# Employee Benefits Report



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## The Coming Retirement Crisis


**Warning to employers: your middle-income baby boomer employees are nowhere near ready for retirement. A majority (79 percent) are delaying their planned retirement dates by an average of five years. In addition, 14 percent believe they will never be able to retire due to financial conditions.**

Bankers Life and Casualty Company's Center for a Secure Retirement surveyed individuals ages 47 to 65 with incomes between $25,000 and $75,000 and found that 71 percent worried about outliving their savings once they retire, 68 percent had the value of their retirement accounts decline in the past three years, and 55 percent have saved less than $100,000. Three-quarters plan to work "in some form," including part-time, during retirement.

The days of cradle-to-grave employment are gone, and so are most of the generous pensions and retiree health benefits that made it possible for so many members of older generations to retire comfortably at age 65. So why should employers care if their older employees aren't ready for retirement?

Many older individuals remain productive well past "traditional" retirement age. However, workers who stay on the job because they feel they have to, rather than want to, may grow to resent their jobs and become less productive. Age discrimination laws make firing older workers very difficult, so some employers let less than productive older workers remain. While avoiding discrimination claims, they might be creating morale problems, as other employees pick up the slack and


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## This Just In…

Vermont has passed legislation paving the way to a single-payer healthcare system. On May 26, Gov. Peter Shumlin signed HB202, which aims to provide health coverage for all 620,000 Vermont residents. Vermont has been plagued by higher medical inflation than many other states, with healthcare costs growing 9.4 percent per year between 1998 and 2004, compared with 6.3 percent per year nationally, according to a report from Arrowhead Health Analytics.

The law creates a state health benefits exchange, called Green Mountain Care, as mandated by the federal healthcare reform law. Green Mountain Care will set reimbursement rates for providers, who will bill the exchange for reimbursement, making it effectively the first single-payer system in the country.

Green Mountain Care's five-member board would also determine what health benefits would be offered under


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may be denied opportunities for advancement.

A study by the Center on Aging and Work at Boston College found that older workers are also likely to have significantly higher healthcare costs. In plans that are not community-rated, their premiums will be higher. The cost of claims also increases with the age of the insured. "The average costs of claims rise every 10 years for men from age 45 on and for women from age 35," found the study, "Does Health Insurance Affect the Employment of Older Workers?" The study excluded employee-paid copayments and deductibles and focused only on costs paid by insurance companies…which are passed on to employers.

That's not to say that older employees don't have their strong points. Interestingly, many studies have found that absenteeism decreases with age, as do accident rates. And older workers often have the life experience and wisdom that younger workers may lack.

To help ensure your older workers can retire when they want to, consider the following action steps:

- If you don't already have an employee retirement plan, consider establishing one now. IRA-based plans require the least administration and appeal to many smaller employers. A Simplified Employee Pension (SEP) IRA requires the business to fund the plan, while a SIMPLE IRA allows employer and employee contributions. Employees can contribute to the plan with salary-deferral dollars.

  Smaller employers (100 or fewer employees) with no other retirement plan also have the option of establishing a SIMPLE 401(k). Although employers must annually file a Form 5500, the discrimination rules that apply to traditional 401(k)s do not apply to these plans, and the simple benefit formula makes administration easier than with traditional 401(k)s. Please call us for a discussion of the pros and cons of various retirement plan types.
- Make investing a no-brainer for employees. Consumer studies suggest that too many decisions to make can make consumers less likely to buy; automatic 401(k)s apply this principal to investment savings.

  With an "automatic" 401(k), new employees must actively opt out of participating, rather than actively deciding to enroll. Studies suggest that automatic enrollment could reduce the non-enrollment rate to 10 percent, from about one-third among plans that lack this feature. Automatic plans also have a default eligible contribution rate, usually 3 percent or less of salary, and automatically allocate employees' contributions to a default fund. Participating employees can opt to change both their contribution rate and their allocations. The Profit Sharing/401k Council of America estimates that approximately 38 percent of employees who have access to 401(k) plans work for employers who automatically enroll new workers.
- Make sure employees know about their retirement benefits. A good benefits program can enhance employee morale and help you attract and retain valued employees. Solid retirement benefits also make it easier for employees to retire when the time comes.
- Provide financial education. Many employers fear they'll incur liability if they steer employees toward investments that later underperform. However, providing general information on retirement savings can help employees better understand their benefits and use them more wisely. "Safe" topics include the importance of saving for retirement, calculating retirement savings needs, general information on types of investments available and how to allocate investments according to age.

For more information on getting the most out of your company's retirement benefit plan, please contact us.

health plans in the state, although the exchanges will include private insurers. Before the exchange opens in 2014, Shumlin's administration will need to come up with a way to pay for the new system. A new payroll tax shared by workers and employers is one possibility.

