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This Just In

Employers plan little change in their 401(k) contributions, according to the Hewitt Associates survey, Hot Topics in Retirement, 2006. The survey found that 79 percent of companies responding planned no change to their matching 401(k) contributions. Eight percent of respondents plan to increase the company's contributions. Only 1 percent of responding employers plan to reduce or eliminate matching contributions.

Patients are switching to generic drugs faster than before. According to Medco, a New Jersey-based pharmacy benefit management firm, patients are switching to generic drugs from brand-name drugs sooner than ever before. Medco cites generic dispensing rates for Allegra, Arava, Amaryl and Zithromax, four drugs for which generic alternatives recently became available. Within 30 days of generics hitting the shelves, 87 percent of users for the four drugs had switched. Historically, generic dispensing rates take six months to reach the 90 percent range. The firm estimates users of the four drugs will save approximately $130 million annually by switching.

Speed kills profits. According to a study at the Sam M. Walton College of Business at the University of Arkansas, methamphetamine abusers cost companies in Benton County, Arkansas (pop. 150,000) alone about $21 million a year due to absenteeism and the costs of addicted workers. Neighboring Washington County fared even worse, with employers losing $24 million to employee meth abuse.

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Health Benefits

What are "Mini Medical" Plans and Can They Work for You?

Part-time and temporary workers may cut employer costs, but they also swell the ranks of the uninsured. Some companies and at least one state government are addressing the issue with "mini-medical" plans. Mini-medical plans are small-scale plans that provide coverage for limited numbers of doctor visits and days of hospital care. The capped benefits keep premiums low while providing the minimal coverage that certain workers need.

The minis provide beneficiaries with between four and ten doctor's office visits per year with limited benefits for prescriptions and lab tests. Premiums for the plans start at $40 per month.

The plans' backers think they could benefit part-timers, temporary workers and independent contractors. Because benefits are limited, underwriting is relaxed, which eliminates pre-existing condition issues. Further, proponents argue the plans' structure encourages beneficiaries to get checkups and other preventive health care. In most cases, benefits are capped at $10,000. For those who cannot obtain coverage elsewhere, the minis are certainly better than nothing.

But independent contractors and the underemployed are not the only market for mini-medicals. Some employers envision using mini-meds to bridge benefit gaps under high-deductible major medical plans as well. Employers could offer mini-medical plans under cafeteria plans to help employees cut their out-of-pocket expenses. These plans would cover routine care not covered under the employer's catastrophic insurance plan.

Ironically, big employers are backing the mini plans. A ten-employer coalition including Avon, IBM, GE and Sears now provide mini-medical plans as one of their low–cost insurance options

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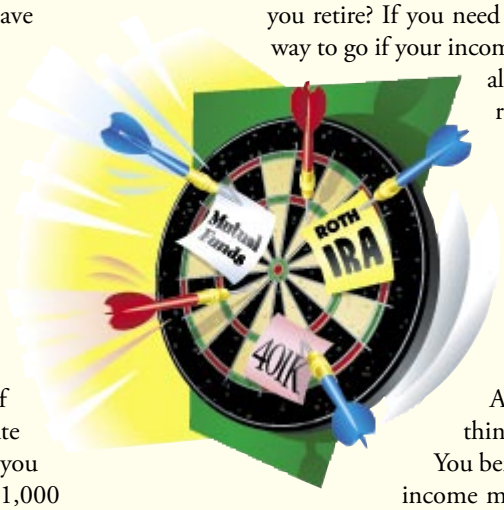
Is the Roth IRA Right for You?

A leading investment industry CEO recently warned that between 2020 and 2030 Americans will face a $400 billion shortfall in retirement savings. A survey of 401(k) plan sponsors by Hewitt Associates revealed that 30 percent of those eligible to participate in those plans don't. And judgment day is nigh for baby boomers, those born between 1946 and 1964, the oldest of whom are reaching retirement age. The news is worse for Generations X and Y, who are saving even less. So what options are available for those who wish to save for retirement?

