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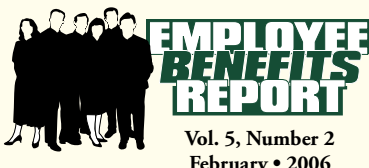
## THIS JUST IN

### For boomers, it's time, not money.

Creative work arrangements are the key to retaining employees 50 and older, according to two new reports by the Center on Aging and Work/Workplace Flexibility and the Families and Work Institute. As the U.S. population ages and its labor force shrinks, the demand for older workers will increase. The study found that those in the 50+ age bracket are more likely to continue working if they can control their hours, exercise greater autonomy and find opportunities to learn. You can keep senior workers on the job longer by enhancing your company's flexibility in dealing with the location or timing of work.

### At current gas prices, the average American worker spends about 3.3 percent of pay on fuel to commute to work,

according to estimates by [Salary.com](http://Salary.com). But a qualified transit expense plan can save employees 30 to 40 percent on transportation costs. Eligible expenses are tax-exempt for employees, while employers pay no FICA tax on money workers set aside. Typical costs to administer a transit plan run \$4 or \$5 per employee per month, with companies saving roughly 7.5 percent on every dollar put into the plan due to FICA savings. In times of steep fuel costs, employers can eke out a little more employee loyalty with transit expense plans, teleworking benefits and/or commuter subsidies.



## Health Benefits

# Consumer-Driven Health Care is Slashing Costs. But for Whom?

For years, companies have been clamoring for ways to cut the cost of providing health benefits to employees. Many believed that consumer-directed health plans (CDHPs), when first introduced in 2003, would provide the solution. And while CDHPs have many benefits, the jury is still out on exactly who benefits from the cost savings of such plans, according to a number of recent studies.

CDHPs are designed around the supposition that consumers will make financially responsible decisions when they have to bear some of the cost of their decisions. Employers hope that providing consumers with information and financial incentives will induce them to eliminate unnecessary care and to seek lower-cost, higher-quality providers.

Consumer-directed health plan models come in two basic flavors: 1) high-deductible plans that are often paired with a personal health care spending account—either a Health Reimbursement Account (HRA) or a Health Savings Account (HSA) to pay for unreimbursed medical expenditures, and 2) tiered benefit designs—either “tiered premium” plans that require high patient cost-sharing if a consumer selects a less-restrictive network of providers (either hospitals, physicians or both) or “tiered-provider” plans, where a consumer pays lower costs when selecting a “preferred provider.”



Consumer-Driven – continued on Page 4

# Getting the Most From Long-Term Care Insurance

**H**ere's the good news: a growing number of employees are taking advantage of group long-term care (LTC) insurance through their companies. The not-so-good news: many of these workers are ending up with coverage that could leave them susceptible to huge increases in premiums — right when they need benefits the most. The problem is tied to LTC's inflation protection provisions.

Here's what you need to know about structuring LTC insurance benefits to protect both your employees and your bottom line.

## Inflation protection a must

A good LTC policy should include some type of inflation protection. Why? If healthcare costs continue to rise about five percent a year (a modest estimate), a bed in a nursing home that currently costs \$150 a day will run almost \$400 a day 20 years from now.

LTC insurers offer two basic types of inflation protection: an “automatic benefit increase” or a “future purchase option.”

- ✱ The **automatic benefit** increase guarantees that a worker's benefits will grow automatically each year. Purchasing the feature at a policy's outset is a one-time decision.
- ✱ A **future purchase option** gives employees an option to buy extra coverage at selected intervals, usually every two or three years.

Here's the catch: Policies with an automatic benefit increase cost more to begin with, but premiums typically remain fixed. Policies with a future purchase option start with much lower premiums, but costs can rise sharply, since premiums for additional coverage are based on a policyholder's age at the time the increase takes effect.

These big jumps come when policyholders likely can least afford them — during retirement, when many people have limited income. Of course, employees with future purchase options can decline to buy extra protection, so their premium would remain fixed. But then the daily benefit would remain fixed as well.

Is one type of protection better than the other? It depends. Some experts believe that if you can't afford an automatic benefit increase, you shouldn't bother buying long-term care insurance, since the automatic increase is the best way to guard against rising costs while keeping premiums relatively affordable. Others consider some insurance to be better than no insurance at all. For them, the potential cost of long-term care is so large that almost any form of insurance, regardless of whether it includes inflation protection, can help cushion the blow.

Younger workers generally can't afford the high premiums associated with automatic benefit increases. So it makes sense to buy the future purchase



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option at first. Then, at some point, if they can afford it and their plan allows it, they can switch over to the automatic benefit increase. Ideally, employer plans should offer inflation protection through both an automatic benefit increase and a future purchase option.

Often employees don't get enough information about future purchase options nor understand just how large premiums can grow. Most enrollment packages note that the cost of a policy can increase over time, but typically do not include specific comparisons of premiums under different inflation plans. As a result, many consumers simply opt for the policy that's cheaper at the outset.

