption ranges
  - Employee cost impact: Winners and losers
- Are financial objectives met?
  - Yes: You're done (at least for this year)!
  - No: Circle back (you'll probably do this several times)

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Pricing Approach

1. Design options
2. Estimate costs
3. Estimate employee participation
4. Estimate relative health care utilization
5. Develop preliminary prices, credits
6. Modify to reflect strategy
7. Are assumptions compatible?
   - Yes
   - No
8. Finalize benefits, prices, credits

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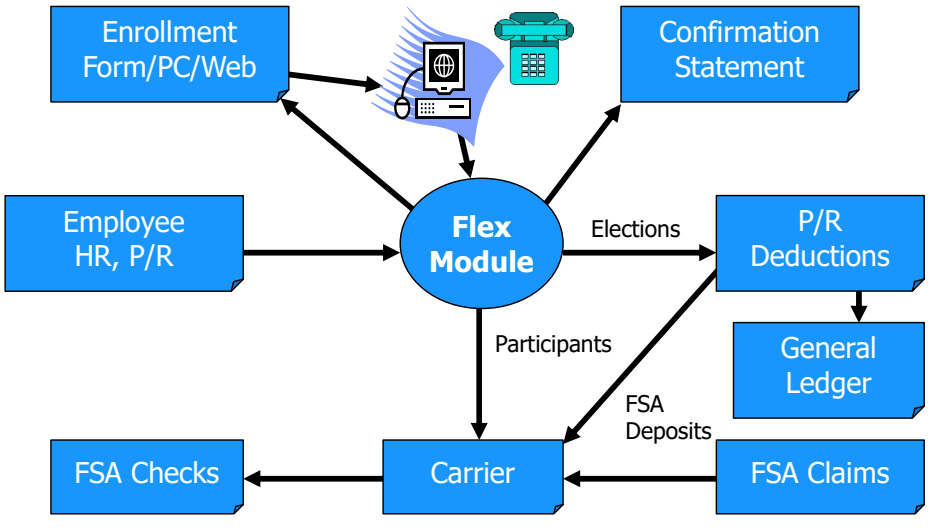
Administrative Assessment



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Administration

- Employee web access
- Viability of paperless approach
- Degree of self service
- Customer service requirements
- Process reengineering (now's the time!)
- Effect on payroll/HRIS
- System alternatives
  - Build/Buy/ASP (Application Service Provider)
  - Insource/Outsource/Co-source

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Administrative Requirements

- Document detailed plan design
  - Identify constraints imposed by systems solution and modify as required
- Define data workflow
- Specify personal communications
- Document all administrative processes
- Document payroll requirements
- Document systems integration requirements
- Develop resource allocation and work plan

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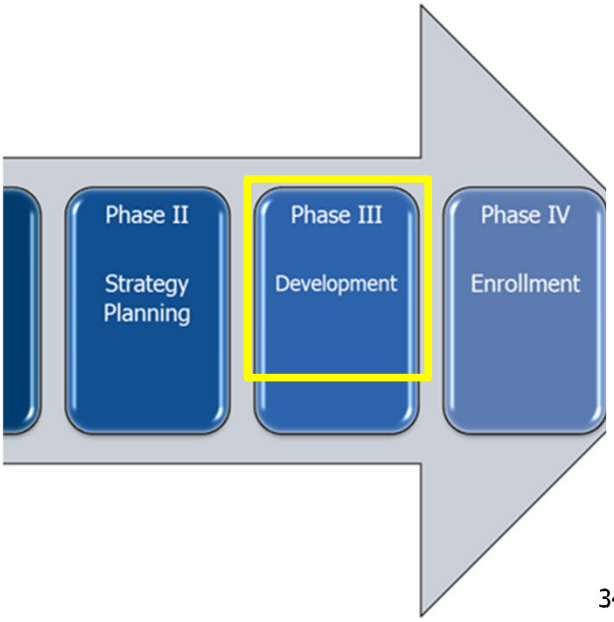
Phase III: Development Detailed Plan Design

