



**B O S T O N I A N**  
G R O U P<sup>®</sup>



# Benefits Beacon

Winter, 2006

## INSIDE THIS ISSUE:

PAGE 1...

**Generics Help Lower Prescription Drug Spending Trend**

PAGE 2...

**Pension Protection Act Encourages 401(k) Automatic Enrollment, Investment Advice**

PAGE 3...

**Executive Long-Term Care Plans Are Growing in Popularity for Small and Medium-Sized Businesses**

**Recent New Hires**

PAGE 4...

**2006 End of Year Client Update Now Available**

## Generics Help Lower Prescription Drug Spending Trend

Prescription drug spending by employers rose by 5.4% in 2005, according to the annual Drug Trend Report from prescription drug benefit manager Medco, the smallest increase since the company began tracking this data in 1999. With the overall cost increase in health insurance premiums in 2005 averaging 9.2% (according to a separate study from the Kaiser Family Foundation), prescription drug costs, once a primary driver of health benefits spending, now lag behind the overall annual increases.

According to the Medco report, 2005 is the fourth straight year that increases in the drug trend have become smaller—the trend was 8.5% in 2004, for example—and the rate is about 70% lower than the 16.4% increase recorded in 1999.

Growing acceptance and utilization of generic drugs is a key factor in continued moderated prescription drug spending, along with a slowdown in the growth rate for overall drug utilization and declines in high-use drug categories. Overall prescription drug utilization increased by only 2.7% in 2005, half the increase seen the year before. And, the introduction of new drugs—those usually bearing a high price tag—was down: 2005 saw the fewest total approvals since 2002 and the third lowest number in the past quarter century, with none of the drugs newly approved in 2005 considered to be of blockbuster status.

The generic trend is the significant story here, however, and the report predicts that this trend will continue. Between 2002 and 2005, 57 first-time generics were introduced; 15 of these premiered in 2005, including generic versions of Duragesic patches and Oxycontin



(chronic pain relief), Allegra (allergy relief), and Zithromax (an antibiotic), which together accounted for nearly \$6 billion in brand-name market sales in 2004.

Furthermore, in the next four years, brand-name drugs with U.S. sales of nearly \$43 billion could lose patent protection. According to the report, acceptance of generics has become so widespread that, once a brand-name drug does lose patent protection and competing generics enter the market, consumers rapidly move to the lower-cost alternative. An analysis by Medco showed that the generic dispensing rate for four brand-name drugs—Allegra, Zithromax, Arava (anti-rheumatic) and Amaryl (for treatment of diabetes)—topped 87% within 30 days after the generic alternative became available.

Research such as this clearly shows the cost savings potential that generic drugs can offer to an employer's health plan. Co-payment differentials that make generics significantly more cost-effective for employees and communications that educate employees on generics' safety, effectiveness and affordability can lead to increased generic usage and, ultimately, help in moderating health plan costs.

**The Bostonian Group** is pleased to share our quarterly newsletter with you. The publication is designed to provide you with helpful, pertinent information pertaining to employee benefits, retirement, and human resources.

We hope that you will find this newsletter informative. Please feel free to send comments or questions to [info@bosgroup.com](mailto:info@bosgroup.com).