## Education is key

When offering group LTC to employees, ask your insurer or broker to provide specific numbers about inflation protection, including annual premium comparisons over 30 or 40 years, the total cost of premiums under competing inflation plans and the “crossover points” at which one type of inflation protection becomes more expensive than another.

For many individuals, the cost of insurance that provides help with long-term care seems prohibitive. But the cost of not having it is far greater, as the lack of a LTC benefit can greatly undermine the value of retirement benefits. LTC insurance provides employees and their families the ability to deal with the emotional issues related to long-term care instead of focusing on meeting the physical needs. And that helps you retain quality, productive employees. For assistance in structuring your LTC insurance benefits, please contact us. □

# Small Business Retirement Plans: Easier Than You May Think

**H**ave you postponed setting up a retirement plan for your company?

Quality employees consistently rate a retirement plan as one of the most important benefits they look for in evaluating a potential employer or deciding to remain with a current one. Providing a retirement plan for employees can be a valuable recruitment tool, along with a means to ensure the financial security of a business owner and his/her family. But what type of plan makes sense for you and your business?

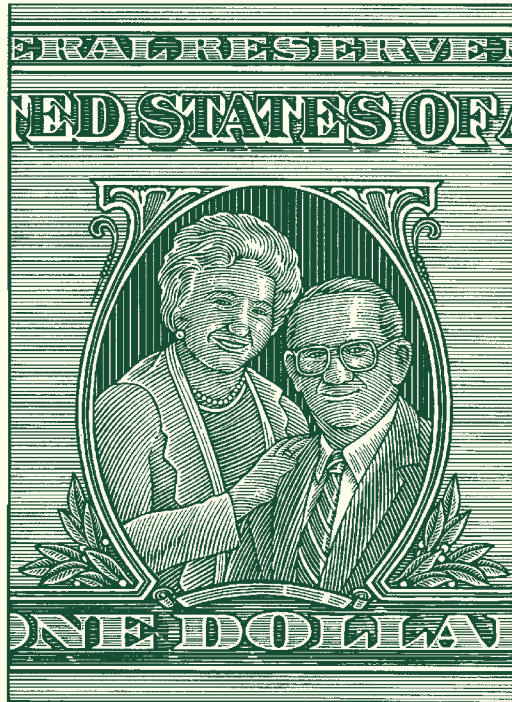
An Individual Retirement Account (IRA) is the most basic kind of retirement arrangement. People tend to think of an IRA as just for individuals, but you can also use them as an employee benefit. IRA-based plans range from those with little employer involvement to plans that the employer establishes and funds. There are four types of IRA-based plans:

**Payroll deduction IRA.** Employees establish an IRA (either a Traditional IRA or a Roth IRA) with a financial institution. The employee then authorizes a payroll deduction for the IRA with the remainder of the employee's pay distributed to the employee as before.

**SEP plan.** A Simplified Employee Pension (SEP) plan provides employers a simple way to make contributions toward their employees' retirement and their own retirement. Employer-only contributions are made directly to a SEP-IRA set up for each eligible employee. All SEP contributions must go to traditional IRAs, though these amounts will not affect how much an employee can contribute to a Roth IRA because the SEP contributions are made by the employer rather than the individual.

Your plan must include all employees who are 21 or over and have worked for you in at least three of the last five years. You can make eligibility more lenient than these standards, but not more so. You may not include, for example, a "specific number of hours worked" requirement, except to say the employee must earn at least \$450 (indexed) for the year. The term "employee" includes a self-employed individual with earned income, so that an owner-employee may also set up a SEP-IRA for his/her own benefit. A SEP plan may be established as late as the due date (including extensions) of your tax return for the year you want to establish the plan.

**SARSEP plan.** A Salary Reduction Simplified Employee Pension (SARSEP) plan is a SEP set up before 1997 that allows salary reduction agreements. Instead of establishing a separate retirement plan, employers make contributions to their own IRAs and the accounts of their employees, subject to certain percentages of pay and dollar limits. You may no longer establish a SARSEP. However, participants (including employees hired after 1996) in a SARSEP set up before 1997 are grandfathered, and can continue to have employee elective deferrals made to their SEP-IRA. If you are interested in setting up a retirement plan that permits employee elective deferrals, consider a SIMPLE IRA plan.



**SIMPLE IRA.** The Savings Incentive Match Plan for Employees (SIMPLE) enables small businesses to make contributions toward their employees' retirement and that of the business owner. Under a SIMPLE IRA plan, employees can choose to make salary reduction contributions and the employer makes matching or nonelective contributions. Contributions are made directly to a SIMPLE-IRA set up for each employee.

In general, a business can establish a SIMPLE IRA plan if it has 100 or fewer employees who earned \$5,000 or more from the company during any two years preceding, and there are no other retirement plans to which the business contributes. Employers can use less restrictive eligibility requirements, but not more restrictive.

