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HEALTH BENEFITS**ERIC June 22 Healthcare Cost-control Conference Agenda Finalized**

Controlling a health care budget will be the theme of ERIC's healthcare conference June 22 in Washington, DC.

The conference will feature more than two dozen speakers presenting on topics such as "Healthy Maes", association health plans, disease management programs and pay-for-performance.

Panelists also will discuss how technology can be leveraged to help employers with medical cost containment.

In addition, ERIC and Deloitte Consulting will release the results of a joint survey

ERIC Meetings & Events**May**

- 2 [Washington Reps. Mtg.](#)
- 18 Board of Directors Mtg.

June

- 21 Health Policy Comm. Mtg.
- 22 [ERIC Healthcare Cost-control Conference](#)
- 28 Retirement Security Comm. Mtg.

October

- 6 Board of Directors Mtg.

on employer health management strategies.

The Hon. Tommy Thompson, former HHS. Secretary, has been confirmed as the keynote speaker.

Registration for the conference is required and seating is limited to 60 participants, so members are encouraged to register early. Access a full agenda, along with registration materials and logistical information by clicking [here](#).

House, Senate Approve \$10 billion in Medicaid Cuts

A 2006 budget agreement reached by the House and Senate late April 28 clears the way for \$10 billion in Medicaid cuts to be achieved through program reforms.

Many of the changes will undoubtedly stem from a commission, created under the budget deal, to study Medicaid reforms. The mission of the panel will be to engineer the budget cuts and to study long-term reform initiatives, including long-term care.

The commission must report its suggestions on Medicaid budget cuts by Sept. 1. Other key dates in the budget process are:

Sept. 16 – House and Senate Budget committees receive recommendations for direct spending reductions

Sept. 23 – Senate receives recommendations for revenue savings

Sept. 30 – Senate deadline for establishing debt limit increases

States Increasingly At Odds With Employers Over Health Care

Maryland is the most recent of a growing number of states to pass legislation mandating employer-provided health care.

Maryland's new law – which has been described as a thinly veiled rifle-shot at Wal-Mart -- requires the states' largest employers to spend at least 8 percent of their payroll on worker health benefits. Most, if not all, of the large employers in Maryland reportedly meet the requirement except for Wal-Mart.

Nationwide, lawmakers are becoming increasingly active in structuring legislation that in one way or another, would shift cost burden of medical insurance onto employers. Elsewhere, including in Connecticut, lawmakers are considering legislation that may require some companies to provide coverage by paying into a state fund. A similar proposal failed once in Oregon, but backers are vowing to reintroduce it.

A new Jersey proposal would only allow companies that provide employee health benefits to bid on state contracts.

November

29 Health Policy Comm. Mtg.

30 Retirement Security Comm. Mtg.

December

8 Board of Directors Mtg.



Mark Your Calendar!
June 22nd

ERIC Healthcare Cost-control Conference

[Click here for more details.](#)



NEW
Pension Legislation Update (Information provided by CQ)

[Click here for details.](#)



2004 found 401(k) plans continuing their rebound after some rocky financial years early in the new millennium, according to the findings of Deloitte Consulting's 2004 Annual 401(k) Benchmarking Survey.

[Click here for the survey.](#)

Preliminary Medicare Data Shows Improvements From Pay-For-Performance Demonstration

Quality of care has improved significantly in hospitals participating in a groundbreaking Medicare pay-for-performance demonstration project, according to preliminary reports from more than 270 participating hospitals on their experience during the project's first year, according to new data released by the Centers for Medicare & Medicaid Services (CMS).

"These early returns demonstrate that using financial incentives to reward better quality patient care works to deliver better care and avoid costly complications for our patients," according to CMS Administrator Mark McClellan. "We are seeing improvements across the board, regardless of a hospital's initial performance on the quality measures."

The demonstration tracks hospital performance on a set of 34 widely-accepted measures of processes and outcomes of care for five common clinical conditions. The 17 measures included in Medicare's national hospital quality reporting program are a subset of these measures.

The preliminary analysis shows improvement in all five clinical areas being tracked in the three-year demonstration. The preliminary analysis of first-year performance found median quality scores for hospitals improved in several key areas accounting for a substantial portion of Medicare costs:

- From 90 percent to 93 percent for patients with acute myocardial infarction (heart attack).
- From 86 percent to 90 percent for patients with coronary artery bypass graft.
- From 64 percent to 76 percent for patients with heart failure.
- From 85 percent to 91 percent for patients with hip and knee replacement.
- From 70 percent to 80 percent for patients with pneumonia.

A Formula for Controlling Health Care Costs



Some companies that take certain cost management steps are seeing significantly lower increases in their health care expenses, according to a National Business Group on Health/Watson Wyatt survey of 555 large employers. Best-performing companies — those with average cost increases in the lowest quartile — kept cost increases to a remarkably low 5 percent over a two-year period. Conversely, poor performers — those with two-year cost increases in the highest quartile — experienced a 15 percent increase. The median cost increase for all employers was 10 percent.



