Employee Benefits Report

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Mental Health Benefits Help Employers Save on Medical Costs

The current debate surrounding the Congressional mental health parity bills gives us an opportunity to take a closer look at mental health benefits. Forty-six states have some form of mental health parity law, which require group health plans to provide mental health care benefits that are equivalent to those for medical and surgical care. Why are mental health care benefits important enough for all this legislative action?

According to the National Institute of Mental Health, 22 percent of adults in the U.S. suffer from a diagnosable mental health disorder. Yet only a third of the millions of Americans who suffer from a mental health disorder receive treatment. Because mental health has a strong effect on physical health, employers will want to consider the level of mental health benefits their plans offer.

The mental-physical connection. The most common mental health disorders that arise in the workplace are anxiety and depression. Yet mental problems often present themselves as physical problems, and employees are more likely to seek assistance for a physical problem.

Studies have shown that if workers don't get the mental health services they need, they use a lot of other services they don't need. A medical doctor may not be able to determine what is wrong with a patient and will do a battery of expensive tests because he/she doesn't want to miss anything. The end result? Physical health care can cost a whole lot more when mental health care is not available.

The productivity factor. When employees have ready access to good mental health benefits, they are less likely to be out on disability leave. Employees on behavioral health disability tend to stay out longer than

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This Just In

As this newsletter went to press, both the Senate and House had passed mental health parity measures. The current federal law requiring mental health parity in group health plans, originally passed in 1996, is scheduled to sunset again on December 31.

Both bills would expand upon the 1996 bill, imposing the same parity requirements. For example, H.R. 6983 would prohibit plans from imposing "financial requirements" or treatment limitations on mental health or substance use disorder benefits that are more restrictive than those for medical and surgical benefits. The bill defines "financial requirements" as deductibles, copayments, coinsurance and out-of-pocket expenses, but excludes an aggregate lifetime limits and an annual limit. This would close existing loopholes that allow plans to charge higher co-payments, deductibles and maximum out-of-pocket limits and impose lower day and visit limits on mental health and addiction care.

At press time, it was unclear whether either bill would pass the full Congress. For more information on why mental health benefits are important, please see the article on this page.

Enrolling Spanish-Speakers in Benefit Plans

Our last issue (October 2008) discussed ways to make open enrollment easier. The following article, by Melissa Burkhart of *Futuro Sólido USA*, touches on some of the particular challenges faced when enrolling Spanish-speaking employees.

American employees have long valued good benefit plans. Many will accept a position with a slightly lower salary if benefits are more attractive. Why is it then that so few Spanish speakers, a growing segment of our workforce, participate in benefit programs?

The language barrier — the most obvious challenge — is only part of the problem. Benefits professionals and human resource managers can translate plans or training and still get disappointing results. Few realize that many Spanish-speaking employees have negative and erroneous beliefs about benefit programs. In order to persuade them that benefits are in their best interest, employers must address these misconceptions.

They include:

- **About health insurance:** We can buy medicine at the pharmacy, so why pay for insurance?
- **About life insurance:** The death benefit will go to my wife's next husband or boyfriend — and who wants to leave money to him?!
- **About retirement plans:** Money taken out of an employee's paycheck goes directly into the pocket of the salesperson or plan representative.
- **About direct deposit:** If we don't receive a check, we will not have access to our money.
- **About insurance in general:** There is an addiction to insurance in this country. Most insurance plans are designed simply to take money out of our pockets.

None of this could be further from the truth. However, few benefits professionals or human resources professionals are countering these erroneous beliefs directly or effectively. As a result, plan providers fail to reach potential participants. Business owners don't get the maximum tax deduction or lowest possible group rate. And finally, employees lose opportunities for more secure lives for themselves and their families.

You can increase buy-in among Spanish-speaking employees to make enrollment meetings and trainings more successful.

