Employee Benefits Report

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Give Your Employees More Retirement Security with a 401(k) Guarantee

Insurance companies have been offering guarantees for 401(k)s for some time in the form of an annuity embedded in the 401(k) plan, but now something new is coming on the market, according to an article in *Benefits Quarterly* (Second Quarter 2007).

The guaranteed 401(k) plan carries no additional costs for plan sponsors and gives them a way to let employees create a retirement fund protected from market losses. A 401(k) guarantee guarantees minimum payouts after retirement while allowing the account to continue to gain value.

Here's how a 401(k) guarantee works:

Once an employee elects a 401(k) guarantee, he makes contributions to the plan just as he would to a standard 401(k), but pays an annual fee for the guarantee – usually between 50 and 90 basis points, or 0.5 to 0.9 percent of the account balance. On an account balance of $10,000, that would range from $50 and $90 per year.

The provider uses the collected fee to cover itself against a drop in the market by buying a hedge, a financial instrument whose value rises when the stock market falls.

A 401(k) guarantee also requires that the employee's fund be diversified, with no more than 60 percent or 70 percent in equity funds.

If an employee has $10,000 in a 401(k) when he elects the guarantee, he starts with a guaranteed withdrawal balance of $10,000. It will never go any lower.

As he makes contributions and his account shows positive earnings, his withdrawal balance rises dollar for dollar. So, in the first year, if he contributes $1,000 and has earnings of $500, his withdrawal balance at the end of the year is $11,500. The earnings portion of the withdrawal balance increase is calculated annually.

If in the second year he contributes another $1,000 and loses $3,000 to a market downturn,

GUARANTEE—continued on Page 3

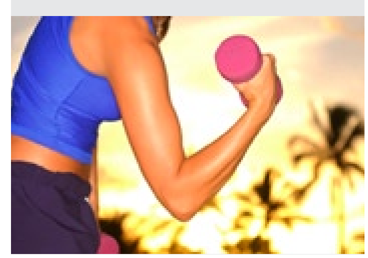
This Just In

Want to encourage employees to take better care of themselves? Try cash.

Three years ago, Swiss Village Retirement Community, a nonprofit in Berne, Ind., switched the 120 employees eligible for its health plan from a $500 annual deductible to $2,500, according to a report in *USAToday*. The employees also got a supplemental policy that granted them credits in $500 annual increments if they controlled their weight, refrained from smoking and maintained healthy cholesterol and blood pressure levels.

The cost of providing benefits dropped from 11.5 percent of wages to 9.1 percent in the first year, Swiss Village executive director Daryl Martin told *USAToday*. It has since dropped to 7.5 percent.

Part of the drop, he said, is attributed to the higher deductible, but improved employee health also contributed.



How Strong Benefit Programs Boost Recruiting

In a world where 88 percent of employers expect the competition for employees to increase or remain steady during the next 18 months, and the huge baby boomer generation has begun to retire, an organization's ability to compete for talent could make a critical difference to its future.

For the first time, employers surveyed cited "retaining employees" as their primary benefits objective in the fifth annual MetLife study of employee benefit trends. "Controlling costs" — the leader in prior years — came in second, followed by increasing productivity, increasing job satisfaction and attracting employees.

Benefits can play an important role in employee retention. The study found a strong correlation between benefits and happy employees. Eighty percent of the employees who told surveyors they were "highly satisfied" with their benefits also said they had strong job satisfaction, and 72 percent said they felt a strong loyalty to their employers.

Focus on older workers growing

Demographic trends indicate that there will be fewer young workers entering the workforce in coming years, making retaining older, experienced more important. Employers surveyed are broadening their benefit packages to include benefits attractive to these workers. In fact, many companies extend some benefits to retired employees: 31 percent offer health insurance, 22 percent offer life insurance and 18 percent offer dental insurance. Sixty-three percent of the companies surveyed said they expect to increase what they spend on retiree benefits in the next five years.

On the flip side, only 18 percent of employers have supplemented their benefit programs with simple, inexpensive resources and programs geared toward older workers, such as eldercare information and referral services, eldercare support groups or caregiver resource guides.

The study report recommends analyzing the offerings of other, comparable employers to see what they are offering retirees. "Extending benefits to retirees may increase costs," it said, "but it might also be a competitive necessity."

