

*2008 Managing Your Company's  
Healthcare Plan in Today's  
Economy*

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## *Tax Benefits Today*

### *Premium Payments*

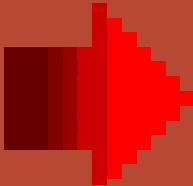
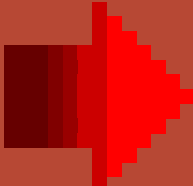
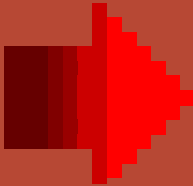
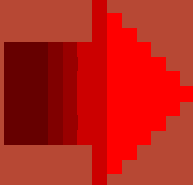
- When an employer pays all or part of a health insurance premium for an employee, the employee is not taxed on the amount the employer pays.
- This amount that is not taxed is called the **tax exclusion**.

## *Tax Benefits*

### *Employer Deduction for Health Insurance*

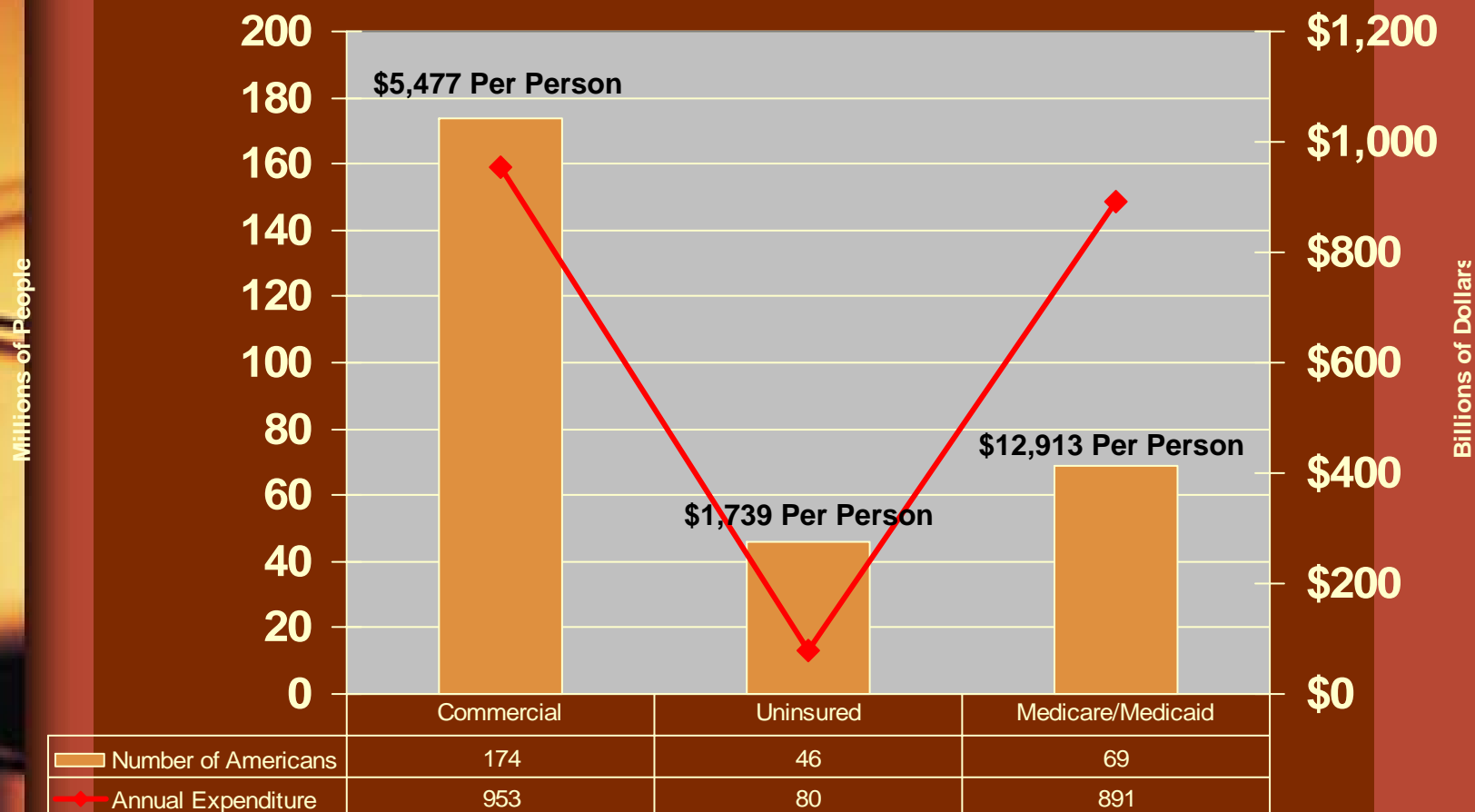
- When an employer pays for health insurance for employees, the premiums are deductible as a business expense.
- This is the **employer deduction**.
- There are some limitations on deductibility *as a business expense* for partners and sole proprietors.
- A business deduction reduces taxable business income.