For example, a SIMPLE IRA plan could cover all employees without restriction. Like SEPs, SIMPLE IRAs must be set up for each eligible employee and all contributions to the plan must go to traditional IRA accounts.

To establish an IRA-based plan, first execute a written agreement to provide benefits to all eligible employees. You can use forms available from the IRS at [www.irs.gov](http://www.irs.gov). The form you choose depends on whether you or your employees select the financial institution that will receive the contributions. Second, provide information to participants. After adopting a plan and eligibility requirements, employers must notify each eligible employee of the new plan, the requirements an employee must meet to receive an allocation, and the basis upon which the employer's contributions will be allocated.

*People tend to think of an IRA as just for individuals, but you can also use them as an employee benefit.*



## Growing pains

Insurer interest in HSAs and HRAs is widespread and growing. Today, at least 75 insurers offer account-compatible plans nationwide. With the introduction of HSAs, employer interest is shifting away from HRAs. But employer-funded HRAs are less costly to employers than equally funded HSAs, because unused HRA account balances revert to employers when an employee leaves.

Still, employers are adopting CDHPs gradually. And few large employers have chosen the “full replacement” route of abandoning traditional plans entirely in favor of CDHPs. Employee adoption is low when CDHPs are offered alongside traditional plans, as generally is the case now.

A recent survey by Watson Wyatt and the National Business Group on Health found that eight percent of large employers offered some form of HSAs in 2005. They expect this number to increase to 26 percent in 2006.

## Employers saving big

For employers, consumer-driven health plans definitely save money. Mercer Human Resource Consulting said the firm’s analysis of 88 employers offering CDHPs during the first year of availability found that employers of all sizes enjoyed a nearly 17 percent average cost savings compared with PPO coverage (\$5,233 versus \$6,095).

But studies show both management and employees have a substantial amount of skepticism about these plans. Analysts question whether the plans offer real savings, or merely represent a cost shift from employers to employees. Some fear that if employees have too many incentives to reduce health-care costs, they may forgo needed checkups to save money or attempt self-diagnosis. Another problem is that although these plans depend on intelligent choices, the information available, while more plentiful than ever, is still limited.

**With infertility treatments on the rise,** more companies are including assisted reproductive technologies like in-vitro fertilization in their benefits packages. National infertility advocacy group Resolve estimates that one-fourth of employers offer some type of infertility treatment benefit, with 12 states now requiring coverage.

Companies with infertility benefits tend to be thriving financially or provide coverage because they feel it’s the right thing to do. Yet evidence suggests covering infertility treatment saves money in the long run. States mandating coverage have seen a decline in multiple birth rates, which are linked to poor and costly outcomes.

*Analysts question whether the plans offer real savings, or merely represent a cost shift from employers to employees.*

## Smaller firms find CDHPs a good solution

On the other hand, evidence is emerging that shows that the newest HSA products might initially be more popular among small business and individuals — groups that might not otherwise offer health insurance. These groups see HSAs as a way to provide low-cost and easy-to-manage coverage. A survey of America’s Health Insurance Plans (AHIP) members found that 16 percent of small group HSA policies were sold to businesses that previously did not offer insurance.

As for large employers, nearly a third of CDHP sponsors (31 percent) encouraged enrollment by waiving employee contribution requirements. Among those requiring employee contributions, employee contributions averaged \$48 a month, or 21 percent of the premium. Employee contributions for PPO and HMO coverage averaged, respectively, \$72 and \$61 per month, or 23 percent and 22 percent of premium. Only 12 percent of PPO sponsors and 13 percent of HMO sponsors provide free employee-only coverage, Mercer said.

CDHPs are helping to lower health-care costs. While both employer and employees hope to enjoy some of the eventual savings, this much is clear: CDHPs increase the need for information and decision support, as consumers are asked to weigh the financial and health trade-offs of various provider or treatment options.

For more information on CDHPs or providing employee health information, please call us. □

## RETIREMENT – continued from Page 3

Finally, set up an IRA account for each employee. As you search for the right financial institution for you and your employees, you will need to have an idea of what sort of investment options your plan’s IRAs should include and what level of service to expect. Educate yourself about the basics of investing funds for retirement, and encourage your employees to do the same.

Now is a great time to get started, so you don’t have to rush the process of setting up your plan in order to take a tax deduction in the current year. If you already have retirement plans in place, it’s wise to conduct an annual checkup of operations. You can reap significant tax benefits by keeping your retirement plan running smoothly. The IRS Web site offers checkup lists that cover some of the basic requirements for keeping your plan healthy.

**Other options: 401(k)s.** Smaller employers have other options for easy-to-administer retirement plans, including safe harbor 401(k)s. In fact, some employers might find a safe harbor 401(k) more advantageous than an IRA-based plan. For more information on establishing or reviewing a retirement plan for small or larger businesses, please contact us. □



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