Employee Benefits Report

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Benefits Administration | **August 2007** | **Volume 5 • Number 8**

How Benefits Can Ease the "Talent Drain"

The retirement of our biggest generation, the Baby Boomers, has begun, and companies are already feeling the effects.

That is the conclusion of a survey, conducted by Buck Consultants, World at Work and Corporate Voices for Working Families. These organizations analyzed responses from 487 organizations in a broad range of industries in a report, "The Real Talent Debate: Will Aging Boomers Deplete the Workforce?" released in June.

The extent of the problem varies by industry. Some industries—such as manufacturing and technology—view Baby Boomer retirements as less of a problem than the healthcare and oil and gas industries do, according to the survey results. Yet 42 percent of all respondents said the aging workforce is a significant issue, with half of the 42 percent saying a majority of their mature workers would be eligible to retire in the next five to 10 years. Half also said they already are suffering a shortage of skilled workers in their industry.

When it came to identifying the most significant threat, 52 percent of respondents said it was the departure of mature workers, 41 percent said it was the loss of middle management and 39 percent pointed to the exodus of technical talent and knowledge workers.

To slow the talent drain, companies report they are trying to hang on to their workers after they are eligible for retirement:

- 48 percent offer flexible work schedules, and another 23 percent plan to adopt them
- 42 percent are offering consulting assignments
- 47 percent are offering phased retirement, or considering it
- 43 percent are offering alternative job design, or considering it.

Another survey found that employers interested in retaining their older workers might not have problems doing so. According to researchers Sewin Chan and Ann Huff Stevens in their paper, "Is Retirement Being Remade?" fully one-third of baby boomers and other workers are returning to "some level of employment." They found that the "partially retired" are working about 16 hours a week for 40 weeks a year in order to afford their retirement.

When ranking the factors that influenced their decision on whether/when to retire, 93 percent of respondents to the 2005/2006 MetLife Employee Benefits Trend Study ranked "financial reasons" as very significant, followed by the 80 percent who held "the need for medical/other benefits" very significant.

If you want to retain older workers, it therefore makes

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This Just In

Health benefit cost increases should return to the single digits in 2008. PricewaterhouseCoopers LLP, a consulting firm, predicts medical cost increases of 9.9 percent for preferred provider organizations (PPOs) and health maintenance organizations (HMOs)/point of service plans (POSs)/exclusive provider organizations (EPOs); and 7.4 percent for consumer-directed health plans. This compares to estimated increases of 11.9 percent, 11.8 percent and 10.7 percent, respectively, for 2007.

PwC says four factors leading to lower healthcare costs should translate into lower benefit cost increases for employers and insurers in 2008. These four factors are: "…slower spending growth for prescription drugs, increased transparency and cost sharing with employees, a total-health-management approach to benefits and [b]roadening of the digital backbone in healthcare."

The Democrats Weigh in on Healthcare

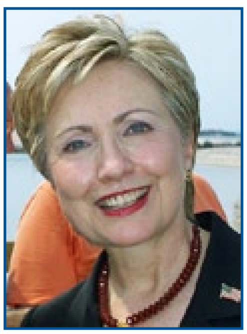
In this article, we'll look at the health care ideas of the three leading contenders for the Democratic party's presidential nomination. But first, here is a brief recap of the president's plan, as outlined in his 2007 State of the Union address:

Bush believes the tax-free employer-paid benefits we have today should be replaced by a standard tax deduction of $7,500 for an individuals or $15,000 for a family. Anyone who buys health insurance would receive the deduction, regardless of how much coverage they purchase. Although his tax proposals appear unlikely to go anywhere, the Bush administration has promoted health savings accounts (HSAs) as a way for individuals to take greater charge of their own health care.

It is still very early in the presidential election season, but already the three leading Democratic candidates have proposed health care reforms – a sure sign that reform will be a hot issue between now and the 2008 election.

"Having a plan for universal coverage is the price of admission into the Democratic primaries," Paul Ginsberg, president of the Center for Studying Health System Change, told the American Medical Association. The center is a non-partisan health care research organization.

Hillary Rodham Clinton



The Henry J. Kaiser Family Foundation, a non-partisan health-care research organization, culled reports from leading newspapers across the country to document what the Democratic contenders are saying about the subject. The following is derived from on its Web site, kaisernetwork.org.

When Sen. Hillary Rodham Clinton (D-N.Y.) was a new First Lady, she unsuccessfully tried to reform health care at the beginning of the presidency of her husband, Bill Clinton.

"Now, I've tangled with this issue before, and I've got the scars to show for it," Clinton said in May. "But I learned some valuable lessons from that experience. One is that we can't achieve reform without the participation and commitment of health care providers, employers, employees and other citizens who pay for, depend upon and actually deliver health care services."