Strategies include:

- Hire a professional translator for written material. Cutting costs by using a computer program or a bilingual employee with no translating credentials sends the wrong message. Readers will assume that if the company did not make the effort to have the translation done well, the topic cannot be important.
- Allow sufficient time for the meeting. Some employers expect employees to sign up for a rather costly and complex health insurance plan after being rushed through a PowerPoint presentation on their lunch break. This again creates the impression that the topic is unimportant and makes employees feel pressured.
- Use paper enrollment forms, rather than online or phone-based systems. People forget the issues after the presentation and talk to family members still laboring under their old misconceptions. Paper enrollment forms can also create positive peer pressure when employees see co-workers they respect participating.
- Be careful about your presenter's credentials. Too often companies have a bilingual employee make benefit presentations in Spanish. Even if this employee's public speaking abilities are good, he or she may not be familiar with specific technical terminology. Other employees may not respect him, influencing how receptive they are to the presentation. And, most importantly, the presenter himself might not buy into the material and convey his own doubts.

For the most effective meeting, your presenter should have the following credentials:

- Understanding of the mindset of typical Spanish-speaking employees and the reasons they are reluctant to enroll in benefit programs.
- Understanding of the reasons Spanish-speaking employees came to this country and compassion for their circumstances.
- Thorough knowledge of the topic at hand.

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those with any other condition, says the Society for Human Resource Management. And workers in plans with high deductibles, preexisting condition exclusion periods or "carve-out" programs that provide separate mental health coverage are less likely to return to work after suffering a mental disability, according to an analysis by Johns Hopkins University.

Untreated behavioral illnesses can have other consequences as well. Not only can productivity drop, but mental illnesses such as depression also can compromise employee safety. Experts urge companies to look at the whole picture. While decreasing coverage may save money in the short term, if disability claims skyrocket and employee turnover surges as a result, those savings will be minimal in comparison.

How do you know if your plan isn't making the grade? Experts cite the following signs — and risks — of inadequate mental health care benefits:

✷ **Limited number of therapy sessions.** Even where a plan covers therapy, it may place arbitrary limits on the number of sessions allowed. Removing these limitations allows the therapy to work most effectively, preventing more serious problems — and higher costs — later.

✷ **Limited choice of providers.** Since a good relationship with a mental health provider is crucial for treatment success, participants need plenty of choices. The plan should allow visits to out-of-network providers for slightly higher out-of-pocket costs. The network should also include a sufficient number of experienced mental health specialists to deal with a wide range of disorders.

✷ **Difficult access.** Employees may be reluctant to seek needed mental health care because of a perceived stigma attached to behavioral illnesses. Employers can reduce that risk by making access to benefits quick, simple and confidential.

✷ **Medication-only coverage.** Employees routinely obtain medications from their primary care physicians under their prescription benefit. But they may not receive the best medication in the proper doses from non-mental health specialists. Studies show that a combination of medication and therapy is often the fastest way to recover from mental illnesses.

✷ **Diagnoses from non-psychiatric professionals.** Without the correct diagnosis, an employee cannot obtain the most effective treatment. An employee with a significant emotional problem should be evaluated by a psychiatrist or psychologist, who can determine which psychotherapy or medication is appropriate. Doing it right the first time saves money down the line.

For assistance in evaluating your company's mental health care benefits, please contact us.

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- Fluent command of both Spanish and English, including benefits terminology (for example, "deductible" and "vesting").
- Experience conducting presentations in Spanish.
- The ability to elicit questions and feedback from a reluctant audience.
- Commitment to providing an accurate translation and to changing employees' behavior.

For other suggestions on making enrollments easier — and more effective — please contact your broker.

Futuro Sólido USA provides customized Spanish language services and training materials for Spanish-speaking workers and their employers. www.futurosolidousa.com

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Minimizing the litigation risk

Nearly all litigation involving cash balance plans has stemmed from conversions. In the IBM case, older employees sued the company for age discrimination because they felt it was discriminatory that they would receive lower benefits under a cash balance plan than under the previous "traditional" defined benefit plan. Any worry that cash balance pensions might not be legally sound evaporated with the pension overhaul bill signed into law in 2006. It labeled cash balance plans legal.