# *Some Important Definitions*

Tax Exclusion		Amounts Not Counted as Income for Tax Purposes
Tax Deduction		Amounts Subtracted from Income Before Taxes are Calculated
Tax Credit		Amounts Subtracted from Taxes Owed
Refundable Tax Credit		Available Regardless of Whether or Not Person Owes Income Taxes

# Constraining Medical Costs

## Who Is Supporting The Health Care System



2006 Chapterhouse, LLC: Census Bureau, "Current Population Survey", CMS, Kaiser Family Foundation, EBRI, U.S. GAO, CBO

# The Nation's Health Dollar: Where Does It Go?



**30¢**  
Hospital Care

**30¢**  
Physician Services

**14¢**  
Prescription  
Drugs

**13¢**  
Admin

**9¢**  
Other  
Medical  
Services

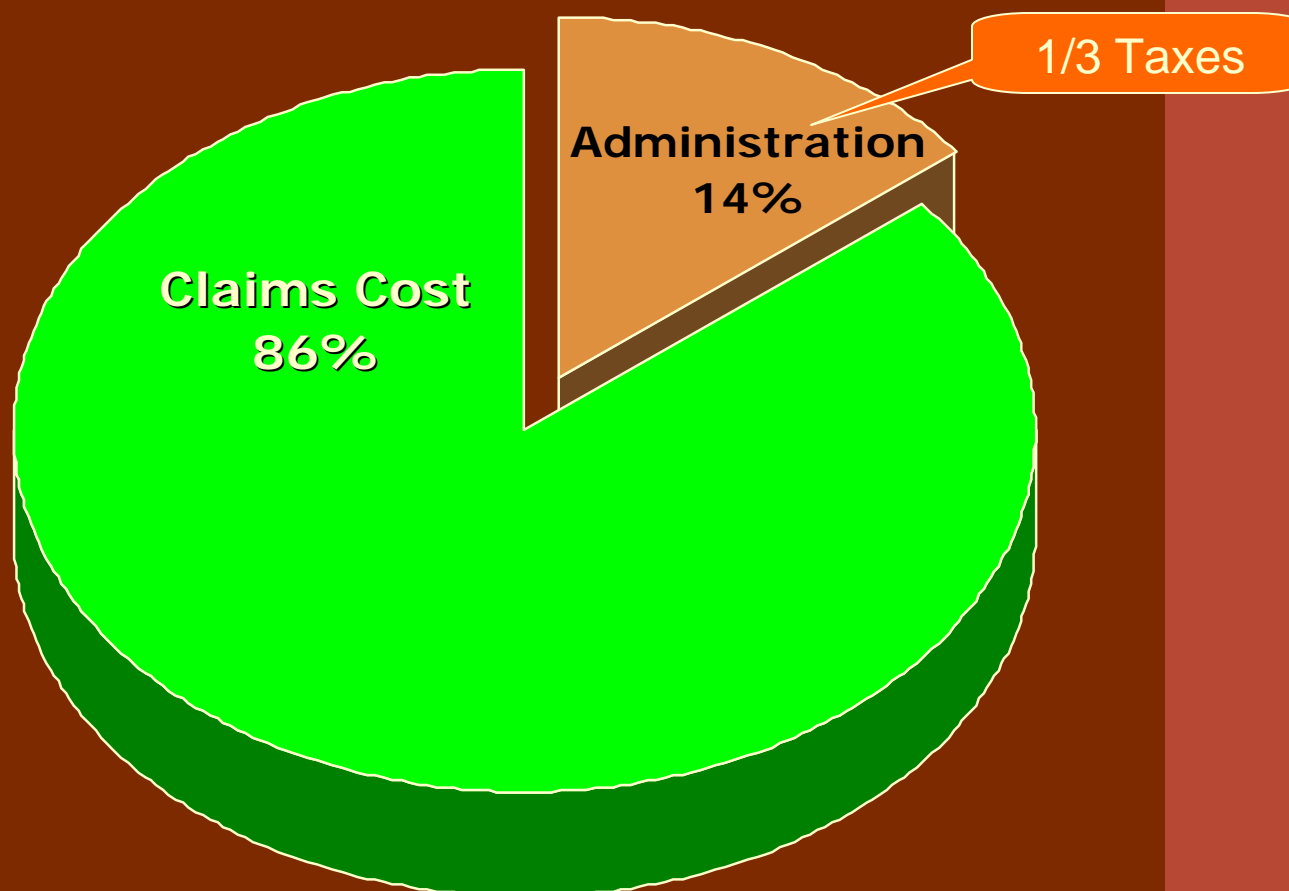
**1¢**  
Durable Medical  
Products

**3¢**  
Nursing  
Home and  
Home  
Health

Source: Adapted from Centers for Medicare and Medicaid Services, 2008c