- As a result of the strategy phase, we know:
  - Which benefit plans are included in the flex program
  - What the options look like, at a high level
- Detailed plan design completes everything needed to administer and communicate:
  - Eligibility rules
  - Plan coverage provisions
  - Election rules and restrictions
  - Status change rules



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Detailed Plan Design Example—Life Plan

- Eligibility rules
- Definition of pay
- Rounding rules
- Minimum and maximum coverage
- Evidence of insurability (EOI) requirements
- Premium determination
- Grandfathered coverage groups
- Taxability
- Administration
- Variation by employee group (e.g., part-time/full-time)
- Changes in family status

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Provider Selection and Negotiation

- Existing providers or new ones?
  - Are you satisfied with current providers?
  - Can the current providers manage the new plan effectively?
  - When was the last time the plan was bid?
  - Do you have a competitive arrangement with appropriate performance guarantees?
- All things being equal, do you want to change providers now? After all, a few other things are going on
  - However, all things are rarely equal

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Provider Selection and Negotiation

- If you decide to conduct a selection process:
  - Identify prospective vendors
  - Establish your selection priorities
  - Establish your proposal rating methodology
  - Assess market interest
  - Prepare the RFP (request for proposal)—Detailed?
  - Be prepared for lots of interaction with proposing providers
  - Evaluate the proposals based on defined methodology
  - Negotiate with finalists
  - Select provider(s)
  - Implement!

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Data Needs and Sources

Data Needed

- Employer cost objective
  - Total benefit dollars
  - Plan by plan expenditures
- Current plan costs
  - Medical/dental/vision
  - Paid time off (#s and days)
  - Life insurance, disability
  - Non-traditional benefits
- Employee participation
  - Health care plans
  - Disability plans
  - Other benefits

Where to Get It

- Internal company sources
  - Key executives
  - Budgets
- Mix of internal and external
  - TPAs
  - Insurers
  - Plan providers
  - Payroll and financial systems
- Employees and external
  - Current participation
  - Surveys, focus groups
  - Consultants, insurers, vendors

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Legal and Compliance Issues

Internal Revenue Code Sections

Section 79	Group term life insurance
Section 105	Accident and health plans
Section 106	Employer contributions to accident and health plans
Section 120	Group legal plans
Section 125	Cafeteria plans
Section 129	Dependent care assistance programs
Section 401(k)	Cash or deferred profit-sharing plans
Section 4980B	Health care contribution coverage (COBRA)

Internal Revenue Service Regulations

1.79	Group term life insurance
1.105	Accident and health plans
1.106	Employer contributions to accident and health plans
1.120	Group legal plans
1.125	Cafeteria plans
1.401(k)-l	Profit-sharing plans

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Legal and Compliance Issues

- Section 125 plan document required
- ERISA reporting and disclosure requirements apply
- Summary plan description
- COBRA and HIPAA
- Applicable nondiscrimination tests by plan

Cafeteria flex	Cafeteria plan tests (as applicable)
Dependent care reimbursement accounts	Dependent care tests
Health care reimbursement accounts	Self-insured health plan tests
Premium conversion plan	Cafeteria plan tests
Group term life insurance	Group term life insurance tests
Self-insured health plan (including minimum premium plans)	Self-insured health plan tests
Any benefits through a VEBA?	VEBA (Voluntary Employee Benefit Plan) tests

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Other Legal and Compliance Issues

- QMCSO
- FMLA
- Mental Health Parity
- Genetic Information Nondiscrimination
- USERRA
- Children's Health Insurance Program Reauthorization Act of 2009
- American Recovery and Reinvestment Act of 2009

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Modify Systems

- Payroll
  - Earnings and deduction fields
  - Taxation
  - Paycheck design
- Voice response unit(s), if applicable
- Intranet(s) and benefit web site(s), if applicable
- Data clean-up/collection
- Benefit service center
  - Training
  - Technology

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Program, Test, Implement Enrollment System

- Eligibility rules
- Credit tables and formulas
- Price tables and formulas
- Default rules
- Data interchanges
- Testing
  - Select test cases (including executives and "sensitive" employees)
  - Test individual calculations; Test system modules
  - Test end-to-end

