Employee Benefits Report

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October 2006 Volume 5 • Number 10

Creating Healthy Wellness Programs

One-quarter of health care costs incurred by working adults can be attributed to modifiable health risks. Wellness programs can reduce those risks.

Wellness programs are quickly moving from the status of "warm and fuzzy" to "essential and effective" for many businesses. These programs include everything from smoking cessation classes to discounts at local gyms. They are designed to prevent employees from succumbing to major health problems and helping them lead healthier, more productive lives.

Recent studies have found that at least one-quarter of all health care costs incurred by working adults can be attributed to modifiable health risks, such as diet, exercise, tobacco use, etc. And as individuals' health risks become greater, the likelihood that they will experience a major, high-cost medical event becomes greater.

It makes sense, therefore, that using a wellness program to reduce health risk factors would reduce employers' health care costs. Despite that commonsense reasoning, nobody can place dollar figures on how much money a wellness program will help you save. That's because employers cannot know for sure what their health care claims would have been without the program.

However, by comparing projections of health care costs before implementation of a wellness plan with actual costs after the plan goes into effect, researchers can make informed estimates. One study found that reducing health risk factors by 0.1 percent cut 5.4 percent from the original health care cost projection.

Other studies have concluded that employees participating in worksite-based fitness programs will have 1.2 fewer absences per year—which also affects your bottom line.

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This Just In

Just in time for the peak of the hurricane season, the IRS has issued guidance on the federal tax consequences of employer-sponsored leave banks. Under a leave bank, employees can deposit unused leave for use by other employees who are adversely affected by a "major disaster."

The guidance requires a major disaster leave-sharing plan to be in writing; certain other requirements apply as well. Employees who donate leave do not realize any income or incur any deductible expense or loss. However, the plan must treat donations to leave recipients as wages for FICA, FUTA, and income tax withholding purposes. For details visit: www.irs.gov/pub/irs-drop/n-06-59.pdf.

Employees, Sponsors Sailing Toward Safe Harbor 401(k) Plans

Safe harbor plans can help employers avoid the tricky shoals of nondiscrimination testing.

The name itself certainly sounds enticing: "safe harbor 401(k) plan." How can such a gingerly named plan possibly be anything but good? Indeed, for employers and employees alike, there's much to like.

Safe harbor plans have been around for 10 years, but sponsor interest has gathered steam only in the last few years after the usual "wait and see" period.

Like all 401(k)s, a safe harbor 401(k) plan allows eligible employees to contribute a portion of their own salary to a retirement plan. Employers contribute either matching or non-elective amounts to the plan on behalf of eligible employees. Employer contributions are tax-deductible and employee contributions are excluded from income for federal income tax purposes.

Highly compensated benefits

But while the 401(k) is one of the most popular retirement plans, nondiscrimination requirements often limit the amount highly compensated employees (HCE) can contribute on their own behalf. Safe harbor provisions allow employees to maximize their 401(k) contributions while automatically satisfying actual deferral percentage (ADP) and actual contribution percentage (ACP) nondiscrimination testing rules as long as certain requirements are met.

To satisfy the ADP and ACP testing requirements, your organization has to: 1) make contributions for your employees and 2) eliminate all vesting requirements placed on those contributions.

The employer contribution requirement provides you with two options. If you choose the first option, you must make a matching contribution for each non-highly compensated employee (NHCE) who elects to contribute to the plan. The basic matching formula is 100 percent for at least the first three percent of employee compensation and 50 percent on the employee's own contributions above three percent, but not to exceed five percent of compensation. Such m atching contributions automatically satisfy the ACP test.

Alternatively, you can design an enhanced matching formula so long as the rate is non-increasing and the aggregate amount of the match at least equals the basic matching formula (e.g., 100 percent match on deferrals up to four percent of compensation).

If you choose the second option, you must make a flat, non-elective contribution for each NHCE who is eligible to participate in the plan, even if the employee opts not to contribute. The non-elective contribution must equal three percent of the employee's compensation for the year.

In either employer contribution option, you can make similar contributions for highly compensated employees, as long as the match percent for any HCE is no greater than the match percent for any NHCE at the same rate of deferral.

You will enjoy greater administrative ease with a safe harbor plan. These plans minimize testing and you can save a lot of administrative time, effort and aggravation by not having to refund money to highly compensated workers if discrimination tests fall.