One option is the Roth Individual Retirement Account, or Roth IRA. Congress recognized the retirement savings crisis when it introduced Roth IRAs in 1997. Unlike traditional IRAs, Roth IRAs are funded with after-tax dollars. When retirees withdraw funds, principal and growth are tax-free.



Of course, there are always strings attached. First of all, you may only contribute a maximum of $4,000 per year, but if you are one of those profligate baby boomers over 50, Congress has allowed for you to make an additional catch-up contribution of $1,000 for tax year 2006.

Additional restrictions apply depending on your income. If you are single and have a modified adjusted gross income (MAGI) between $95,000 and $110,000, you may only make a partial contribution to a Roth IRA. MAGI is the last figure on the first page of your 1040. If your MAGI is under $95,000, you may make a full contribution, but over $110,000, you are ineligible. For married couples filing jointly, maximum contributions start to phase out at $150,000, with eligibility ending at $160,000. If married people think they can skirt the rules by filing separately, they are wrong. The IRS limits married separate filers to a MAGI of $10,000. That's right—ten thousand dollars.

The Roth IRA offers much more flexibility than traditional IRAs. First, there is no penalty for withdrawing funds prior to age 59½, nor must participants start taking distributions by age 70½, as with other plans. But is the Roth IRA a better fit for you than a traditional IRA?

The answer will depend on your answer to two questions. First, do you need a deduction now? Secondly, will you be in a lower tax bracket when you retire? If you need a deduction now, a traditional IRA may be the way to go if your income falls within the rather restrictive range the IRS allows. If you participate in an employer-sponsored retirement plan, contributions are fully deductible for single filers with a MAGI under $50,000 and for joint filers under $70,000. Deductibility phases out completely at $60,000 and $80,000 respectively. However, if you are not covered by a qualified retirement plan, but your spouse is and you file jointly, the phase-out range is the same as Roth IRAs, or $150,000 to $160,000.

A traditional IRA may be the way to go if you think you will be in a lower tax bracket at retirement. You benefit now through the IRA tax deduction if your income meets the requirements, and only the growth on your IRA is taxable at retirement. However, if you meet the income eligibility standards, don't need the deduction now and don't anticipate being in a significantly lower tax bracket after retirement, the Roth IRA is probably right for you. You give up a deduction now for tax-free money at retirement.

Starting in January 2006, 401(k) plans are allowed to offer a Roth option. Basically, the Roth option is funded by after-tax dollars like its IRA cousin, but no income restrictions apply. Similarly, the investment grows tax-free. For those who anticipate being in the same or higher tax bracket at retirement, the Roth 401(k) can provide a stream of tax-free income.

For more information on Roth IRAs and other retirement plans, please call us. ❑

Comparing the traditional and Roth IRAs

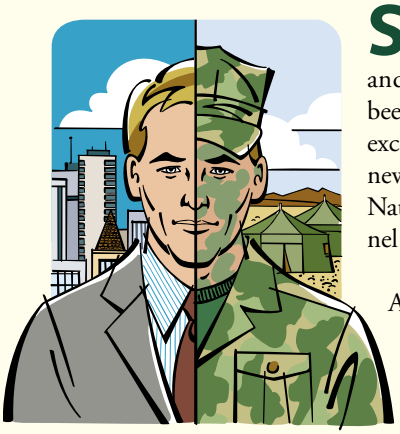
Your tax situation dramatically influences your decision on which type of IRA is best for you. Most important is your anticipated tax bracket after retirement. If you plan on continuing to work in your retirement years, the Roth IRA may be a better bet, as the combination of your earnings and IRA will push your income into higher brackets. Also, you can hold off taking money out of your Roth IRA as long as you like, while traditional IRAs require you to start taking distributions by the time you turn 70½.

Some investment advisors advocate reinvesting your tax savings from traditional IRAs for retirement. Doing so yields a larger retirement nest egg, and generally if you are in a lower tax bracket, that provides you with a larger overall return than you would receive under a Roth IRA.