# *Constraining Medical Costs*

## How Much Can Private Insurance Costs Be Affected?



# *Constraining Medical Costs*

## Determinants of Health Status

**Lifestyle  
Choices  
50%**

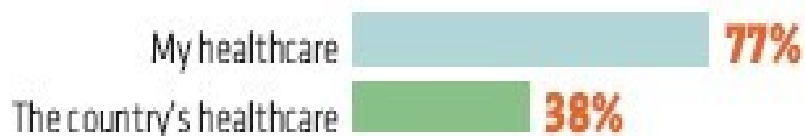
**Genetics  
20%**

**Environment  
20%**

**Access  
to  
Care  
10%**

# GOOD FOR ME, NOT FOR THEE?

## Satisfied with the quality of



## Satisfied with the cost of



Source: CBS News/New York Times, February 2007.

**The quality of healthcare I receive is excellent/good**

**83%**

**My healthcare coverage is excellent/good**

**70%**

**Generally satisfied with the total cost I pay for my health care**

**57%**

Source: The Gallup Organization, November 2007.

# *U.S. Rx Spending*

- **United States represents 4% of the world's population**
- **United States population consumes 52% of the prescription drugs in the world**



# *AARP Report on Rx 2008*

- Brand Name Drugs 8.7%
- General Inflation 3.8%
- Generic Drugs -10.6%
- Drug Expenditure rose 3.5%

