Employee Benefits Report

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Dental: Lots of Benefits for Little Money

While nearly all large employers (500+ employees) offer dental benefits, only 45 percent of employers overall offer this valuable coverage. If you don't offer dental coverage, here are some reasons to consider it.

Every employer wants a healthy, stable workforce. To reach that goal you may want to look beyond medical insurance to dental coverage. As it turns out, good dentistry is good medicine.

Dental coverage costs no more than 10 percent of the cost of medical coverage, and annual increases are much smaller — usually falling in the single digits. Even nicer, employees who have access to dental coverage tend to use it. Yet only 45 percent of large and small employers offer dental coverage.

Good dental care improves overall health

A study by Aetna Insurance Co. and Columbia University College of Dental Medicine found that people who received regular periodontal (gum) care had fewer problems with diabetes, strokes and coronary artery disease.

If you need more reasons to consider offering some form of dental coverage, evidence clearly shows that oral cancer, bulimia and other conditions, such as lung disease and low birth weight, are linked to oral health and are often first detected at the dental office. And the American Dental Association says more than 90 percent of medical illnesses, including cancer and HIV, show in the mouth. That means regular dental visits can lead to an earlier diagnosis of disease and perhaps a decrease in treatment costs. For these reasons, employers should be as concerned with their employees' dental health as with their medical health.

Coverage options

Employers can cover dental benefits in one of four ways:

✔ Dental indemnity (insurance) plans transfer financial risk from the employer to a third-party insurer. The employer pays a specified premium and the insurer reimburses dental providers on a fee-for-service basis. Dental insurance requires regular premium payments and carries annual spending caps. Generally, it covers 100 percent of the cost of preventive services after a deductible is met. HMO and PPO versions are available.

✔ Direct reimbursement plans are self-funded plans in which the employer pays for dental care. The employee pays up front and then presents the receipt for reimbursement. This form of benefit is usually capped at $500-$1,500 annually. Employers can administer these plans in-house or hire a third-party administrator to handle paperwork.

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This Just In

Employment-based health plans covered 62 percent of U.S. workers in 2005, according to the nonpartisan Employee Benefits Research Institute (EBRI). That was fewer than in 2004, when 64.4 percent of American workers were covered.

The numbers rose and fell differently in different industries and occupations during that period. The list below shows EBRI's coverage figures by occupation for 2005 and 2004:

- Managerial and professional specialty: 66.5 percent, 66.8 percent in 2004
- Service: 35.4 percent, 35.5 percent
- Sales and office: 51.8 percent, 51.8 percent
- Farming, fishing, forestry: 24.2 percent, 23.9 percent
- Construction, extraction, maintenance: 47 percent, 48.3 percent
- Production, transportation, material moving: 56.2 percent, 57.6 percent

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.

Cash balance plans have received some negative press lately. They have been the subject of several suits filed by older workers claiming they were discriminated against when their employers converted traditional defined benefit plans to cash balance pension plans.

Yet, these plans can have advantages for employers. And there are steps you can take to help protect yourself from being sued over your decision to convert.

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 to cash balance plans

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 may leave more cash in the company coffers.

How do cash savings happen?

1 Since benefit accruals remain flat, the early retirement subsidy of traditional plans disappears.

2 Employees who leave the company before they are vested forfeit their account balance. For any conversions that occur now, rules require employees to be vested after three years.

3 When traditional pensions are converted to cash balance plans, the employees' traditional pension fund balance becomes the basis for the cash balance plan. Since traditional plans gained most of their growth in the final years of an extended period of employment, the growth is reduced, reducing the payout of benefits in retirement.

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 two years ago that most workers receive lower retirement benefits after a conversion, regardless of their age at the time of the conversion. Yet, the reaction of older employees prompted a high-profile lawsuit against IBM.

Employees of IBM sued because they felt they would suffer reduced benefits when IBM decided to convert to a cash balance plan in 1999. An appeals court ruled in August 2006 that IBM had not discriminated against its older employees.

IBM started out by allowing individuals within five years of retirement to stay with its traditional pension plan. The objections came from employees who had been with the company for years but were still more than five years from retirement. IBM eventually allowed employees who were at least age 40 and had 10 or more years of service to remain in the old plan.

Minimizing the litigation risk

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.

Since the litigation has stemmed from conversions, starting a cash balance plan from scratch carries little similar risk.

If you are converting to a cash balance plan, there are things to consider. The law requires plans to treat each member of any given class of employee equally, although there is

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✔ Voluntary group plans allow an employer to arrange group rates for employees. Those employees who want coverage pay the full cost, usually through payroll deduction. With the addition of a premium conversion cafeteria plan, employees can enjoy a 25-40 percent tax savings on their contributions toward the premium.

✔ Discount dental plans offer discounted services from a group of dentists who have agreed to provide discounts. The patient pays the dentist's bill. These programs are not insurance plans and, in most states, they are not licensed.