Employee needs create opportunities for low-cost benefit programs

The survey also queried employees regarding their benefits and overall financial situations. Their responses indicate a lack of confidence in their financial knowledge and insecurity about their retirement savings:

- Only 28 percent of the employees surveyed said they felt confident about making their own financial decisions.
- Only 11 percent of those 61 and older said they are financially ready for retirement, the report says, while 31 percent said they are significantly behind where they had hoped to be.
- Only 5 percent of those ages 41 to 60 said they have reached their retirement goals. Twenty-seven percent said they are behind schedule and only 20 percent said they are on track.

This opens an opportunity for employers willing to add financial education or financial planning services to their benefit program.

Flexibility

Employees value benefits they can tailor to their own needs. Cafeteria and consumer-directed plans can help in this regard.

Cafeteria plans allow employers to withhold a portion of pretax salary to pay certain medical or childcare costs or to pay premiums for a range of insurance products. For the past three years, the MetLife survey has found that about 33 percent of employers offer cafeteria plans.

Consumer-driven health plans give the employee more control and an incentive to spend less. Their premiums are lower, their deductibles are higher and they often include health savings accounts into which employees deposit cash to cover medical expenses. Health savings accounts roll over and keep accumulating value if the money goes unspent. Yet 74 percent of employers and 90 percent of employees are not familiar with them, according to the study.

Get employee input!

The report's findings also pointed out the importance of getting employee input when designing and communicating about benefits. For example, 58 percent of the employees said they valued being able to get health insurance without undergoing a physical exam, while only 40 percent of employers considered that a key advantage.

The lesson here is that employers need to know what matters to their employees so they can better explain the advantages of a benefits program. Only 33 percent of employees told survey takers that communications from their company helped them select the most appropriate benefit options.

"A company's ability to communicate the value of its benefit plans to employees may have a big impact on employee satisfaction," the report says. "Employers can maximize the effectiveness of benefits without substantially increasing costs through clear communication of their intrinsic value."

For assistance in tailoring your benefits program to your employees' needs, please contact us.

Troubleshooting HSA Enrollment

Kelly Racca, an account manager for Shew & Company Inc., an independent insurance brokerage, said she was "shocked" the first time a bank refused to open health savings accounts for some of the employees at the company she was working with.

As always, Racca had met with the employees and explained the high-deductible health insurance plan the company had decided upon and outlined the HSAs that went with it. The employees filled out the paperwork; Racca bundled it and sent it to the bank.

The problem occurred when the bank ran the employees' information through a database and discovered that some of the workers had a history of bounced checks, insufficient funds and closed accounts. The database can contain as much as 10 years' worth of information, Racca said.

"These people just have a record of sticking the bank with the money," she said.

Since the HSAs they were applying for came with a debit card-like system for making withdrawals, the employees' financial history put the bank at risk. It declined to open the accounts.

That sent Racca and the employer scrambling for alternatives.

In the meantime, the bank told Racca and the employer that some of the workers had been declined, but it would not indentify them, citing confidentiality. The employer sent a letter to everyone who had applied for an account telling them they might get a letter from the bank notifying them of the problem and asked them to let the company know so alternative coverage could be arranged.

Then they waited.

Eventually, everyone came in for help, but Racca decided it would be better to avoid the problem in the first place.

Now, when she explains the HSA plan, she mentions that the bank is likely to do a check on the workers' financial histories and, if they have had problems within the last 10 years, will likely decline to open accounts for them. She also makes sure there are alternatives in place, such as an HMO or a health reimbursement account, just in case.

Some non-banks also offer HSAs, Racca said, and they may not run a check on the employee's financial history, but their fees are usually much higher.

Usually, she says, employees who know they have had financial problems in the past will choose one of the alternatives and forego the HSA in the first place. That saves them the embarrassment of having to come in and admit they were declined – but it also saves Racca and the company from having to make the nerve-racking eleventh-hour saves.

GUARANTEE—continued from Page 1

his withdrawal balance rises by the $1,000 in contributions to $12,500, even though his actual account balance is only $9,500. And so it goes until the employee is ready to retire.

A 401(k) guarantee allows an employee to retire on schedule, even if the market collapses just before his retirement date. And the employee continues to build assets through earnings even as he is withdrawing monthly payments.

