

This edition of the Employee Benefit Update is devoted to highlighting news and trends in employee, retirement, and executive benefits, as well as in Human Capital (HC) management. These topics will be covered in more detail in other media throughout the year.

EMPLOYEE BENEFITS: A YEAR OF CHANGE

2006 saw the introduction of significant changes in **health and welfare benefits**, especially in the realm of Consumer-Directed Health Plans (CDHPs). The Tax Relief and Healthcare Act of 2006 introduces Health Savings Account (HSA) product enhancements that may provide more flexibility for the consumer. Highlights of the Act include:

- ▶ Full-year contributions for mid-year enrollees
- ▶ New, one-time HSA funding opportunities
- ▶ HSA contribution maximums are no longer impacted by healthcare plan deductibles
- ▶ Earlier reporting of COLA and contribution requirements
- ▶ Higher HSA employer contributions for the non-highly compensated

Additionally, healthcare data transparency and employee education resources are increasingly relevant elements in an effort to educate employees on the true cost of healthcare benefits. As CDHPs become more prominent, health advocacy services and data analytics will too.

Wellness programs have been introduced as part of employee benefits plans in recent years, and are often paired with CDHPs. Important ongoing considerations for these programs include:

- ▶ Educating individuals about their health so they can develop a correction plan for their personal "health crisis"
- ▶ Considering Return on Investment

(ROI) in broader terms: Employers may start by determining a set of employee risk factors and working to reduce these risk factors over time

- ▶ Utilizing "integrated" versus activity-based wellness programs: Wellness considerations need to be worked into the employee culture all year around, as one-time, activity-based programs usually suffer low attendance—and low long-term use
- ▶ Identifying the three primary populations (acute, chronic, and "unaware") that drive healthcare costs: Then build individual wellness/disease management programs around each of these populations to have full impact on health, productivity, absenteeism, and, ultimately, costs



While the healthcare crisis continues to fuel growth in employee-funded products overall, the number one reason employers add **voluntary benefits** products continues to be in response to expressed employee interest.

The effects of cost-shifting have specifically manifested in a spike in the growth of voluntary products that supplement core medical and disability coverage, including:

- ▶ Dental
- ▶ Critical Illness
- ▶ Specified Disease
- ▶ Hospital Supplement
- ▶ Voluntary Disability
- ▶ Limited Medical

Additionally, the aging workforce is creating pressures in the areas of health insurance and disability income protection, which is propelling **disability insurance** back into the prominence it once held.

As group disability rates are based on the claims experience of the group, employers are now shifting a portion of employee disability coverage to supplemental policies to help stabilize these rates. In this recent scenario, they initially offer employer-paid base plan and provide employees the opportunity to personally "buy up" further coverage. This supplemental approach helps provide flexible coverage for employees while helping to control employer's cost.

You have to look at the past to see the future of **long-term care (LTC) insurance**¹. Compound inflation and lifetime benefits have been very popular choices among LTC producers and their clients. Unfortunately for carriers, these are the two riskiest choices that can be purchased, as they provide an ever-increasing benefit for an unlimited time frame. Actuaries find this worrisome, and are looking to limit (or at least quantify) their risk.

The new products coming into the market will do exactly that. One LTC carrier introduced a new product in late 2006 which eliminated compound inflation and lifetime benefits. It still covers most risks with an option of a 5 year plus \$1 million pool of money—but with a limit. Additionally, its automatic inflation feature is tied to the Consumer Price Index (CPI) instead of the compound inflation rate. Continuing the trend, at least two other carriers are introducing similar products in the early part of 2007.

RETIREMENT AND EXECUTIVE BENEFITS: MAXIMIZING FUTURE OUTCOMES

The big news in **retirement benefits** is the passage of the Pension Protection Act (PPA) of 2006 on August 17, 2006.

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What's New in Employee Benefits for 2007

Highlights of this landmark legislation include:

- ▶ EGTRRA savings incentives permanency: Includes higher employer deduction, higher compensation and 415 limits, Roth(k), catch up contributions, savers credit indexed for inflation, and expanded portability provisions
- ▶ Simplified employer contribution vesting schedules: At least as rapidly as a three year cliff or six year graded
- ▶ Automatic enrollment incentives: Including nondiscrimination testing safe harbors, state law wage withholding preemptions, 404(c) fiduciary protection with appropriate default investments, and corrective distribution extensions
- ▶ Required quarterly benefit statements for participant-directed plans
- ▶ ADP/ACP test failure refunds as current taxable year income
- ▶ Direct rollovers now allowed from retirement plans to Roth IRAs: For individuals with an AGI of \$100,000 or less
- ▶ Investment advice capability expanded if certain conditions are met: Guidelines are provided surrounding compensation and computer-based advice models and fiduciary responsibilities towards selecting an investment advisor; disclosures to employees and monitoring investment options

This law provides the legal framework to help plan sponsors to maximize the effectiveness of their retirement plan and to help plan participants build their retirement wealth². More Congressional direction on how to implement these and other PPA provisions is forthcoming in 2007.

Successfully retiring executives presents a retirement funding challenge. Mindful companies understand that, in order to hire the key employees necessary to achieve their strategic goals, they must rely on their ability to deliver on a “key

value proposition”. This is comprised of the following features: Successful company, wealth and financial rewards, exciting and rewarding work, and career growth and development.

The overall delivery of this proposition is often shaped by the quality of “wealth and financial rewards”, which includes **executive benefit** and compensation programs. To this end, there are several plan choices available to build a competitive benefits package for key employees, which vary in cost, features, and complexity.

By carefully blending executive benefits and compensation together as a seamless whole, companies improve their ability to recruit, reward, retain and retire the talented people who are the driving force behind the success of the business.

HC MANAGEMENT: INTRODUCING TOTAL REWARDS

Attracting and retaining talent continues to be a key initiative for Human Capital leaders in most industries. Whether a company is responding to market changes or candidate pool challenges, employers must recognize the value of developing and retaining top performers. Creating a solid Total Rewards program can make a difference in how companies successfully grow their employee talent pool, as well as their businesses.

What is a Total Rewards program? It is a system that typically consists of a combination of compensation, benefits and incentive plans that employees receive in exchange for their performance. In short, a Total Rewards system may impact the way employees identify and perceive their individual value to the company, which will have a direct effect on the employee's willingness to perform. This is a crucial part of talent retention, and employers must regularly review all components of their rewards systems in order to maintain a competitive edge.

Although most employee reward plans include basic components such as compensation and

benefits, companies often underestimate the value of strengthening the work/life experience for their employees. Creation of a unique work/life program may set you apart from other employers, which may help to attract and retain key talent.



Additionally, your firm's Total Rewards plan should focus on developing and/or increasing employee awareness in the following areas: compensation structure, employee benefits, performance and recognition; company culture, career development/advancement opportunities, and company environment. Once in place, employers can measure their Total Rewards system through employee surveys or direct feedback from managers. However, in order to be successful, organizations must seek to gain a sound understanding of motivating factors that impact job performance, job satisfaction, and loyalty.

Total Rewards truly effects employees both personally and professionally, and can be used to strengthen the stake they have in the overall success of the company.

Footnotes:

1. All claims are subject to the financial strength and claims paying ability of the issuing insurance company.
2. Before implementing any changes to your 401(k) account, please consult a qualified financial professional.