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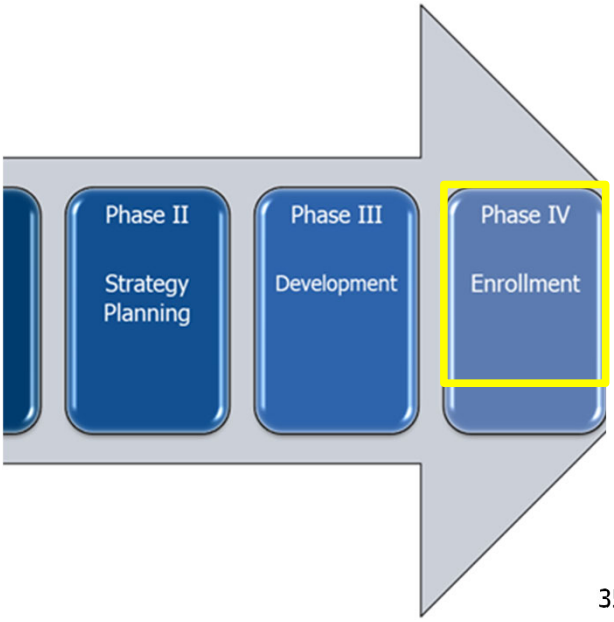
Phase IV: Plan Enrollment Logistics

- Dependent on chosen enrollment process
- If this includes employee meetings, how many? Where? Who attends/leads?
- Enrollment packet at home or office (material distribution)? Or no packet at all?
- Enrollment support:
  - Who answers process (how) questions?
  - Who answers substance (what) questions?



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Produce Communication Materials

- Printing newsletters
- Print enrollment guide
- Produce video
  - Note: Videos are almost unheard of these days
- Do you need any of this?
  - Can you deliver entirely over the web?
  - If not, how much money do you want to spend on print materials?
- SPDs
  - You probably won't have them in time for the first enrollment, but you can't forget them

356

Finalize Administrative Procedures

- PCP collection
- Exception enrollments—Will you allow any?
- Dual year processing
  - New hires
  - Life events
  - Terminations
- Prior year processing
- Frequency of vendor interfaces
- Processing schedule

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Launch Communication Campaign

- Announcement letter or email
- Distribute/mail newsletters or post to website
- Distribute/mail enrollment packets/home kits or send email that the website is open for transactions
- Start customer service line, if applicable
- Put up enrollment reminder posters or send reminder emails

358

Conduct Training

- Employee meeting leaders
  - The Internet and centralized service centers have greatly reduced the need for extensive meetings
- Customer service representatives
  - In-house, full-time dedicated staff
  - In-house, part-time unallocated staff
  - Outsourced staff
- Field representatives
- Vendor representatives

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Conduct Employee Meetings

Purpose of meeting

- To inform
- To answer questions
- To enroll employees—Very rare except in certain industries

Who attends?

- Employee
- Spouse

Remote locations

- Teleconferencing, video conferencing, webcast
- Local HR representative

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Enroll Employees and Confirm Elections

- Web transactions, voice transactions and/or manual entry
- Edit elections—Only a separate process if manual
- Process defaults
- Produce confirmation statements—Usually not necessary if web enrollment
- Correction period/second window
- Data interchanges to vendors
- Initiate payroll transactions

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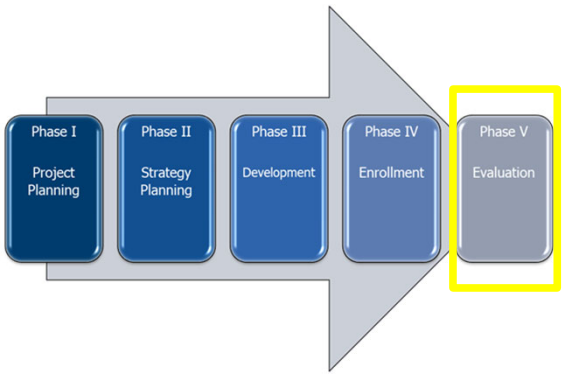
Phase V: Evaluation

- ❑ Analyze post-enrollment data
- ❑ Fine-tune administration
- ❑ Consider follow-up research
- ❑ Conduct project post-mortem
  - ❑ Involve the **whole** team
- ❑ Plan for next year
  - ❑ Plan design
  - ❑ Reenrollment issues

Flex design is an evolutionary process



IF YOU DON'T DO THIS, IT IS NEXT YEAR'S PITFALL!