**The Bostonian Group**

**4 Copley Place, 6th Floor  
Boston, MA 02116**

**Phone: (617) 587-2300**

**Fax: (617) 236-0011**

**[www.BostonianGroup.com](http://www.BostonianGroup.com)**

# Pension Protection Act Encourages 401(k) Automatic Enrollment, Investment Advice

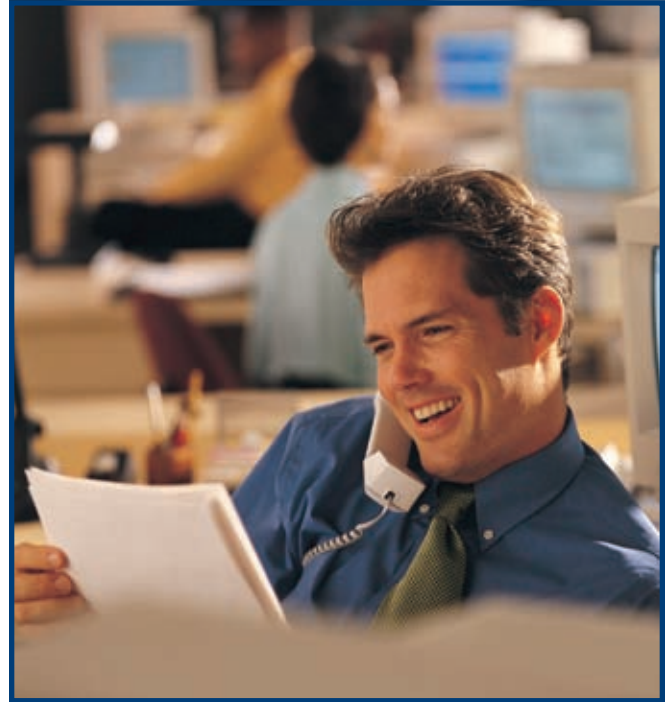
Automatic enrollment, investment advice for plan participants and other encouragement of retirement savings are facilitated by the Pension Protection Act of 2006. While much of the law has to do with defined benefit pension plan funding and cash balance plan requirements, important provisions address defined contribution and 401(k) plans. The effective dates of these provisions vary, with most applying to 2007 or 2008 plan years.

The Act encourages 401(k) plan automatic enrollment by creating a safe harbor for passing the nondiscrimination tests for contributions (ADP and ACP tests). In order to take advantage of the safe harbor, automatic deferrals must be at least 3% of compensation initially (and then at least 4% for the second year, 5% for the third and 6% thereafter, but not to exceed 10%), and the employer must make minimum contributions on behalf of every non-highly compensated employee in the plan. This minimum must be either a 3% non-elective contribution OR a 100% matching contribution on an employee's contributions up to 1% of compensation and a 50% matching contribution on an employee's contributions from above 1% and up to 6% of compensation. Alternate matching formulas are permitted, so long as the matching rate is equivalent to that under this formula and the rate is not higher for highly compensated employees.

In another provision affecting automatic enrollment plans, the Act provides some protection from fiduciary liability for employers with regard to the investment of contributions made automatically. ERISA Sec. 404(c), in general, gives plan sponsors protection from liability for losses that result from participants' investment decisions, so long as certain conditions are met. The Act affords 404(c) protection for contributions directed to default investment options, so long as these amounts are invested in accordance with regulations from the Department of Labor (not yet issued). Also, participants must receive a notice that explains they have the right to cease or modify automatic contributions and direct how contributions will be invested if they do not make an affirmative investment election.

The law paves the way for employers to feel more comfortable with plan features that provide investment advice to participants. In general, the Act enables investment advice not to run afoul of ERISA if that advice is provided either through a computer model that has been certified by an independent third party OR by an advisor in arrangements where the advisor's fees do not vary based on the investment chosen.

Some other provisions of the Act that may be of interest to employers sponsoring 401(k) and defined contribution plans include—



- Plan statements must be provided at least quarterly to participants, if the plan allows for participant-directed investments (like most 401(k) plans do).
- Participants must be permitted to diversify out of investments in publicly traded employer securities, immediately with regard to employee contributions and elective deferrals and after three years of service with regard to employer non-elective contributions and employer matching contributions. This requirement does not apply to certain ESOPs.
- Non-elective contributions must vest at a faster rate: full vesting after three years of service or according to a graded vesting schedule where 20% vests each year beginning with the second year of service.
- Many provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), which were scheduled to expire after 2010, have been made permanent. These include catch-up contributions for participants age 50 and older and increases in the annual IRA contribution limit and annual pre-tax deferral cap that applies to 401(k) and 403(b) plans.

The Pension Protection Act of 2006 contains many provisions, and the significance and impact of each will vary employer to employer, depending on the type of plans sponsored and current plan provisions. For defined benefit and cash balance plan sponsors, provisions not touched upon in this article will apply. Overall, however, the Act goes a long way toward encouraging saving and investing for retirement.

# Executive Long-Term Care Plans Are Growing in Popularity for Small and Medium-Sized Businesses

Providing executives with long-term care (LTC) coverage is becoming increasingly more prevalent. Small and medium-sized companies realize that offering LTC benefits can help them attract and retain quality senior managerial staff. In the past, these employees would have been lost in a bidding war with a larger company who could offer the employee a bigger paycheck. As medical costs continue to skyrocket and individuals face the likelihood of living well into their eighties and nineties, however, employees are foregoing larger salaries in favor of benefits, such as LTC coverage.