*Correction: In our May 2011 issue, a chart comparing Roth 401(k), Roth IRA and traditional 401(k) plans contained a typo. The maximum contribution to a Roth 401(k) for individuals over age 50 in 2011 is $22,000, not $20,000 as stated. We regret the error.*

# Rules for a Successful Wellness Program

**Companies surveyed by the Society for Human Resource Management (SHRM) in 2009 had an average of 21 wellness or prevention programs, and half planned to add at least one more program in 2010. And companies with 1,000 or more employees spent an average of 2 percent of their annual budget on wellness programs in 2010. They also planned to continue their wellness spending into 2011 and beyond, regardless of the effects of healthcare reform, found a study by Fidelity Investments and the nonprofit National Business Group on Health (NBGH).**

Are these wellness investments paying off? The number of wellness programs respondents reported to SHRM suggests that many companies are taking a scattershot approach to wellness, rather than focusing on just a few of the most pressing wellness problems. The SHRM survey also found that many companies have no idea whether their investments are paying off! Sixty-five percent of companies surveyed by SHRM did not set measurable goals for their wellness or prevention initiatives, and 27 percent did not measure outcomes.

This points out the first two rules for creating a successful wellness program:

**Rule 1:** Define the most pressing problems, then focus on the ones that you can positively affect. The Centers for Disease control says, "Four modifiable health risk behaviors—lack of physical activity, poor nutrition, tobacco use, and excessive alcohol consumption—are responsible for much of the illness, suffering, and early death related to chronic diseases." Do your wellness programs focus on these four modifiable health risk behaviors?

**Rule 2:** Don't just focus on the negative behaviors. Frequency (or lack) of exercise more accurately predicts an individual's chances of developing chronic health conditions and future health costs than cholesterol levels, obesity or high blood pressure. Make sure your wellness programs encourage and reward regular exercise. Making fitness fun helps!

**Rule 3:** Measure results. Although NBGH estimates that there is a $300 return for every $100 invested on preventive services, you'll never know if your programs are that effective unless you measure. For example, if you subsidize fitness center memberships, you'll never know if your investment pays off unless you track who uses the center and how often. Likewise, a smoking cessation program should not only get smokers to quit—it should encourage them to stay tobacco-free.

**Rule 4:** Use incentives. Incentives could become increasingly important to get employees to participate in wellness programs. Economic woes and higher out-of-pocketcosts have caused employees to pay less attention to their health than they have in years past, found

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a Towers Watson survey released earlier this year. Only 59 percent ranked managing their health as a top priority in 2010, versus 69 percent in 2008. And more than one-quarter (27 percent) said they "would not participate in an employer-provided wellness program without a financial incentive."

The Fidelity/NBGH study found that employers provided subsidies totaling an average of $430 per employee in 2010, an increase of 65 percent from 2009. Sunit Patel, senior vice president of Fidelity's benefits consulting, told *Human Resource Executive Online,* "Wellness programs in the past have typically had modest impact because of low participation rates, but our study indicated that incentives are starting to make a real difference in employee interest and engagement."

Currently, employers can offer incentives of up to 20 percent of their health plan's total premium (both employer and employee share) to employees who participate in wellness programs. Beginning in 2014, the healthcare reform raises the amount of incentives allowed to 30 percent of total premium.

**Rule 5:** Don't overlook the importance of social networks. Researchers Nicholas A. Christakis, M.D., Ph.D., M.P.H., and James H. Fowler, Ph.D. found that people are more likely to stop smoking if someone in their social network does. If a spouse stops smoking, a person's chance of smoking decreases by 67 percent. When a friend stops smoking, the chance decreases by 36 percent, and when co-workers in small firms stop smoking, the chances decrease by 34 percent.

Other studies have found similar patterns with BMI (body mass index). If friends or family members are overweight or obese, over time an individual is more likely to become overweight or obese than individuals with family members or friends whose weights are in the healthy range.

The moral? By encouraging healthier lifestyles and creating a culture of health, healthy behaviors are more likely to spread.

For more information on starting or re-tooling your wellness programs, please contact us.

# CLASS Act Needs Fine-Tuning

**The Community Living Assistance Services and Support Act (CLASS Act) established a national voluntary long-term care insurance program. While most provisions of the Act became effective January 1, 2011, the law gave the secretary of Health and Human Services (HHS) until October 1, 2012 to release the details of the plan.**

The law specifically states that the program must be self-sustaining: premiums taken in must pay for benefits with no infusion of tax dollars. However, many experts believe the program as created will soon become unsustainable. In December 2010, the bipartisan National Commission on Fiscal Responsibility and Reform recommended that CLASS either be reformed to be financially solvent or repealed.