The best performers distinguish themselves from other companies by relying on statistical and financial evidence to confirm their approach to health care benefits, according to the study.



A majority of individual retirement account holders are now seeing positive returns in their retirement accounts, a positive trend following nearly five years of dismal returns, according to a new Vanguard Group Study.

[Click here for the survey.](#)



High deductible health plans can undermine the basic purposes of health insurance: to reduce financial barriers to needed care and protect against financial hardship, according to a recent study by the Commonwealth Fund.

[Click here for the report.](#)



A study by America's Health Insurance Plans shows the number of individuals with health savings accounts (HSAs) has grown to over one million, more than doubling over the last six months.

[Click here for the study.](#)

For more information about these articles, or any other issue, please contact the ERIC staff:

They also maintain high levels of employee satisfaction and increase individual accountability in health care decision-making, researchers found.

[Managing Health Care Costs in a New Era: 10th Annual National Business Group on Health/Watson Wyatt Survey Report 2005](#)

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[Vanessa Scott](#)
[Deborah Chin](#)
[Rita Zeidner](#)
[Jennifer Frias](#)

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Notable from CMS



The Centers for Medicare and Medicaid Services (CMS) has announced an Actuarial Technical User Group Training Call for May 12. Click [HERE](#) for additional details or visit the CMS Web site (www.cms.hhs.gov). Check out the [CMS Employer](#)

[Website](#) for additional materials, including information on becoming eligible for the new prescription drug benefit subsidy.

PENSION BENEFITS

ERIC Washington Representatives Updated on Automatic 401(k) Enrollment

House and Senate congressional staff briefed ERIC Washington Representatives on the status of proposed legislation promoting automatic enrollment in 401(k) plans during a May 2 conference call.

H.R. 1508, introduced April 6 by Rep. Rahm Emanuel (D-IL) and S. 875, introduced April 21 by Sen. Jeff Bingaman (D-NM) are likely to be joined by several other bills in the near future.

ERIC members have expressed support for paving the way for plan sponsors to include automatic enrollment in their plans. But they also have strong concern that such legislation provide that:

- Plans with automatic enrollment to be eligible for immediate protection under ERISA Sec. 404 (c),
- That employers and plan fiduciaries retain the flexibility to select or create the investment options in the plan,
- Congress clarify that ERISA preempts all state laws relating to automatic enrollment and automatic contribution increase arrangements,
- Automatic enrollment be offered at the employer's option, and
- Legislation and regulations should apply to all Sec. 401 (k) plans, and not just to safe harbor plans.

ERIC will be working with congressional staff to ensure that major employer concerns are incorporated as the bills move through the legislative process. Members with questions or concerns should contact Vanessa Scott, ERIC legislative counsel at vscott@eric.org or call (202) 789-1400.

[H.R. 1508](#) [ERIC Summary of H.R. 1508](#)
[S. 875](#) [ERIC Summary of S. 875](#)

Thomas Urges Linking Social Security, Pension Reform



Rep. Bill Thomas (R-CA), Chair of the House Ways and Means Committee, surprised Republicans and Democrats alike by announcing a plan to draft legislation later this spring that would lump the Administration's social security reform proposals with other popular retirement savings provisions and tax incentives.

Details of Thomas' plan were sparse at press time, but some insiders believe he will embrace both measures to increase retirement savings and revise defined benefit reforms that are expected to be introduced by Rep. John Boehner (R-OH), chair of the House Education and Workforce Committee.

His bill could also include some health provisions, including tax breaks for long-term health care insurance that would allow the end-of-year balances in corporate flexible spending accounts to be rolled over each year and to accumulate over time to finance chronic health problems of the elderly.

Labor Department Issues Stern Warning to AFL-CIO

The Labor Department, on May 3, warned organized labor against using pension fund money to lobby about the social security debate. It also cautioned against using plan assets to choose service providers based on their political views on social security reform.



The letter, sent to Jonathan P. Hiatt, the AFL-CIO's general counsel and signed by Alan D. Lebowitz, Deputy Assistant Secretary for Program Operations at the Labor Department, did not describe specific steps the union group had taken to defy labor law. Rather, Lebowitz wrote, "AFL-CIO officials have been reported to have suggested that fiduciaries of ERISA-covered plans could expend plan assets to inform participants about the current public debate on Social Security, and that plan trustees could make decisions on the hiring and firing of plans' service providers based upon their opinions on Social Security reform."

Lebowitz said the Labor Department "is very concerned about the potential use of plan assets to promote particular policy positions."