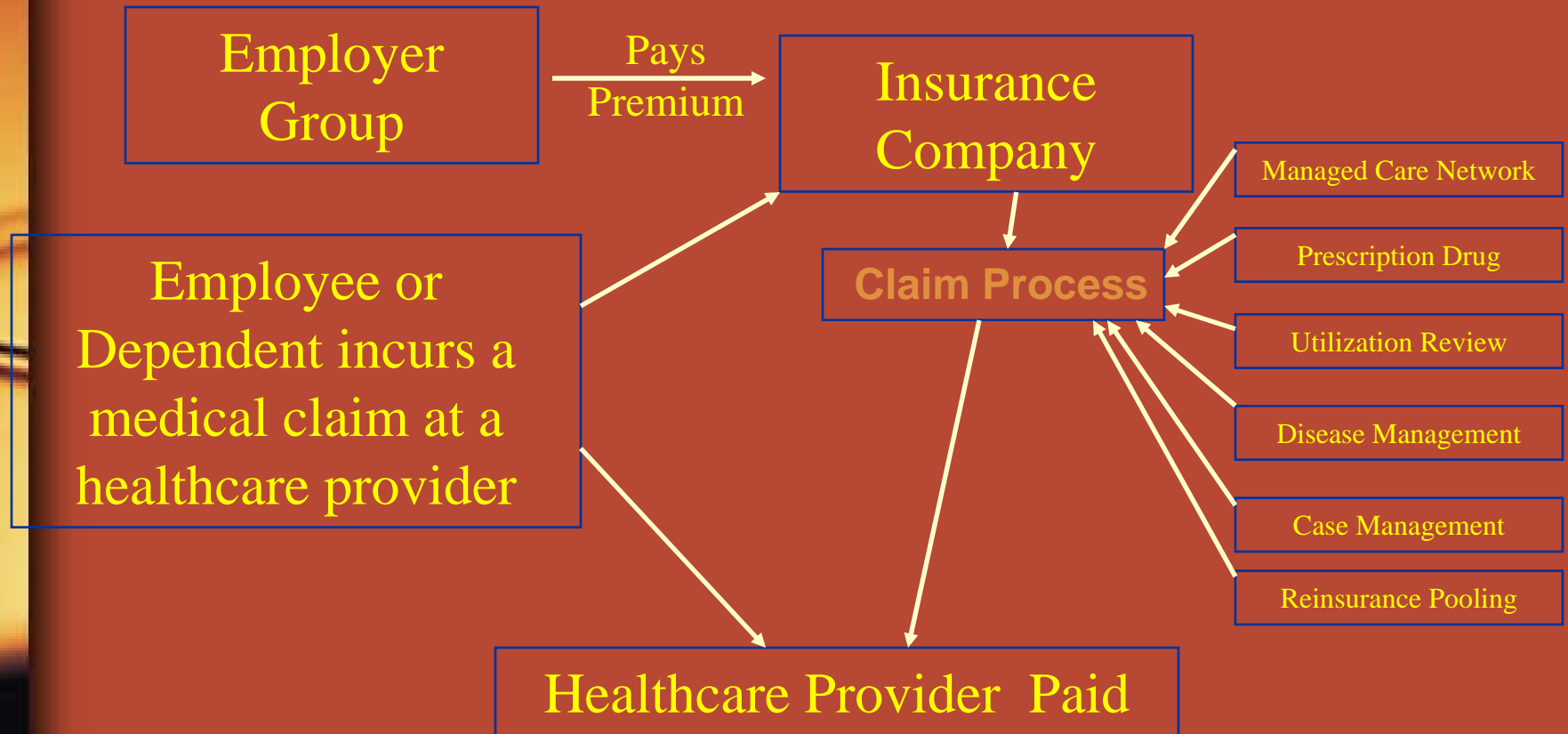
## Lower than 2007

- Three drugs with largest increase
  1. Prevacid 30%
  2. Wellbutrin 21%
  3. Lunesta 20%

## *\$\$ Drug Cost Control*

- **Pill Splitting reduce 12 co-pays to 6 for your employees**
- **Mail Order for fully insured plans-  
Self-funded may not provide savings**
- **Re-structure Rx Co-pays to encourage Generic-Add deductibles-Name Brand**
- **Larger Employer Self-Fund Rx-Rebates**

