

# Benefits Alert

September 2009

## He's OK. She's OK. So Everyone's OK, Right?

Whether Congress will be successful in its quest to reform the health care system this year is anyone's guess. In the meantime, the cost of employer-provided health benefits continues to climb, to the consternation of employers and employees alike. According to a recent survey by MetLife, 61% of employees say they are very concerned about how the out-of-pocket costs associated with a major illness could impact their financial security. One proven way for employees to reduce the cost of their health benefits is to participate in an employer-sponsored wellness program. With open enrollment just around the bend, you'll never have a more receptive audience for a wellness program than you do now.

### THREE STEPS TO WELLNESS FULFILLMENT

The most important factor in the success of any wellness program is creating a corporate culture that supports the program. Employees need to know that you're serious about wellness. Meaningful incentives, such as cash rewards or significant reductions in the employees' share of health premiums, are measures of seriousness, but so is negotiating with the operator of your company cafeteria for healthier menu choices. These steps will help you design a responsive wellness program.

*Step #1 — Identify your target audience.* Employees, of course, are your target audience, but there's a good reason to include their families, as well. The rate of childhood obesity is

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growing, along with the cost of family health care. Employees will probably welcome the opportunity to get their families involved.

And don't look at employees as a single block. According to a study by ComPsych Corporation, older employees lead healthier lifestyles than younger employees. The study found that 52.2% of employees



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## He's OK. She's OK. So Everyone's OK, Right? (cont.)

in their 60s had healthy diets; only 17.7% of employees in their 30s ate healthily. Likewise, 27.3% of employees in their 50s exercised more than four days a week; 19.6% of employees in their 30s hit the gym with that much regularity.

*Step #2 — Specify the behaviors you want changed.* Do employees weigh too much? Do they have high blood pressure? All the incentives in the world won't work if employees feel a wellness program doesn't meet their needs. If you want to know what those needs are, ask them. According to Hewitt Associates, employers are moving away from generic wellness programs to identifying specific health conditions: 75% of employers are targeting diabetes and cardiovascular disease; 56% are targeting asthma; and 32% are targeting depression. Beware of these do's and don'ts while you're going through this process.

**DO** offer employees specific, attainable goals (e.g., getting high blood pressure under control), instead of talking in platitudes about "living healthier lifestyles."

**DON'T** overload employees with too many options, or ask them to change too much, too quickly. The old adage—keep it simple—applies here. Employees may be more than willing to make two changes (e.g., diet and exercise), but not 10.

**DO** make it as easy as possible for employees to take annual and baseline exams. These exams are usually the starting point for any employee who begins a wellness program.

Your efforts should include explaining why such exams are necessary, picking up the cost, and allowing employees time off to go to the doctor.

**DON'T** target individual participants; build support networks among employees, instead. Try launching a social networking website.

*Step #3 — Choose your program.* There are two types of wellness programs — those that reward employees just for participating, and those that reward employees for reaching a goal (or penalize employees for continuing an unhealthy behavior). About 80% of employers in the MetLife survey reward employees just for participating. There's a good reason for that lopsided statistic: regulations under the Health Insurance Portability and Accountability Act set strict limits on goal-oriented wellness programs, but set no limits on programs that reward employees for participating, regardless of whether they reach a goal.

The range of participation-only wellness programs varies greatly. They can include rewarding employees who take age-appropriate screening tests (e.g., cholesterol and blood pressure tests), employees who work on losing weight (e.g., by keeping weight-loss diaries) or quitting smoking, or those who take seminars on healthy lifestyles. *Tip:* When assessing any wellness program, inquire about health coaches and online tools employees can use to track their progress.

Even though the current economy has pinched wellness

programs, low-cost or no-cost options do exist. Here are some ideas to get the most wellness bang for your buck.

- *Partner with community organizations.* You don't have to reinvent the wheel when creating a wellness program. Non-profit organizations such as the American Heart Association, the American Lung Association, and the American Medical Association have programs you may be able to adapt to your workplace.

- *Get employees involved.* Have employees set up committees to compose wellness mission statements and the activities that will fulfill the mission. *Examples:* Employees can participate in an "ultimate loser" contest or compete in virtual walks or marathons, where they log their steps.

- *Quell snack attacks.* Change the items you offer in a vending machine.

Rewards are important motivators for employees. Successful participation-oriented incentives, according to the MetLife survey, included the following.

- 40% of employers provided gym discounts.
- 28% of employers provided gifts and prizes.
- 27% of employers reduced employees' health contributions.
- 17% of employers waived employees' deductibles.
- 17% of employers offered employees additional time off.
- 14% of employers offered employees credits toward their benefits purchases.
- 2% of employers offered cash or bonuses. ❖

## How Much Does Diabetes Cost Your Company?

**D**iabetes is a chronic disease that can cost employers a pretty penny. In fact, diabetes management is a popular target for wellness programs. The Agency for Healthcare Research and Quality (AHRQ), a federal agency, has created an evidence-based tool that employers can use to estimate how much diabetes costs, and the potential savings that would result from better disease management.

