



November 2010

Banyan Consulting LLC is pleased to present our monthly newsletter. We hope the articles in this and future editions will provide insight into an array of employee benefits topics.

We appreciate your feedback! If you have a topic for future discussion, please let us know.

Banyan Organizes a Coat Drive to Help Local Agencies

The need has never been greater and it's never been easier to make a difference in your community. Here is your opportunity to make sure that nobody goes without such a basic necessity as a coat this winter.

Banyan Consulting is collecting clean gently used coats and jackets as part of the One Warm Coat community service project. Coats of all shapes sizes are welcome. One Warm Coat is dedicated to distributing reusable coats, free of charge, directly to local children and adults. The program is an easy way for you and your family to pass along coats and jackets that you no longer need.

Banyan has made donating a coat simple. November 15th through 19th, between 9am and 5pm, just bring your clean, gently used coats and jackets to one of our Banyan Consulting locations:

1215 Manor Drive, Ste. 200, Mechanicsburg PA 17055

or

20 Stanwix Street, Ste. 401, Pittsburgh PA 15222

Then, Banyan will take care of the rest. All donated coats will be given to the Bethesda Mission in Harrisburg, PA and Focus On Renewal in McKees Rocks, PA for distribution to local people in need.

“More people than ever need help these days. I am proud of the thousands of coat drive organizers whose creativity and generosity of spirit are making a real difference in their own communities.” commented Sherri Wood, President and National Coordinator for One Warm Coat.

One Warm Coat is national non-profit organization that supports and encourages coat drives. It helps individuals, groups, companies and organizations across the country collect coats and deliver them to local agencies that distribute the coats free to people in need. More than one million coats have been provided to those in need at no cost since its inception in 1992.

Please contact Emily Burk at 412-222-1462 or eburk@banyan-llc.com for more information.

Health Savings Accounts Can Build Retirement Wealth

When preparing retirement funds to sufficiently carry an employee through their retirement years, it's crucial for the employee to think about all the ways that they can potentially maximize their workplace benefits. A great example can be found by looking at how a health savings account or HSA could also function as a retirement account. In certain instances, such as with employees that aren't made to spend down HSA contributions each year, HSA's can function in just such a manner.

Let's say that there's a 40-year-old worker that's very concerned that he isn't saving enough to last him through his retirement years. He seeks the guidance of a professional financial advisor to address his concerns. The advisor runs a retirement projection based on the workers 401 (k) contributions. Unfortunately, the worker discovers that he needs to save around five percent more than his current six percent salary deferral in order for him to have his retirement where it should be.

At this point, the advisor and the worker start to talk about where the extra retirement funds could possibly come from. One option would be to increase his 401 (k) contribution. However, the worker brings up how he's maxing out his contributions to his HSA, around \$3,000 dollars per year. He goes on to say that he's considering lowering his deferral during the next open enrollment period. And, here is where the worker discovers that he can build retirement funds with his HSA. Since his deductible is only \$1,800, the excess funds can be counted toward his needed retirement savings.

Of course, the above is just one scenario of using an HSA. There's actually several reasons why it could be beneficial for an employee to use a large HSA balance as part of their retirement.

- Most people naturally have more medical expenses with age. A study by Fidelity may add a little perspective, as it estimates that around \$250,000 in non-

Medicaid covered health expenses will occur during the retirement years of a typical 65-year-old retired couple. Wouldn't it be nice if these expenses could be paid for tax-free? Well, they can be with an HSA. HSA funds can be used without taxation for various qualified medical expenses - from long-term care insurance premiums to remodeling a home to accommodate a wheelchair or other assistive living device.

- For individuals that are fortunate enough not to have high medical expenses throughout their years at work, an HSA can provide some financial flexibility. Although funds are subject to taxation when not used for medical-related purposes, those at least 65-year-old can withdraw the funds for any reason they see fit.
- A Roth 401 (k) has tax-free withdrawing, but is funded with post-tax dollars. A traditional pretax 401 (k) features tax breaks only up until retirement. The benefits of an HSA are unique in that funds contributed to it are in the form of pretax dollars and remain tax-free on withdrawal for medical purposes.

The Growing Nest Egg

Financial institutions that manage HSA accounts typically allow investment of HSA funds (in excess of the employees' annual deductible) into mutual funds. In other words, if the HSA has an annual deductible of \$2,000 and the employee contributes \$3,000 dollars to the HSA, then the employee could invest the annual unused \$1,000. After thirty years at 7% annual interest, the employee would have grown a retirement nest egg of about \$100,000.

Imagine how elated the worker in the above scenario might be to find out that his employer had not only given him the flexibility of using his HSA for his current and future medical expenses, but also a means to supplement or pad his retirement nest egg.

Weighing the Cost of Maintaining a "Grandfathered" Plan Under Health Care Reform

"Grandfathered" health plans (plans in existence on 3/23/2010, the enactment date of the Patient Protection and Affordable Care Act) enjoy exemption from some of the provisions of the health care reform law. However, in order to maintain grandfathered status, a plan must refrain from making certain changes, including those involving significant changes in plan design, cost-sharing or insurance carriers. Plan sponsors are attempting to balance the value of remaining grandfathered against the need to modify plan provisions in response to rising plan costs. Many are questioning whether the advantages of making changes to their plans outweigh the benefits of avoiding some reform mandates.

Bill Hartz, CEO of Banyan Consulting indicated, "We have been counseling employers to consider their organization's financial needs closely when making benefit decisions for their upcoming renewal. Many of the key provisions in health care reform apply to both Grandfathered plans and non-Grandfathered plans, which will increase employer costs regardless of their status."

In a recent Mercer survey, employers were asked to estimate what it would cost to meet the law's requirements for 2011, and the response was, on average, an addition of 2.3% to plan costs. Employers were also asked to predict how much their plan costs would rise if they made no cost-saving changes, and the response was an addition of 10.1%. That's the kind of increase that many employers will not be able to absorb. These estimates may indicate that for many employers, the cost-effective decision will be to comply with health care reform's mandates, in order to have the freedom to make plan design and insurer changes that fit into their overall cost-containment strategy.

Among the changes a grandfathered plan cannot make in order to maintain that status are raising coinsurance levels, increasing deductibles or out-of-pocket limits by more than medical inflation plus 15 percentage points, and raising copayment levels by more than the greater of \$5 or a percentage equal to medical inflation plus 15 percentage points. For many employers, staying within these limits simply won't be an option. The Mercer survey reflects this: Even though it would mean loss of grandfathered status, 35% said they would consider raising deductibles/out-of-pocket limits, 31% would consider increasing employee coinsurance levels, and 23% would consider raising copays, beyond what's allowed under reform.

Employers also need to consider to what extent their plans might already be in compliance with provisions of health care reform. For example, one of the health care reform provisions that does not apply to grandfathered plans is the requirement that preventive care services, including immunizations and screenings, be covered with no cost-sharing for plan participants. Many plans already provide for this, and an increasing number continue to willingly move in this direction as recognition of the importance of preventive care grows.

In the coming months, employers with grandfathered plans will be examining their current plan design and assessing whether it will continue to meet their business needs, along with employees' health care needs. Based on the current financial strain the economy is in, it remains to be seen how many employers will decide they'd rather have the flexibility to change their benefit programs, rather than be restricted to the limited plan modifications allowed under the new law.