Congressional Quarterly reported on May 4 that the AFL-CIO had pressured two investment firms to drop out of a business coalition that is promoting President Bush's Social security reform plan, warning that the firms' support for President Bush could jeopardize their chances of doing business with the unions in the future.

John Boehner (R-OH), Chair of the House Education and the Workforce Committee, has asked the Labor Department to investigate if the labor organization is violating federal law.

Meanwhile the U.S. Government Accountability Office (GAO) has turned down a

request from Democratic senators to investigate whether the Bush administration's social security reform campaign constitutes illegal lobbying.

[Department of Labor Letter to AFL-CIO](#)

[GAO letter to senators, "Social Security Administration -- Grassroots Lobbying Allegation, B-304715"](#)

Employee Pension Preservation Act Introduced to Protect Airline Pensions

Sens. Johnny Isakson (R-GA) and John D. Rockefeller IV (D-WV), on April 20, introduced S. 861, the Employee Pension Preservation Act of 2005 to address large pension funding problems that are entangled with the industry's restructuring.

"At the core of the problem is the requirement for airlines to make substantial pension funding payments in a short period of time," said Isakson in a prepared statement. "In cases where airlines do not have the cash on hand to make these payments, the airlines are having to choose between eliminating their pension plans or filing bankruptcy, which leads to the employee pension plans being dissolved."

Lawmakers approved temporary pension funding relief for airline employees in the 108th Congress. But without a more permanent fix, airlines will be required to make up these deferred amounts on top of the regular funding requirements over the next few years. This has created significantly higher funding requirements for the airlines, according to Isakson.

The Isakson-Rockefeller proposal, which has the support of the airline industry, allows airlines to amortize their current funding deficiencies over 25 years, rather than the current four. Airlines that choose this option must agree to limit their pension liabilities by totally freezing current benefits, and by paying for any new benefits immediately.

[S. 861 - Employee Pension Preservation Act of 2005](#)

[Explanatory Statement of S. 861](#)

Pension Issues Addressed in New IRS Audit Guidelines



The Internal Revenue Service (IRS) addresses several issues relating to pension and retirement issues in guidance it recently posted on its Market Segmentation Specialization Program Web site. The guidance is intended to assist IRS employees in audits involving executive compensation.

The new guidance addresses employee remuneration under Internal Revenue Code Section 162(m), stock-based compensation, golden parachutes, nonqualified deferred compensation, and transfers of compensatory stock options, fringe benefit executive compensation, and split-dollar life insurance.

The guidance recommends a three-step process for auditing items or compensation an employer gives or makes available to an executive:

- Identify the particular fringe benefit and start with the assumption that its value will be taxable as compensation to the employee.
- Check to see if there are any statutory provisions that exclude the fringe benefit from the executive's gross income.
- Value any portion of the benefit that is not excludable for inclusion in the executive's gross income. Fringe benefits are generally valued at the amount the employee would have to pay for the benefit in an arm's length transaction.

It also recommends the various documents auditors should examine and the questions auditors should ask and lists the various rules that apply to the audits.

[Stock-based Audit Technique Guide](#)

[Section 162\(m\) Audit Techniques Guide](#)

[Nonqualified Deferred Compensation Audit Techniques Guide](#)

[Golden Parachute Audit Techniques Guide](#)

[Executive Compensation - Fringe Benefits Audit Techniques Guide](#)

[Split Dollar Life Insurance Audit Technique Guide](#)

Treasury Revisits 30-year Bond

The Treasury department is considering reintroducing the 30-year Treasury bond, according to a May 4 Treasury release. A decision on 30-year nominal issuance will be announced at the August 2005 refunding on August 3, 2005.

"We will examine if we have the flexibility to issue 30-year bonds while maintaining deep and liquid markets in our other securities and determine if nominal bond issuance is cost effective," Treasury's Assistant Secretary for Financial Markets Timothy S. Bitsberger announced in his quarterly refunding statement.

Bitsberger said that Treasury could go either of two ways on the issue: either it would not reinstate it or it would begin semi-annual bond auctions in February 2006.

Treasury will be taking comments from stakeholders on the issue over the next few months, he said.

Treasury stopped selling the 30-year bond in Oct. 2001 – the fourth and last year the government ran a budget surplus. The Treasury announcement potentially adds a new complication to pension funding debates. ERIC had argued even prior to the 30-year bond's discontinuance that the government rate was an inappropriate measure of pension liabilities. The government agreed and replaced that rate with a composite corporate rate in 2004. The Administration's finding proposals also rely on a corporate bond rate, albeit a yield curve. ERIC, however, will be making the case once again that corporate rates are the appropriate yardstick. Government bonds measure the government's actions to fund its operations, including its surplus or deficit. A high quality corporate rate, by contrast, approximates amounts required for a pension plan to decrease its

liabilities.

[May 2005 Treasury Quarterly Refunding Statement](#)