### NOT SO SWEET

The calculator was requested

by members of the Mid-Atlantic Business Group on Health, in partnership with the National Business Coalition on Health. Based on your industry, location, and firm size, the calculator estimates:

- the number of people with diabetes;
- annual diabetes-related medical costs;
- annual diabetes-related productivity costs; and
- potential savings associated with better management of diabetes.

The calculator is easy to use;

\* \* \* \* \*

## Plans Off The Hook For Truth-In-Lending Disclosures

**U**nder revised Regulation Z, which was recently issued by the Federal Reserve, beginning July 1, 2010, 401(k) plans will no longer be required to provide truth-in-lending disclosures to plan participants who borrow from their accounts. In revising Regulation Z, the fed commented that the costs associated with borrowing from 401(k) plans and borrowing from commercial lenders are different. In the former case, plan participants must repay interest and principal into their 401(k) accounts. In addition, the fed noted that the Department of Labor's regulations already require disclosure of plan administration fees.

### PREREQUISITES FOR EXCLUSION

New Regulation Z establishes two criteria with which plans must comply in order to avoid making truth-in-lending disclosures. First, participants must be limited to borrowing from their vested balances. This is redundant, since the tax code already limits plan loans to 50% of employees' vested balances, capped at \$50,000.

Second, all the requirements of the tax code must be satisfied. So it's time to brush up on those rules.

- Employees must repay their loans in equal payments at least quarterly.
- Loans can't last longer than five years.
- Loan agreements must be

it requires minimal input from the user. You can model projected savings based on several scenarios, and you can adjust potential savings based on the percentage of employees who are likely to receive medical intervention or who are likely to achieve a health target.

Cost savings estimates are based on evidence that better management of diabetes is linked to lower health care costs. The calculator draws on the best available evidence from medical journals and trusted data sources, such as the National Health and Nutrition Examination Survey. To get started, surf to [www.ahrq.gov/populations/diabcostcalc/](http://www.ahrq.gov/populations/diabcostcalc/). ♦

legally enforceable.

Employees who partially repay loans may take out second loans to refinance prior loans, or they may borrow additional amounts. The \$50,000 cap continues to apply, though, and both loans must end within the five-year period allotted to the original loan.

Special rules apply to employees who temporarily leave employment to serve in the military. Plans may suspend the time employees are away when figuring the five-year period. Interest continues to accrue at a statutorily mandated 6% rate during this period. When employees return to work, plans may allow them to choose to increase their installment payments to account for the accrued interest, or to pay at the previous rate, with a balloon payment at the end. If the original term of a loan was for fewer than five years, plans may extend the repayment time to five years. ♦

## Time Winds Down On Two-Year Adoption/Submission Period For Pre-Approved 401(k) Plans

To maintain their tax-qualified status, plan sponsors should submit their 401(k) plans to the IRS for a favorable determination, opinion, or advisory letter, depending on the type of plan (i.e., individually designed or pre-approved). Plan sponsors of pre-approved master and prototype (M&P) or volume submitter (VS) plans have a six-year submission cycle. The IRS reminds plan sponsors of pre-approved plans that the submission deadline is April 30, 2010. The IRS has also

indicated that it doesn't anticipate extending this deadline. Sponsors, therefore, have only seven more months to ensure that their plan documents are in order.

### THE EARLY BIRD GETS THE WORM

The amendments sponsors must make are identified each year in a Cumulative List. Sponsors of pre-approved plans must adopt the IRS M&P or VS defined contribution plan approved for the Economic

Growth and Tax Relief Reconciliation Act of 2001 and other qualification requirements on the 2004 Cumulative List.

The IRS warns, however, that plans must comply with all relevant qualification requirements, not just those on the 2004 Cumulative List. Also, the IRS says that it won't review plan language for guidance it issued after December 14, 2004, unless the guidance is on the 2004 Cumulative List. Thus, sponsors can't rely on opinion or advisory letters with respect to any guidance issued after December 14, 2004, unless that guidance is on the 2004 Cumulative List. The Cumulative List also contains miscellaneous guidance. ❖

## Ask The Experts

**Q.** *In July's issue of Benefits Alert, there was an article about regulations that allow sponsors of 401(k) safe-harbor plans to suspend qualified non-elective contributions into employees' accounts. We have a SIMPLE IRA for our employees. Before the beginning of this year, eligible employees were notified that they would receive a 2% non-elective contribution. Can we suspend this contribution?*

**A.** No, but you have until the filing deadline of your company's tax return, including extensions, to make your non-elective contributions. A SIMPLE IRA plan must continue for an entire calendar year, funding all contributions promised in the notice employees received. You can, however, terminate your SIMPLE IRA plan on a prospective basis, beginning with the 2010 calendar year. If you choose to terminate the plan, notify the financial institution. You must also notify your employees of the impending termination within a reasonable time before their 60-day election period; you don't need to notify the IRS.