The coverage

Dental plans usually cover seven areas of care, although they may not all be covered during the early months of the policy and some may be offered as riders. They are:

- ✔ Preventive care, including cleaning and routine office visits
- ✔ Restorative care, including fillings and crowns
- ✔ Root canals
- ✔ Oral surgery, including tooth removal
- ✔ Orthodontics, including retainers and braces
- ✔ Periodontics, or care of gums and surrounding tissues, including scaling and care for serious infections
- ✔ Prosthodontics, or dentures and bridges

A popular benefit

A study by Delta Dental underwriters indicated that employees with dental benefits that cover preventive care use more diagnostic and preventive services than people who are uninsured for those services.

That does more than help to stave off medical ailments; it is good news for dental costs too. In a study involving millions of Californians, Delta found that claims for fillings, oral surgery, crown and cast procedures, and partial or full dentures dropped when people took advantage of preventive care coverage.

A growing interest

Benefits that cover the cost of orthodontic work are becoming more popular as the emphasis on appearance grows. Employees perceive orthodontic coverage to have high value, even though a very low percentage of workers actually use it.

Traditionally, orthodontic coverage has excluded adults, but that began changing in the mid 1990s as demand for adult orthodontia began to grow. Adult interest took another leap with the introduction in 1999 of the Invisalign. Because Invisalign's clear plastic snap-in retainers are more expensive than conventional tooth straightening hardware, insurers began raising coverage caps. Still, orthodontic coverage increases the price of dental benefits by only about 8 percent.

For more information on your options for covering dental care, please contact us. ■

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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.

Of 'wear-away' and 'whipsaw'

Two situations that can arise during conversion are referred to as "wear-away" and "whipsaw." Here's a description of each:

"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.

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"Traditional" pension plans vs. cash balance plans

The two traditional retirement plans are defined benefit plans and defined contribution plans. In general, defined benefit plans provide a specific benefit to employees throughout retirement, while defined contribution plans spell out the amount of the contribution to an employee's retirement account.

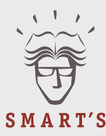
A retiree's payout from a defined contribution plan hinges on the amount of the contributions and how well the account investments have performed. For a typical defined benefit plan, the employee benefit is based on final average salary and years of service. They are typically paid out as an annuity.

Cash balance plans are hybrids, combining some features of a defined benefit plan with some features of a defined contribution plan. They are insured by the Pension Benefit Guaranty Corporation and must comply with defined benefit plan rules.

Typically, a participant's account is credited each year with a percentage of their income and an "interest credit," the Department of Labor says. Increases and decreases in the plan's investment value do not affect the amount of the benefit payment that is promised to the employee.

These plans state the promised retirement benefit in terms of a hypothetical account balance. An employee's account is not held separately. All such accounts are invested as one.

At retirement, employees may opt to take a lump sum payout. They also may take their accumulated amount if they leave the company before retirement age, as long as they have been there long enough to become vested. ■



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Managing Paid Time Off Policies

In an era when "work-life balance" has become a buzz phrase, paid time off policies are more important than ever.

Employees place tremendous value on paid vacation and time off. A MetLife Inc. study three years ago showed that 64 percent of those surveyed valued paid time off more than small pay increases, employer-funded pension plans, disability insurance, life insurance and long-term care insurance.

Employers should value it too. Time off recharges workers, bringing them back to the job with energy and creativity bolstered. It also helps maintains their physical and mental health.

Having a solid paid time off policy in place can help hire and retain good employees. Managing it well can help you contain your costs.

One approach to managing costs

PTO (paid time off) banks began to appear in the 1990s and have been spreading ever since.

They lump sick days, holiday time and personal days into one bank of available paid time off. The cost advantage to the employer comes from better being able to handle absences because they are planned. Workers schedule time off for attending school soccer games instead of calling in sick at the last minute.

With that extra warning you may be able to avoid using overtime hours to replace the missing worker.

PTOs reward healthy workers by giving them sick days they can use as vacation time. Critics point out that employees may be more inclined to come to work when they are sick because they see their banked days off as vacation and are reluctant to use them; however the reaction of employees has generally been good. They like having the ability to manage their own time off.

Although taking a planned day off here and there will not bring the same R&R benefit as an extended vacation, it's not hard to imagine that a company culture that encourages planned absences will suit most employees just fine.

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The Pension Protection Act addresses the issue of "wear away," saying conversion can no longer 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 more information on your various retirement plan options, please contact us.

How to Get Employees to Take Insurance Benefits

A Kaiser/HRET Employer Benefits Survey showed a direct correlation between the percentage of pay required to cover premiums and the number of workers who take health insurance through their employers: The higher the percentage, the fewer takers.

Although the study showed a wide range of pricing, the average price of coverage in 2006 for a single person was $4,242. It was $11,480 for a family. The average annual employee contributions during the same period were $627 for single coverage and $2,973 for family coverage.

The 2005 and 2006 survey results indicated that the effect of rising employee costs on take-up rates is more pronounced for family coverage. The foundation suggests the possibility that workers with families may scale back to single coverage when family coverage appears unaffordable.

The study also found that 11 percent of workers decline coverage even when it is free. The foundation points out that they may have access to more attractive coverage through family members who work elsewhere. The survey also points out that low-wage workers who simply can't afford the premiums become uninsured when they decline coverage.