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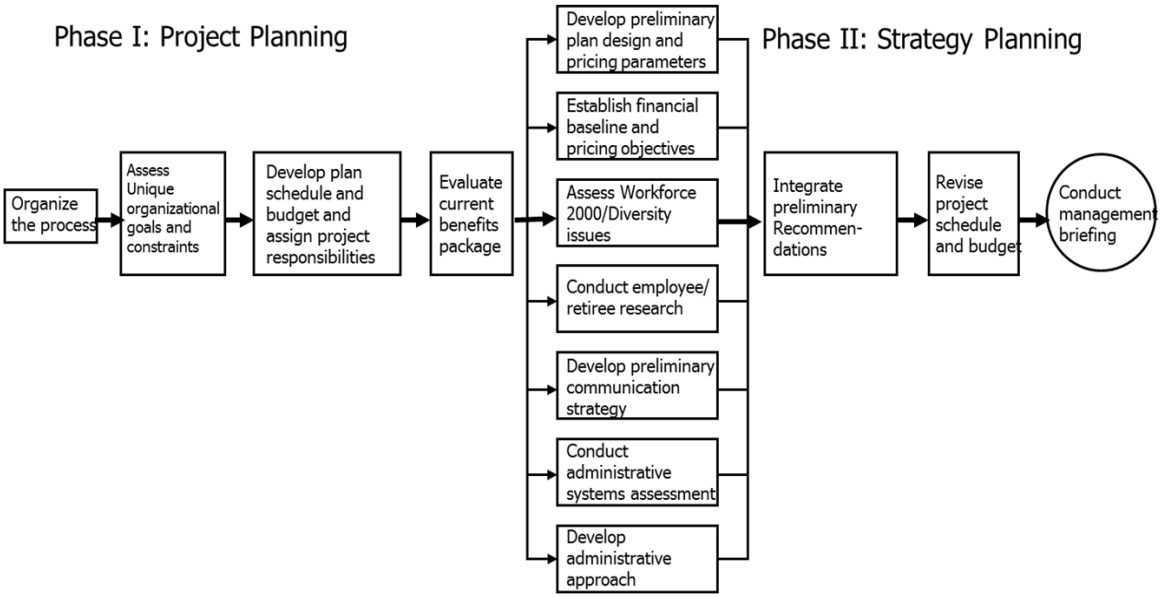
A Process to Implement Flex Choice Benefit Programs