At retirement, the employee decides between taking a set amount each month from his withdrawal balance until it is exhausted or taking a monthly withdrawal for the rest of his life. The one thing he cannot do is take the withdrawal balance in a lump sum.

If the employee elects set annual withdrawals, they continue until the withdrawal balance is depleted. Any earnings that were added to the account while the withdrawals were being made can then be used any way the employee desires.

If the employee elects lifetime payments, a formula determines what those withdrawals will be. The calculation takes into account the employee's personal circumstances and can be figured as a single life or joint-and-survivor calculation.

In fact, one consultant says hybrid plans like the 401(k) guarantee only became a possibility in the last few years as technology advanced and the ability to do these complex computations grew, and the understanding of risk management expanded and matured.

Adding a 401(k) guarantee to your plan can create a win-win situation for you and your employees. The guarantee costs the employer nothing and makes 401(k) participation more attractive to employees by protecting them from two traditional 401(k) risks: market decline and their own longevity.

For more information on 401(k) guarantees and other 401(k) features, please call us.

Correction: In the July issue, the COBRA story text read: You are required to provide extended health coverage if your group health plan covered 20 or more employees for more than 50 percent of typical business days during the previous calendar year. It should have read: You are required to provide extended health coverage if your company employed 20 or more people for more than 50 percent of typical business days during the previous calendar year. We regret the error.

Controlling Prescription Costs: When Cost-Sharing Doesn't Work

Increasing employees' out-of-pocket prescription expenses could end up costing you money in the long run, according to a recent study.

Shifting more of the costs of prescriptions drugs to employees can end up bringing on additional employer costs. That's the conclusion of a study by the Integrated Benefits Institute, a national nonprofit membership organization.

When co-pays rise, fewer people fill their prescriptions and disability claims rise while productivity suffers, the study report concluded.

"It is unfortunate that workers make medical decisions based on price and cost shifting rather than a physician's advice," the report says.

The institute studied a database of more than 1 million employees covered through 17 employers to analyze the effects of increasing the employees' out-of-pocket expenses for prescription medicine.

Specifically, the group looked at 5,483 employees with rheumatoid arthritis because, the institute said, there are both clear guidelines for drug therapy for this disease and a strong correlation between the disease and work disability.

Two types of drugs are used to treat rheumatoid arthritis, those that treat symptoms and those intended to modify the disease itself.

Researchers noted that the National Committee for Quality Assurance, a nonprofit organization involved in setting standards within the healthcare industry, says that 80 percent of those with rheumatoid arthritis should be taking drugs to combat the disease. Instead, only 45 percent fill at least one prescription for that purpose.

When a co-pay increase of 20 percent is introduced, the number of people filling those prescriptions drops 35 percent, according to the study report. The head count for those filling prescriptions to relieve symptoms drops 84 percent, but researchers note that over-the-counter meds are available to help combat symptoms.

Employees who do not fill prescriptions for drugs to combat the disease are 36 percent more likely to become disabled and remain disabled 6 percent longer than those who fill at least one prescription, the institute reports.

The increased disability costs employers $3.2 million in lost productivity, while the extended disability periods cost another $1.2 million, the report concludes.

Employers who want to control their prescription drug costs have several options for structuring plans to keep a lid on costs, without discouraging employees from filling needed prescriptions. For more information, please contact us.

IRS to issue guidance on HSA rules

The IRS is proposing rules that apply to two situations that come up with health savings accounts. The first concerns when an employee fails to establish an HSA — or report a new HSA to the employer — by Dec. 31.

The new rules will require that an employer notify all employees who have not reported an HSA to the employer that they have until the end of February to set up an account and report it. The notification must be sent by Jan. 15 and must make it clear that matching contributions depend on compliance. The employer then will have until April 15 to make the past-due matching contributions, including reasonable interest.

The second clarification involves the requirements for an employer who wants to speed up contributions to an account because an employee has medical expenses that exceed the balance.

The new rules give the employer the ability to make early contributions up to the annual limit if the employee has expenses in excess of the balance. The rules apply only to the employer's contributions — employee contributions can not be fronted. Early employer contributions will be voluntary, but everyone has to be treated equally. So if you accelerate contribution for one employee, you must accelerate them for all.

For more information, see the IRS site at www.irs.gov/irb/2007-26_IRB/ar15.html.