As created, the plan will provide benefits to enrollees who suffer at least two limitations in daily activities, such as eating, bathing and dressing, to help pay for home-based or in-facility care. After paying in for five years, participants would become eligible for a cash benefit of at least $50 per day to pay for home-based care, and up to $75 per day for those in a care facility. Participants would receive benefits for life, if needed.

Only people who are currently working can enroll. The program features level premiums over the participant's lifetime; however, the law allows the secretary of Health and Human Services to increase premiums if necessary for the financial health of the program.

If their employer chooses to participate, employees can pay CLASS premiums through payroll deduction. Congressional Budget Office estimated that the monthly insurance premium will average about $123 in 2011.

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As created, the CLASS Act would base premiums on the participant's age at enrollment, regardless of health status or pre-existing condition. This, along with the relatively short (five-year) vesting period before benefits can begin, gives those who are more likely to suffer a disability incentive to enroll, a situation called "adverse selection." A pool of insureds that has a disproportionate number of unhealthy participants will have more claims than one with a better balance of healthy and sick individuals. Claim costs therefore go up, and the insurer has to charge more in premiums for new policyholders. This makes the program unattractive to all but the least-healthy individuals, creating more adverse claims and a "death spiral" that can finish a program financially.

## Possible fixes to CLASS include:

1. Making CLASS mandatory for all working Americans over a certain age. This would eliminate adverse selection, but this solution is politically unfeasible.
2. Imposing higher premiums or exclusions for those with pre-existing health conditions.
3. Increasing the vesting period so that participants have to contribute premiums longer than five years before becoming eligible for benefits. This would help eliminate some adverse selection and also allow the program to build a bigger reserve.
4. Give incentives to employers. Currently the program allows employers to participate and allow employees to pay premiums through payroll deduction. But the program created no incentives for employers to participate, and it would create some administrative expenses on their part.
5. Make enrollment automatic. Among employees who have access to voluntary long-term care insurance through their employer, only about 10 percent opt in. Making enrollment automatic for employees of participating employers would boost enrollment and help minimize adverse selection.

Currently, about 10 million Americans need long-term care services. Yet there are only about 7 million long-term care insurance policies currently in force—and the need will only grow as the population ages. Are your employees ready? Please contact us for more information about CLASS or private long-term care insurance, including voluntary, employee-paid programs.

**The Chronic Disease Price Tag— Estimated Annual Direct Medical Expenditures***

| | |
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| Cardiovascular disease and stroke** | $313.8 billion in 2009 |
| Cancer | $89.0 billion in 2007 |
| Smoking | $96 billion in 2004 |
| Diabetes | $116 billion in 2007 |
| Arthritis | $80.8 billion in 2003 |
| Obesity | $61 billion in 2000 |

* Different methodologies were used in calculating costs.
** Includes heart diseases, coronary heart disease, stroke, hypertensive disease, and heart failure combined.
Source: Centers for Disease Control

## New Guidelines Update W-2 Reporting Requirements

One of the provisions of the Patient Protection and Affordable Care Act healthcare reform law required employers to include the cost of group health plan coverage on their employees' W-2 forms starting on January 1, 2011. However, the IRS recognized the burden this would create, particularly for smaller employers, and granted a one-year extension, so the requirement applies to W-2 forms beginning in 2012.

In March 2011, the IRS issued interim guidelines that help clarify employers' duties and the purpose of the reporting. It states that, "This reporting to employees is for their information only, to inform them of the cost of their health care coverage, and does not cause excludable employer-provided health care coverage to become taxable."

Employers will be relieved to learn that smaller employers (those required to file fewer than 250 2011 Forms W-2) will not be required to report the cost of health coverage on any forms required to be furnished to employees prior to January 2014. The IRS stated, "This transition relief will continue until the issuance of further guidance," which means the exemption could be extended.

The guidance further clarifies that "applicable employer-sponsored coverage" does not include premiums for long-term care or disability coverage. It also does not apply to dental or vision insurance, unless they are included in a major medical plan.

To calculate the premium amount, use the monthly premium rate for a fully insured plan or the COBRA premium equivalent rate minus the 2 percent administrative fee for a self-insured health plan. If your health plan is contributory, you will need to include both the employer and employee contribution; however, employer contributions to Medical Savings Accounts (MSAs), Health Savings Accounts (HSAs), health reimbursement arrangements and most Flexible Spending Accounts (FSAs) are excluded.

Finally, the law does not require employers to send a Form W-2 with healthcare reporting information to retirees or other former employees who receive no compensation from the employer. ■

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