Keep in mind, however, that you are responsible for administering the plan and keeping records. Also, the company must make non-elective contributions regardless of its financial situation. If you decide to halt contributions, you must provide 30 days' notice to your employees and you will need to pay for standard discrimination testing.

Another requirement of the safe harbor 401(k) plan is that any employer contribution, either matching or non-elective, is fully vested to the employee. And therein lies a major drawback of safe harbor; you lose an employee retention incentive.

IRS Stipulations

If you're sold on the idea, the Internal Revenue Service (IRS) requires you to provide written notice to employees of the company's intent to implement a safe harbor 401(k) plan. The notice must be sent out at least 30 days and not more than 90 days prior to the beginning of the plan year. In addition, the notice must include specific information as stipulated by the IRS.

If you are contemplating the safe harbor 401(k), we can help you carefully analyze the potential increase in expenses attributable to the employer contribution requirement. In some instances, your desire to make a full contribution may outweigh the increase in expenses. However, everything depends on such factors as overall plan participation, the size of your company and whether or not you are already making any matching contributions or non-elective contributions under an existing plan.

As with any plan, we recommend that you consider automatic enrollment for new employees as they become eligible. Automatic contributions make it easier for participants to save more for retirement. Advise employees, however, that if they select this feature they will have their deferral percentage automatically adjusted to increase their contributions to the plan over time. ■

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Incentives that Work

As the saying goes, you can lead a horse to water but you can't make it drink. So, too, for wellness programs; the best-funded program is no good if employees aren't motivated to use it.

Incentives come in many forms, with rewards typically based on participation in, or completion of, certain programs such as health risk assessments and lifestyle behavior courses. A few employers have begun to develop multi-faceted scorecards where individuals can earn points based on certain activities and/or biometrics. These points then qualify the individual for lower medical plan deductibles and/or lower employee contributions.

Your incentives don't have to be fancy; here are a few common initiatives:

- Discounted health plan premiums;
- Paid time off;
- Use of paid company time for program participation;
- Workplace recognition of teams or individuals;
- Raffles, drawings, and prizes;
- Discounted or free "healthy" meals in the cafeteria;
- Employer contributions to 401(k), health savings account, flexible spending account or health reimbursement account programs;
- Wellness credits toward reimbursement of gym memberships or exercise equipment.

When designing an initiatives program, include a few choices, if possible, as different employees will be motivated by different incentives. Remember, too, that certain types of incentives, such as waived or lower copays and lower premiums, will create additional costs. Be sure to account for these costs when preparing your wellness budget.

Benefits of a Wellness Program:

- ✔ Decreased absenteeism
- ✔ More energetic employees
- ✔ Reduced health care costs
- ✔ Increased employee satisfaction
- ✔ Higher productivity

There is one caveat: If you create an incentive plan involving health factor eligibility or contributions (e.g., health status, claims experience, receipt of health care, medical history, genetic information, evidence of insurability, disability) you must comply with ERISA, HIPAA, COBRA, or the Bona Fide Wellness Program guidelines. We will cover some of these considerations in more detail in an upcoming issue. Meanwhile, the tips below can help you start your own wellness program.

Roadmap to a Successful Wellness Plan

1. Get the support of top management. Any meaningful change will be driven from above.
2. Appoint a wellness team. Get a cross section of workers to help devise the plan. They then can champion the plan in their departments.
3. Ensure compliance with HIPAA and other regulations.
4. Start simply and set goals. If you've identified excess weight as a primary concern, the wellness team might say, "In 12 weeks, we're going to lose 500 pounds as a company."
5. Create a supportive environment. If you want your employees to exercise more, make it easier for them to do so during the workday. Create a map of nearby walking routes or provide shower facilities so employees can clean up after bicycling to work.
6. Sell the program. Designate a "chief wellness marketing officer" to keep employees excited and engaged with the program.
7. Add new program components and incentives. There's no more powerful a word in the advertiser's lexicon than "new." When circumstances allow, make changes to the program to make it continually attractive.

The good news is that worksite wellness programs have been shown to reduce absenteeism, plus improve productivity. This mounting evidence indicates that worksite wellness should be part of every strategic plan.

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percentages based on grade received or course cost.

What are the cost caps? Many companies set an annual cap per employee. A study by Northern Virginia Community College found that the median annual per employee cap in the US in 2004 was $5,250. Some employers reimburse a higher percentage of public institutions' tuition cost to encourage use of lower-cost providers.