# Typical Fully Insured Model



# *Health Reimbursement Arrangements*

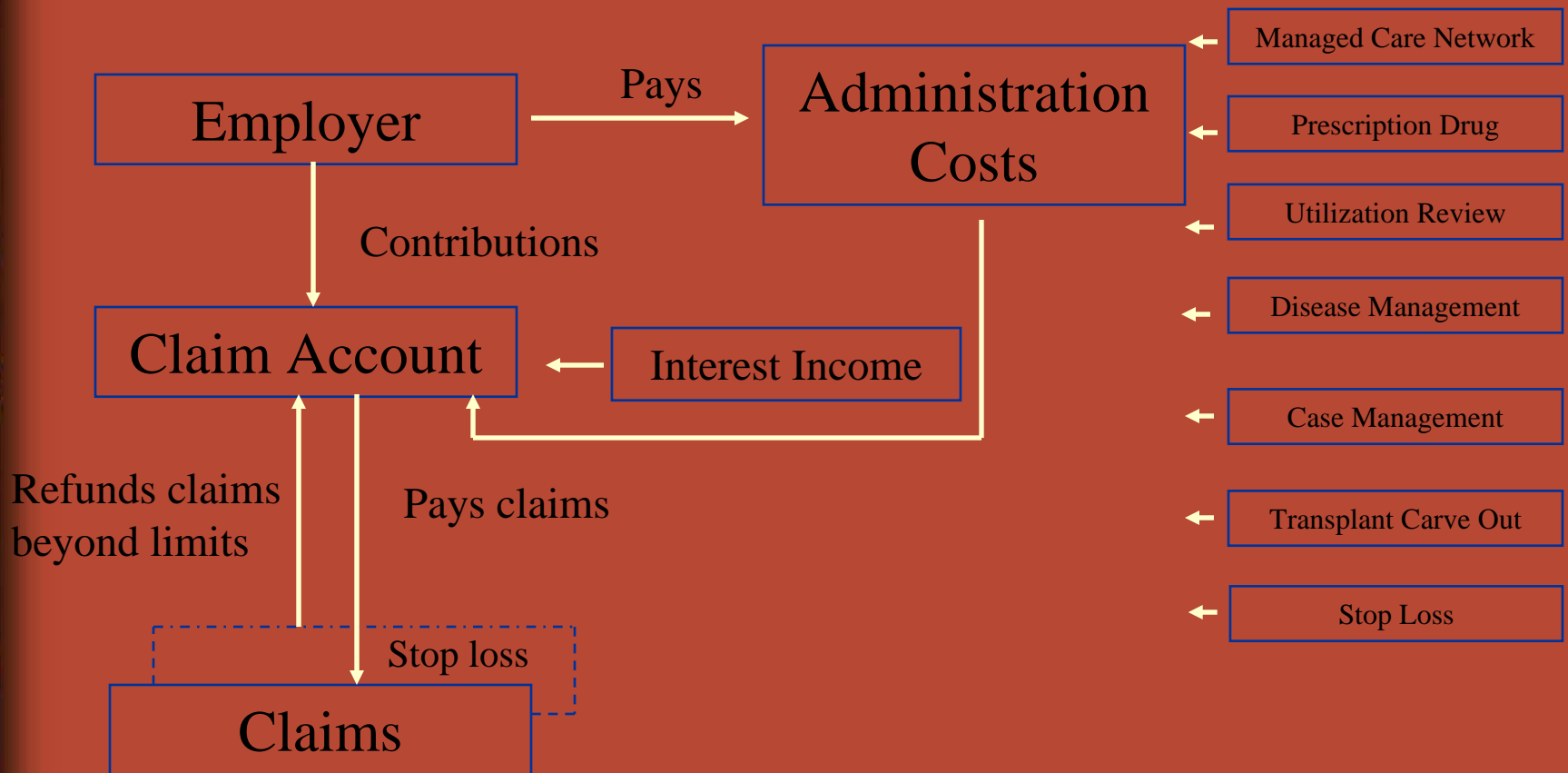
- Employers establish special health plans to cover certain out of pocket expenses for their employees
- These plans are not insured but are basically “promises to pay” usually in addition to the employer’s underlying health plan.
  - The law does not require that there be an underlying plan
- The employer decides which benefits (chosen from 213d expenses) are covered by the plan
- The employer creates a plan document describing the program

# Features of a Health Reimbursement Arrangement

HRA



# Typical Self-funded Model



# *Flexible Spending Account*

- Example of how it works:
  - Employee calculates that she will spend \$1,000 over the course of the next year on non-covered medical expenses like deductibles, copays, eyeglasses, etc.
  - Employee is paid twice a month, so has 24 paychecks each year.
  - The \$1,000 annual contribution is divided by 24 (\$41.67)
  - Her salary is reduced by this amount each pay period, and her payroll deductions are calculated on the reduced amount.
  - Therefore, if her semi-monthly paycheck is \$1,000, her taxes (including FICA) are calculated on \$958.23.

## *Sample calculation*

- If we assume she is in a 20% tax bracket, without the benefit of her FSA, she would have paid her out of pocket expenses with after-tax dollars:
  - \$1,000 gross paycheck
  - 200 income tax
  - 77 FICA
  - 42 out of pocket medical expense
  - \$ 681 net paycheck

# *Sample Calculation*

- With the FSA:
  - \$1,000 Gross paycheck
  - 42 FSA election (for out of pocket expense)
  - \$ 958 Reduced income
  - 192 Income tax
  - 73 FICA tax
  - \$ 693 Net paycheck
  - Savings - \$12 per paycheck

## *Section 125 – Premium Only*

- Another option under Section 125 is to allow employee deductions for their share of health insurance premiums to be deducted in the same manner as in the FSA example.
- For example, if an employee has a payroll deduction for health insurance of \$100 per paycheck, and his gross pay is \$1,000 per paycheck, income tax and FICA would be calculated on \$900, similar to the previous examples.