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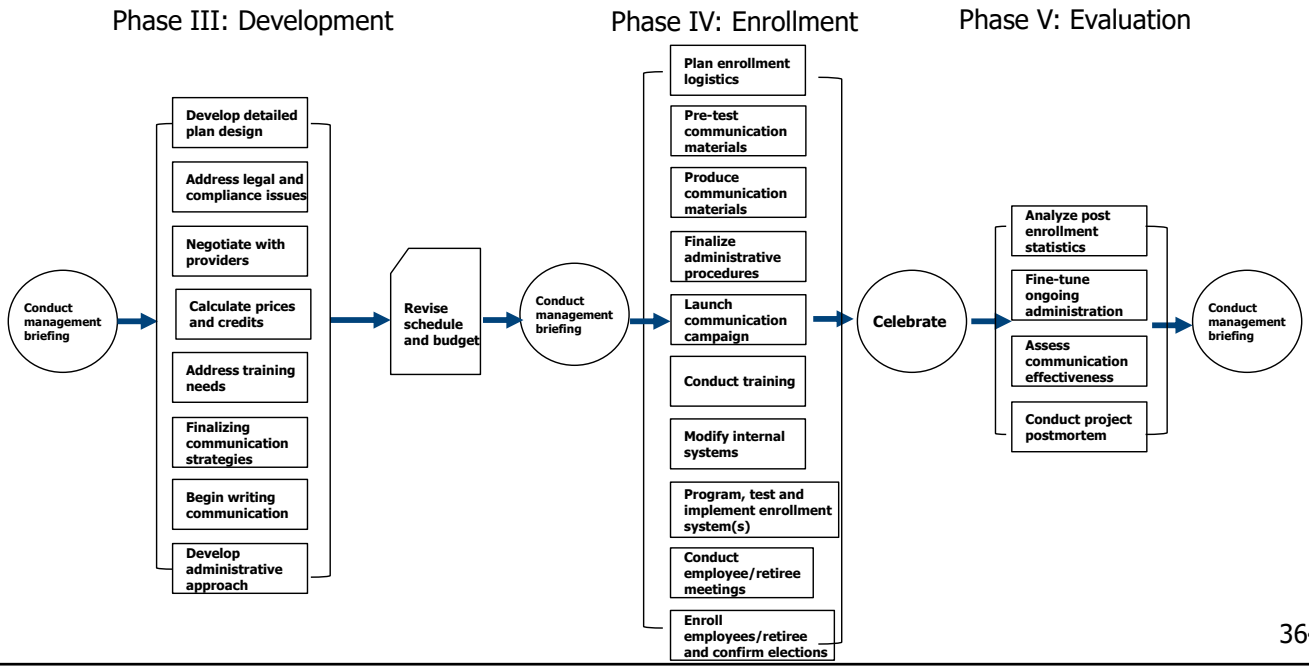

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Employee Assistances Programs (EAP)

Questions to Consider When Choosing an EAP

- Specifically, what services will be offered?
  - Will the program provide assistance for alcohol/drug, family, emotional, legal and financial problems?
- How and by whom will the initial assessment be done?
  - Will assessments be done by phone or in-person?
  - What are the credentials of the person doing the assessment?
- By whom and where will the counseling actually be done?
  - What are the credentials of the counselors?
  - What is the confidentiality of the counseling space?
- Can counselors be reached during an emergency?

366

EAP Utilization Reports

- Statistical reports should be provided indicating overall program utilization
- Company should expect 3% to 5% use during first year of operation
- Reports should be generic to maintain confidentiality

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Long-Term Care Insurance

Characteristics of Individual LTC

- Many plan design options for insured
- All individuals require underwriting
- Some insurers offer discounts
- Rates not guaranteed
- No return-of-premium upon death

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Design of Employer LTC Plans

- Majority sponsor voluntary, employee-pay-all benefit
- Typical participation rate is less than 10%
- Average age of group enrollment is mid-40s
- Initial premiums increase with age

370

LTC Plan Design Considerations

- Eligibility:
  - All employees
  - Limits for pre-existing conditions
- Benefits covered:
  - Home health care
  - Nursing home care
  - Adult day care
  - Alternate care

371

LTC—Plan Design Considerations

- Coverage:
  - Policy holder
  - Extended family
    - Spouses
    - Parents
    - Grandparents

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What Does Typical LTC Policy Cover?

- Pay benefits when:
  - Unable to perform two of six ADLs
  - Cognitively impaired (*e.g.*, Alzheimer's disease)

- Institutional care (*e.g.*, nursing home)
- Alternate care facility (*e.g.*, Alzheimer's facility)
- Non-institutional care (*e.g.*, home health care)
- Informal care (*e.g.*, friend, family)

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LTC—Plan Design Considerations

- Employer Contribution:
  - **Typically,** there is **no** employer contribution
  - Employer provides "administrative time" and communication coordination
  - Most transactions performed by employer at "arms length"
  - Recent tax law changes provide some deductibility for employer and employee payment of premium

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LTC—Plan Design Considerations

- Financing Considerations:
  - Reduced premiums vs. Accrued value
  - Employees concerned about high premium costs
  - Employees concerned about "buying insurance" that they will never use
  - HIPAA prohibits LTC in FSA flex plans

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