How will you motivate employees? Here's a surprising statistic: fewer than 10 percent of eligible employees nationally typically use tuition assistance benefits. One way to improve rates is to offer upfront payment rather than reimbursement, which can greatly increase participation. Also, as with any plan, greater internal advertising and support translates into higher participation.

Educational assistance is a great addition to almost any benefit program.

Back to School: The Facts on Educational Assistance

- Dissatisfaction with potential career development is the #2 reason to begin searching for a new job, behind compensation and benefits, according to the Society for Human Resource Management (SHRM).
- SHRM's 2004 Retention Study rated "career development opportunities"as the second most effective retention strategy (behind compensation).
- Eighty-eight percent of employers who offer educational benefits claim their programs are useful employee retention tools (International Foundation of Employee Benefit Plans).

Clarification: The September issue's article in HIPAA compliance said, "Employers must provide a certificate of creditable coverage when an employee leaves their employ." This is true for self-insured employers; however, an insured employer must notify the insurance company as soon as possible when an employee leaves, so the insurer can provide this document. We apologize for this misstatement.

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The Case for Employee Education Assistance

Investments in employee education can pay dividends in productivity and retention.

In lean times, education assistance programs (primarily tuition payment or reimbursement) are often among the first benefits organizations will cut. But new research shows that such programs pay back a handsome return on investment.

A study using data from 2,500 companies by the American Society for Training and Development shows a powerful connection between investments in employee development and company profitability. The study found an increase of $680 in a firm's training expenditures per employee generates an average 6 percent improvement per employee in shareholder return the following year.

Firms with per-employee training expenditures among the top quarter enjoyed 24 percent higher profit margins and a 218 percent higher income per employee than firms ranking in the bottom quarter of training expenditure per employee. Experts at the Wharton School of Business report that workers who use tuition assistance have a productivity rate above the typical market level and stay at their jobs longer.

In addition, offering an educational assistance program promotes learning and ongoing professional development. Tuition assistance can also help you create and develop a qualified, promotable pool of internal talent.

Perhaps most importantly, educational assistance can help attract new employees. The outplacement firm Hecht Harrison reports that 76 percent of job-seeking workers desire ongoing training in their next jobs, up strongly from 41 percent in 1999. Younger job applicants want such help the most. According to the Society for Human Resources (SHRM), education assistance is important to 20 percent of potential recruits under the age of 35, but only four percent of those over 55.

Since four out of five employers provide some sort of educational assistance, if you're not one of them, you may lose valuable new talent to one of these companies.

Setting up a Program

Like any program, an educational assistance program requires careful planning, perhaps even more so considering the hard cash expenditures required.

Here are a few considerations.

What is the business objective? Some courses are strictly job-related and therefore should correlate to a rise in productivity, skill or quality. Will you offer tuition assistance for partially related or non job-related skills? Many companies reserve this offering for managers and supervisors.

What are the eligibility requirements? Will your program be available only to full-time employees or part-time employees as well? Will you ask employees to cover a portion of the cost? What if the employee leaves your company shortly after the educational experience? One in four employers requires payback if the employee leaves within a specified time.

Will you ask to see the employee's grades? Many companies only pay for grades of C or better or set reimbursement

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New Federal Tax Law Eliminates IRA to Roth Income Gap

New federal tax law, effective in four years, will eliminate the $100,000 income cap for converting traditional IRAs to Roths. The new law will allow those with annual adjusted gross incomes of $100,000 or more to convert their traditional individual retirement accounts into Roth IRAs. Roths allow tax-free withdrawals after age 59 1/2 and five years after the initial contribution. Those who own traditional IRAs must pay income tax on distributions at retirement.

The elimination of the income limit for conversions doesn't kick in until 2010 and those who convert in 2010 don't have to pay the tax right away they can split what's owed over the first two years. If they convert after that, they have one year to pay the bill.

A Roth IRA has several advantages over its traditional counterpart. Because withdrawals are tax-free, owners never have to pay taxes on the capital gains earned in the account. There is no age limit for contributing to a Roth IRA and no required distributions. And those who inherit a Roth IRA don't have to pay income taxes on their withdrawals, a great estate planning tool because the IRA owner essentially prepays the taxes owed. ■