## *Tax Facts about Section 125 including FSAs*

- Only available in an employer sponsored plan
- Both employer and employee may contribute
- Employees pay no federal, Social Security, and (\*in most states) state tax on the amount of their election
- Employer's FICA match is also based on reduced income
- No interest is accrued in FSA accounts
- Distributions for qualified medical expenses are not taxed

## *Cost Savings Idea's*

- Average ER visit is \$1,200- 60% of visit are unnecessary
- Average Doctor office visit is \$150
- According to the American Medical Association (AMA), 72% of doctor visits are for non-emergency care for common illnesses
- Lower Claims Cost by 25%

# *Productivity*

- The Centers for Disease Control (CDC) reports that the average employee loses one full day per year visiting medical facilities for treatment of non-emergency minor medical issues.
- Of those employees who tough it out and “work through” their illnesses, 13% lose 4.3 hours of productivity due to reduced effectiveness (JAMA).
- 100 Billion a year in lost Productivity

# *24/7 Doctors*

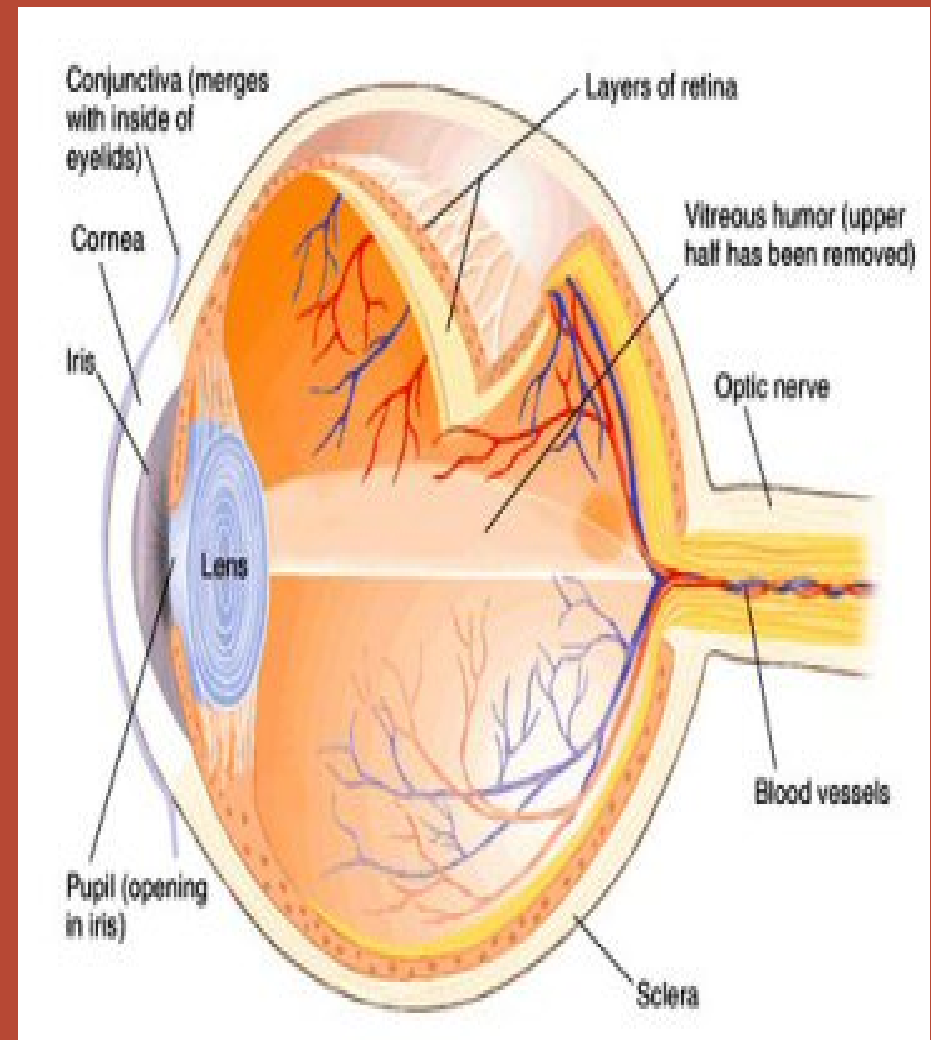


## *Phone Doctors*

- A national network of board certified, licensed primary care physicians (PCP) that diagnose illness, recommend treatment, and prescribe medication, when appropriate, for its members over the telephone 24 hours a day, 7 days a week, and 365 days a year.
- Provides a convenient, cost-effective alternative for minor medical problems and a current solution for the health care issues of cost and access.

# *A Effective Wellness idea!*

- **Add vision exam to your employee benefits**
- **Detects Diabetes, Hypertension and other major issues that could be going on with the human body**



# *Benefit Communications*

- Communication of employee benefits is advantageous for your business in a number of ways
  1. Employee satisfaction and retention
  2. Workplace productivity and an employee's alignment with your business goals
  3. Motivate workers

# *Questions*