Employers starting a new cash balance plan, rather than converting an existing pension plan, have little cause to worry about litigation.

However, if you are converting an existing defined benefit pension to a cash balance plan, the law requires plans to treat each member of any given class of employee equally, although there is some latitude in how you sort your employees into classes for this purpose.

You may also want to give older employees the option of remaining under the old pension plan while requiring that new hires enter the new cash balance plan.

You are not required to give employees a choice of whether to convert to the new cash balance plan, but you may. And you may ask all employees covered by the traditional plan to remain in the plan, or provide no choice at all.

No matter which path you choose, you cannot violate prohibitions against age discrimination and you cannot reduce the amount of benefit the employee has already earned.

For more information on your various retirement plan options, please contact us.

Cash Balance Plans: How They Can Work to Your Advantage

Cash balance plans give employees more flexibility than other defined benefit plans, while simplifying administration for the employer.

Since 1999, when older employees of IBM sued the company after it converted a traditional defined benefit plan to a cash balance plan, cash balance plans have received some negative publicity. But these plans remain a viable option for employers looking for an alternative to a traditional defined benefit plan or a 401(k).

The advantages of cash balance plans

Cash balance plans can simplify plan administration for the employer. They are defined benefit plans, like "traditional" pensions. However, a cash balance plan defines the benefit in terms of the balance of an account at retirement, rather than a guaranteed retirement income. This greatly simplifies the employer's bookkeeping needs.

In a typical plan, the employer credits each participant's account with a percentage of his/her pay (such as 5 percent) and an interest credit. The interest can either be fixed or a variable rate linked to an index, such as the one-year Treasury bill rate. Increases and decreases in the value of the plan's investments do not directly affect participants' benefits.

Cash balance plans also allow rollovers before age 65, so vested workers can take their benefit in a lump sum payment when they go. That makes cash balance plans attractive to today's more mobile employees, and employers report having adopted the plans to improve their competitive edge in hiring.

Converting a traditional defined benefit plan to a cash balance plan allows companies to take advantage of any difference between the rate of return on the investment and the promised benefit. It also eliminates the early retirement subsidy of traditional plans.

The disadvantages

Cash balance plans do not guarantee savings for employers. In fact, studies have shown no clear pattern of cost reductions.

Because the retirement benefit is predefined, the employer must deal with any shortfall that results from poor investment performance, just as it may benefit from any gain. Contributions to the plan are determined actuarially and are not strictly up to the employer.

You can terminate or amend the plan, but you cannot reduce the benefit that plan participants have already earned.

On the other side of the equation, employees tend to lose retirement income in conversions. Older employees may be particularly hard hit since they have less time left to realize growth. It may be worth noting that the Government Accountability Office concluded that most workers receive lower retirement benefits after a conversion, regardless of their age at the time of the conversion. Yet, the perception remains that conversions discriminate against older employees.

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Of 'wear-away' and 'whipsaw'

Two situations that can arise during a pension plan conversion are "wear-away" and "whipsaw."

"Wear-away" of benefits primarily occurs when an employee's retirement benefit at the time of conversion is higher under the old plan than under the new. In effect, all growth in the benefit stops until the benefit level of the new plan catches up. It can also occur when companies use a higher interest rate to calculate the cash balance plan account value than the one used to calculate the value of the traditional plan.

The Pension Protection Act addressed the issue of "wear away," saying conversions cannot allow the "wear away" of retirement benefits or early retirement subsidies.

"Whipsaw" refers to the multi-tiered calculation required to convert the employee's nominal account balance to a lump sum benefit: project the balance forward to age 65 using the interest credit, convert the age 65 balance to an annuity and discount the annuity to a present-day lump-sum benefit. If the interest rate is different from the discount rate, the results will be out of whack.

To prevent this, consider linking the interest credit to a Treasury security, or allow the cash balance plan to define the benefit as the account balance. Or pay the higher of the hypothetical account balance or the required lump-sum distribution.

For assistance in converting a traditional pension into a cash balance plan, please call us.