	Roth IRA	Traditional IRA earner in 27% tax bracket currently and 15% at retirement	Traditional IRA earner in 27% tax bracket currently and 27% at retirement
Annual investment (ages 35-65)	$3,000	$3,000	$3,000
Annuity value at 10% return at age 65	$542,830	$542,830	$542,830
Tax savings (ages 35-65)	$0	$24,830	$24,830
Total after-tax retirement benefit over 20 years	$542,830	$461,405	$396,266

Retirement benefits assume payouts over 20 years and do not include interest accrual during retirement.

USERRA Update



Since September 11, 2001, the number of National Guard and Reserve personnel who have been mobilized for active duty has exceeded half a million. When this newsletter went to press, 119,434 National Guard and Reserve personnel were currently mobilized.

As reservists, many of these people are employed full-time outside of the military before they are mobilized for active duty. Dealing with their employment and benefits is a real concern for many employers.

The Uniform Services Employment and Reemployment Rights Act, or USERRA, protects the employment rights of members of the National Guard and Reserve. The U.S. Department of Labor recently issued final regulations for USERRA.

Under USERRA, returning Guard and Reserve members are entitled to restoration to the same or equivalent job to the one they left if they:

- Had provided the employer with advance written or verbal notice of military service;
- Have five years or less cumulative uniformed service while employed with that employer;
- Return to work in a timely fashion, after conclusion of uniformed service; and
- Have not been separated from service with a dishonorable discharge.

Emergency exemptions to notice requirements apply when it is impossible or unreasonable to expect notice when deployment was caused by military necessity. In addition, USERRA prohibits employment discrimination against a person on the basis of past military service, current military obligations or intent to serve.

In the benefits arena, USERRA guarantees pension plan benefits that accrue during military service, regardless of whether the plan is a defined benefit plan or a defined contribution plan. Service members activated for duty on or after December 10, 2004 may elect to extend their employer-sponsored health coverage for up to 24 months. Service members activated prior to December 10, 2004 may elect to extend coverage for up to 18 months. Employers may require these individuals to pay up to 102 percent of total premiums for that elective coverage.

For more information on how USERRA and other laws affect your benefits program, please call us.

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for independent contractors and part-time and temporary workers. The coalition anticipates approximately 900,000 contractors, employees and dependents will be eligible for the coverage. The coalition offers plans from insurers UnitedHealth, Cigna and Humana. Also, Aetna, Nationwide and Coventry Health Care control significant portions of the mini-med market.

Mini-medicals first hit the market in the 1980s and were marketed as low-cost plans suited to temporary agencies, fast food establishments and chain stores. But years of double-digit increases in health premiums have forced employers and consumers to look for alternatives to more traditional health insurance plans.

Critics charge the mini-medical plans' limitations often confuse beneficiaries. Workers who incur large medical bills will exhaust benefits quickly. Further, the minis run counter to the prevailing concept of "consumer driven" healthcare, where consumers pay for routine care in exchange for lower premiums and coverage for catastrophic illnesses.

Now, however, some employers and politicians aren't listening to the critics. The state of Arkansas has applied for and received a Medicaid waiver from the federal government, which permits it to subsidize employer-paid mini-medical plans. Under the program, employers would pay $15 per month for every employee earning less than twice the poverty level, and $100 for each employee earning over that amount.

The Arkansas plan covers all employees regardless of health condition. All employees must agree to coverage or the employer cannot participate. Each beneficiary pays an annual $100 deductible and 15 percent of the cost of each service rendered, to a maximum out-of-pocket expense of $1,000 per year. Each year, the covered workers are entitled to six doctor visits, seven days of inpatient hospital care, and two outpatient hospital procedures or emergency room visits. The plan also provides for two prescription drugs per month.

The Arkansas plan will be subsidized by money the state received in the 1998 tobacco settlement. The federal government and other states are watching Arkansas to see if mini-medical plans would be feasible in other states. State officials see the plan as helping small businesses compete with larger companies for talented workers.

For all their limitations, mini-medicals appear to have found a market niche with large companies that employ large numbers of part-time workers or temps or those that wish to offer coverage to independent contractors. The plans also offer an affordable alternative for small employers that cannot afford to provide insurance for their workers.