Clinton is now tangling with the problem again and, although her plan remains a work in progress, she said last month that she was proposing a cost-cutting plan that would save $120 billion annually. Plans to improve quality of care and implement universal coverage will be coming.

Clinton's cost-cutting proposal has seven elements:

- ✔ A "preventive initiative" to reduce chronic diseases, such as diabetes
- ✔ Implementation of electronic medical records
- ✔ An overhaul of the way those with chronic illness are cared for
- ✔ An end to insurance "discrimination," a result of requiring insurers to accept anyone regardless of the condition of their health, and prohibiting them from charging higher rates to those with medical problems
- ✔ Legalizing the purchase of lower-cost prescription drugs from other nations, and requiring Medicare to negotiate lower drug prices
- ✔ Instituting "common sense" changes to the medical malpractice system
- ✔ Establishing a public/private best practices institute to pay for research comparing the efficacy of various treatments.

Barack Obama

Sen. Barack Obama (D-Ill.) announced a proposal in May. He would require health insurance for children, but not for adults. Obama says his plan would save the average American family $2,500 in health insurance costs.

Some highlights of Obama's plan, gathered from kaisernetwork.org and his campaign Web site, barackobama.com:

- ✔ All but the smallest employers would have to offer health insurance or pay a percentage of their payroll into a federal fund that would provide coverage.
- ✔ A public health plan would allow individuals and small businesses to buy affordable health care similar to the coverage available to federal employees, with no one turned away or charged higher premiums because of illness. A subsidy would be available for those who cannot afford premiums.
- ✔ A national health insurance exchange would be established. Anyone could enroll in participating private plans, which would be required to offer comprehensive coverage, insure everyone who applied and charge fair and stable premiums.
- ✔ Cash would be set aside to improve the health care industry's technology by doing such things as establishing an electronic system for health records.
- ✔ A reinsurance pool would be set up to pay for catastrophic conditions.
- ✔ There would be a focus on preventive care.
- ✔ Medicare and the State Children's Healthcare Insurance Program would be expanded.
- ✔ Federal regulations governing mergers between health insurers would be strengthened.

"It's time to bring together businesses, the medical community and members of both parties around a comprehensive solution to this crisis, and it's time to let the drug and insurance industries know that while they'll get a seat at the table, they don't get to buy every chair," Obama said in May.

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Active Workers Can Collect Retirement Benefits, Says IRS

The Internal Revenue Service has issued new rules for pension distributions and to define "normal" retirement age.

The Internal Revenue Service has issued final regulations that allow a company to begin paying retirement benefits to an employee who is still working for the company as long as the worker has reached the company's normal retirement age.

The new rule applies to defined pension or money purchase retirement plans and goes into effect May 22, 2007.

The regulations define "normal retirement age" under a qualified pension plan as an age "…that is not earlier than the earliest age that is reasonably representative of the typical retirement age for the industry in which the covered workforce is employed." They also create a "safe harbor" for plans that define normal retirement age as 62 or later. For certain public safety workers, the safe harbor is age 50, "…if substantially all of the participants in the plan are qualified public safety employees…"

Buckconsulting.com, the Web site of Buck Consultants, a human resources consulting firm based in New York City, offers these insights on the IRS guidelines for normal retirement age:

- **A normal retirement age of 62 meets the requirements.**
- **If an employer sets normal retirement age at an age between 55 and 62 because it meets the industry standards, it is acceptable as long as evidence supports the decision.**
- **A normal retirement age below the age of 55 will require a determination by the IRS, except for public safety employees, for whom a normal retirement age of 50 is presumed typical.**

Most plan sponsors will be in compliance with the new standards for normal retirement age, according to buckconsulting.com. But the firm points out that some plan sponsors – particularly those with cash balance and hybrid plans – may need to redefine their normal retirement age in order to avoid plan disqualification. For assistance with your pension plan administration, please call us.

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Obama's campaign has distributed a memo written by three outside experts who say his plan would cost an extra $50 billion to $65 billion a year once it was fully in force.

A large part of that cost, the memo said, would be paid for by letting the tax cuts offered to individuals with annual incomes of more than $250,000 expire on schedule in 2010. The memo said Obama would also like to raise taxes on inheritances of more than $7 million in order to help pay for his reforms.

John Edwards

Former North Carolina Senator John Edwards says his goal is to provide health insurance for every American by the year 2012. Edwards says he will require all Americans to acquire health insurance, but not until several things have been accomplished. According to Edwards' Web site, johnedwards.com, they are:

- ✔ Requiring all employers to either provide health care coverage or help pay for their employees' health insurance.
- ✔ Improving the affordability of health insurance by creating new tax credits and expanding Medicaid and the State Children's Healthcare Insurance Program. He also says he will work to reform insurance laws and take "innovative steps" to contain insurance costs, but does not spell them out.
- ✔ Creating regional health care markets or purchasing pools that would provide affordable, high-quality health plans, increase an individual's choices and cut costs for businesses that offer health coverage.