There are several significant aspects to an executive LTC plan that make it an attractive lure:

- Addresses an important retirement planning need at a time when most executive employees are beginning to contemplate retirement.
- Removes stress about providing for the future off the employee.
- Offers both uncomplicated underwriting and lower premiums than the employee can obtain on their own.

There are other features employers should keep in mind when considering whether to offer executives a LTC plan. These policies are generally guaranteed renewable. In other words if premiums are paid on a timely basis, the insuring company cannot cancel the policy. Insurers can, however, raise premiums.

LTC policies for your executives can be contractually paid up within 10 years or even with a single premium depending on the policy. In addition to the substantial tax deduction for the shorter duration premium period, the insurer cannot increase premiums after the policy is paid up.

Policies are underwritten either as indemnity or reimbursement plans. An indemnity policy pays a specific amount of daily benefit without concern for actual



expenses. The reimbursement policy pays either the actual expenses for covered reimbursements or a specified percentage.

The employer can purchase optional riders for executive policies. One of the most common provides a cost-of-living allowance to keep up with inflation in health care costs. These riders set a percentage of increase each year, and continue to increase until they reach the designated multiple of the base policy.

Employers should consider providing a plan that allows benefits for care provided in the employee's home instead of in a nursing facility. It might be included as part of the base policy or as a separate rider. Some policies will even pay benefits to a family member or friend who provides care.

LTC plans must be flexible enough to accommodate changing medical technology, but offer paid up coverage by the time the employee retires. Policies should permit plan participants to keep benefit limits current, while offering a complete menu of both in-home and assisted-living benefits. LTC is more than just nursing home coverage.

## Recent New Hires

We are pleased to announce that Scott Kirschner, Mark Mathers, Eleni Sacre and Trish Hurley have recently joined The Bostonian Group. Scott Kirschner has been hired as a Managing Consultant for The Bostonian Group's Employee Benefits Practice. He brings more than 21-years consulting and industry experience. Prior to joining The Bostonian Group he worked for Towers Perrin in Stamford, CT.

Mark Mathers has been hired as a Senior Consultant for Business Development. He will provide valuable expertise in financial planning for individu-

als and small business owners. Prior to joining The Bostonian Group Mark Mathers was an independent financial advisor and President of Mathers Financial Group. He writes a monthly column "Money Matters with Mathers" for both the *BostonHerald.com* and *The Irish Emigrant*.

Both Eleni Sacre and Trish Hurley who recently joined as part of The Bostonian Group's Administrative Team and have added depth to our support services.

# 2006 End of Year Client Update Now Available

The Bostonian Group has published its *2006 End of Year Client Update* and posted the document on our client extranet to make it available for you to easily download. This year's update includes HR, Employee Benefits and Retirement Services information that address topics such as MA Health Care Reform legislation, EEO reporting updates, Dependent Care updates, HIPAA Privacy and Security Rules, and the Pension Protection Act of 2006.

Clients can log-on to The Bostonian Group's client-secured extranet to download their own copy of the *2006 End of Year Client Update* by linking to our company website at [www.BostonianGroup.com](http://www.BostonianGroup.com) and selecting the Client Log-in button on our home page. If you have never logged-on to The Bostonian Group's extranet, you will need to log-in as a first time user; the process takes only a few seconds.

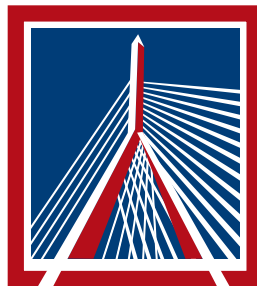
In addition to our annual end of year update, you can also access additional client-specific content posted on your account page as well as the numerous HR forms and templates, white papers and other resources reserved for clients. Should you have any questions about accessing the client extranet or the *2006 End of Year Client Update*, please contact your Bostonian Group consultant.



## Hard Copies Available Upon Request

This year's document is nearly 25-pages and bound copies are available upon request. Please e-mail your consultant with the number of copies your staff will require and these will be mailed to your attention.

Our clients come in many shapes and sizes. • As a result, so do our solutions.



**B O S T O N I A N**  
**G R O U P**<sup>®</sup>

**4 Copley Place, 6th Floor**  
**Boston, MA 02116**

**Phone: (617) 587-2300 • Fax: (617) 236-0011**  
**[www.BostonianGroup.com](http://www.BostonianGroup.com) • [info@bosgroup.com](mailto:info@bosgroup.com)**