Regardless of size, the mini-medical plans are attractive to companies with relatively young workforces, where routine and preventive care is more important than catastrophic coverage. Of course, eventually most people need catastrophic coverage. That coverage will have to come from somewhere other than a mini-medical plan.

Mini-medical plans are just one more option available to employers looking to provide cost-effective health care benefits. In states where

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Enhance Your Benefit Plan with Cancer and Dread Disease Insurance

According to a 2002 Society for Human Resource Management survey, 32 percent of employers surveyed offer some type of cancer or dread disease insurance. The growing popularity of voluntary benefits and supplemental health plans indicates those figures could be even higher now.

The move toward "consumer-driven" health care has created a fair amount of anxiety among employees. High deductibles, limited formularies and uncovered transportation costs can eat through an afflicted employee's savings quickly. One way to provide peace of mind is dread disease insurance.

Modern dread disease coverage bears little resemblance to the cancer insurance marketed in the 1960s and '70s. Dread disease insurance offers coverage for heart attack; stroke; kidney failure; coma; coronary artery bypass; loss of sight, speech or hearing; major organ transplant; paralysis; severe burns; as well as several types of cancer.

Unlike the dread diseases of the 20th century, these conditions are chronic conditions rather than death sentences. But that means higher long-term health care costs. For instance, skyrocketing chemotherapy and adjunctive therapies costs often exhaust even catastrophic insurance policy limits. Adjunctive therapies, those that ease chemotherapy symptoms, can cost as much as $10,000 per round of treatment.

Dread diseases' new face, coupled with consumer-driven healthcare, demands new products. Current-day dread disease insurance owes its existence to Dr. Marius Barnard, brother of heart-transplant pioneer Dr. Christiaan Barnard. He invented the product to address the financial difficulties heart transplant recipients battled.

Consumer-driven health care plan enrollment has tripled, according to America's Health Insurance Plans (AHIP), an insurance trade association. Enrollment in high-deductible insurance plans meeting the qualifications for tax-sheltered health savings accounts (Health Savings Accounts) has tripled during the last 10 months of 2005, from 1 to 3 million, said AHIP. But qualifying for HSAs is different from funding them. The Employee Benefit Research Institute completed a survey in October 2005 showing that only 1 in 10 of those with HSAs had made contributions.

The policies fall into two types, lump-sum payment and reimbursement. Under lump-sum payment policies, the beneficiary receives a lump sum for a covered diagnosis according to a policy schedule. Policies face amounts range from $5,000 to $100,000, but average around $20,000.

Reimbursement policies pay on a per-event basis. Although these policies pay set per diem rates for hospitalization and recuperation time, they often cover items that are not covered by catastrophic health plans. For instance, AFLAC offers coverage for transportation and lodging for family members when transporting a patient to see a specialist.

Underwriting is relatively lax for these policies. Workers who can demonstrate being cancer-free for ten years generally can find cancer coverage. Only extreme family histories, such as a parental death by stroke prior to age 60, preclude coverage under a cancer or dread disease policy.

"Sandwich generation" baby boomers appear to be the hot market for dread disease insurance. As they face their own set of health problems, they are often arranging care for elderly parents. They face hidden health care costs such as private duty nurses, transportation and lodging costs to see specialists, and uncovered, possibly experimental or off-label use of drugs on a regular basis.

Aging boomers in particular face heightened risk of stroke and heart attack. Stroke rates for men 45 to 54 run about 2 percent. That figure doubles for men ages 55 to 64. Those figures parallel heart attack rates of 5 percent and 10 percent, respectively.

Dread disease insurance can be another nugget to help retain valuable baby boomer workers. Employers can offer it as either a paid or voluntary (employee-paid) benefit. As a voluntary benefit, employees have the benefit of group rates, which might be lower, along with the convenience of payroll deduction payment. For more information, please call us. ❑

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mini-medical plans are exempted from providing mandated health benefits, they can help employees obtain preventive and routine care at little cost. For more information on mini-medical and other plan designs, please call us. ❑