Edwards says these steps will ensure that families that have no insurance now could get coverage at affordable prices, that currently insured families would pay less and have more coverage choices, and that businesses will have cheaper alternatives and find it easier to insure their employees.

Drew Altman, president and CEO of the Kaiser Family Foundation, told the AMA that most of the Republican candidates have yet to enter the healthcare discussion. As the election draws closer, we will keep you posted on the major candidates' positions on this important issue.

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sense to offer benefits they are interested in. The MetLife study found that the most important benefits to mature workers relate to their financial security—including disability insurance and long-term-care insurance, along with financial planning advice and protection products. The survey found that more than half (56 percent) of older employees would like to have access to financial planners through the workplace to help them invest their 401(k) money.

How effectively your benefits are doing the job of recruiting and retaining talented workers depends on a lot of factors, including the ages, family status, education level and mobility of your workers, along with your industry and geographic region. An analysis of your benefit programs and how they stack up against your competitors' can help you get the most from your benefit investment. For more information, please call us.

‘Medical Tourism’ a Growing Trend

More and more American patients are going overseas for procedures at a fraction of the cost they would pay in the U.S. Should employers consider sending workers overseas for surgery?

A new term describes a growing practice of Americans seeking to save money by obtaining treatments overseas: medical tourism.

So far, mostly the uninsured and the under-insured have bought in, but insurers are starting to pay attention and some are preparing to offer an option of overseas treatment. And several small companies that arrange medical travel have started to develop programs that target employers, according to *USA TODAY.*

“Employers will be very cautious about this,” Mike Taylor, a principal at benefits firm Towers Perrin, told *USA TODAY.* “Smaller employers will try it. The big employers will wait.”

Still, some benefit consultants think the practice will continue to grow, according to Fortune Small Business magazine.

The appeal to employers is understandable. Treatments abroad can cost as little as one-third of the price in the United States. The National Coalition on Health Care says annual health care spending in the U.S. has been increasing two to five times the rate of inflation since 2000.

Countries like India, Thailand and South Africa have noticed and are promoting fancy hotels for recuperation. Some are spending billions to improve facilities for visitors, according to *USA TODAY.*

Carl Garrett is a test case for his employer, Blue Ridge Paper Products Inc. in North Carolina. Garrett will undergo two operations in New Delhi, news reports say. The price in the United States: $100,000. The price in India: $20,000. Garrett will share in the savings. He will pocket $10,000 instead of incurring the $20,000 debt he would have faced if his surgeries were performed here, according to the *Christian Science Monitor*.

According to *Fortune Small Business*, the top six medical tourism destinations and their specialties are:

1. **Brazil:** Dentistry
2. **Costa Rica:** Dentistry
3. **India:** Hip replacements and heart surgery
4. **Singapore:** Knee replacements
5. **South Africa:** Cosmetic and reconstructive surgery
6. **Thailand:** Cardiac, orthopedic, and spinal surgeries

At this point, medical tourism poses many problems, both logistical and legal. For example, even in a successful surgery, patients require follow-up care. Who will handle the follow-up and where? Will your insurance pay? And if the hospital or surgeons are negligent, your employees will be at the mercy of foreign liability laws and court systems, which are frequently much weaker than those in the U.S. and Canada. If you as the employer have paid for the surgery and something goes wrong, what is your liability?

We’ll continue to watch medical tourism and other developments. But for suggestions on things you can do to control your healthcare costs now, please contact us for more information.

Show Them the Money

The Society for Human Resource Management’s (SHRM) 2007 Job Satisfaction Survey Report, released in late June, found a disconnect between what human resource professionals thought was important to employee job satisfaction and the factors that employees themselves rated as important to job satisfaction.

The human resource professionals surveyed rated the top five factors as: 1) relationship with immediate supervisor; 2) compensation/pay; 3) management recognition of employee job performance; 4) benefits; and 5) communication between employees and senior management.

However, employees themselves ranked compensation and benefits as the two most important factors influencing whether they like their job. They rated the following five factors as “very important” to their job satisfaction: compensation/pay, benefits, job security, flexibility to balance work/life issues and communication between employees and senior management.

Susan R. Meisinger, president and CEO of SHRM, said “It should come as no surprise that employees remain concerned about their compensation. With the rising costs of health care premiums and prescription drugs, employees know they need to put more of their money toward covering health care and retirement.”