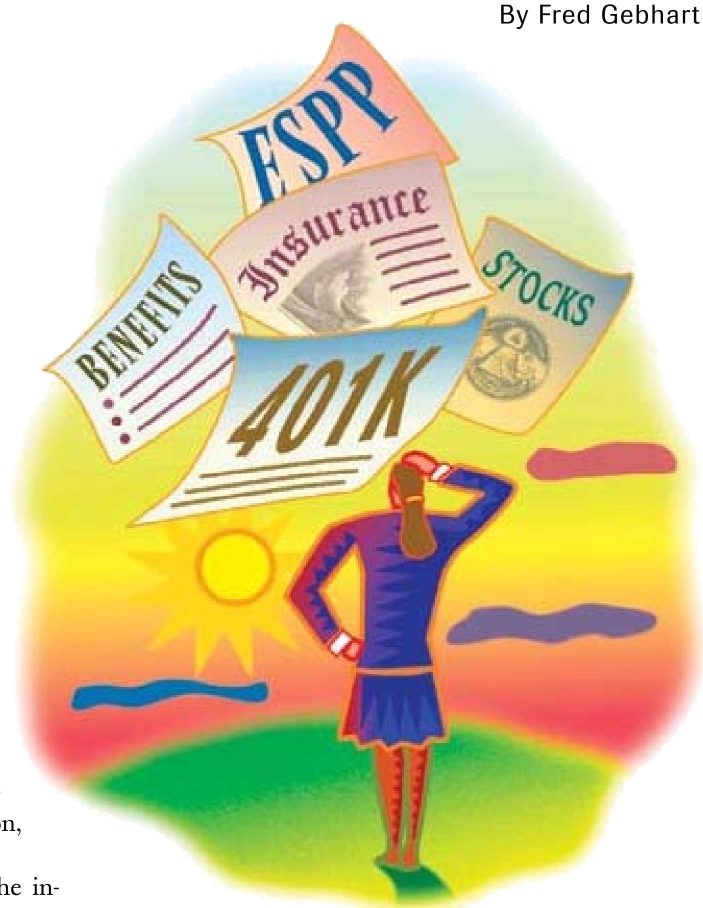
Big Changes Reshape Health, Retirement Benefits

Employers offer brave new options

By Fred Gebhart



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THE HOTTEST TRENDS IN employee benefits can be summed up in two words, retirement and health. Employers large and small are pushing employees into easier-to-use retirement plans that verge on automatic – and pushing just as hard to get them out of traditional health plans. Other benefits, from familiar life insurance to less familiar ID theft and travel protection, are window dressing. Important window dressing.

"Travel is unique in that many people are in the industry because of the product," said consultant Bruce Tepper, CTC, vice president of Joselyn, Tepper and Associates. "The product itself, travel, is a benefit unique to this industry."

But free or cut rate travel, AKA fam trips, cannot attract or keep top notch travel retailers alone. That's where benefits like health care enter the picture.

"We are making those hard choices ourselves," Tepper said. "Rates for health coverage have gone up dramatically this year again. Health coverage has become the most desirable employee benefit as well as the most expensive."

Employee benefits as a percentage of total compensation are rising steadily. In 2000 and 2001, benefits accounted for 27% of total compensation, according to the Employee Benefit Research Institute. By the end of 2005, benefits were 30% of total compensation and still growing.

Blame health benefits. Large employers are seeing current increases of 5% to 8% in health costs while small firms are paying 11% to 12% more this year.

"A lot of employers are moving to different types of products," said Jennifer Kluge, president of the National Association for Business Resources in Warren, Mich. "You need to offer something to your employees, and we are all hearing the drumbeat of consumer-driven health care."

Only about half of all U.S. companies with fewer than 50 employees currently offer health benefits, noted David Raccagni, vice president of small business marketing for insurance giant CIGNA. Rising costs force 1% to 1.5% of

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those firms to drop coverage annually, he added.

"Something needs to change in that dynamic," he said. "When small and large companies are competing for the same talent pool like they are in sales and service, benefits can make all the difference in hiring and retention."

Shifting from familiar health maintenance organization (HMO) or preferred provider organization (PPO) health programs to consumer-driven health care (CDHC) can cut employer costs by 10% to 20%, Raccagni said. That accounts for the 15% annual growth CIGNA is seeing in its Health Savings Account (HSA) and Health Reimbursement Account (HRA) plans.

"In order to attract high quality employees, you must offer health," said David Lewis, president of human resources consultant OperationsInc in Stamford, Conn. "CDHC is like high-deductible auto insurance. You are protected from catastrophic illness or accident, but everyday costs are on you instead of the insurance company. That's why HSAs have been slow to penetrate the workforce."

That is starting to change. Savvy firms are using part of their premium savings to bring in health coaches. Coaches help employees save, too.

"You can't just tell employees to clean up their lifestyle," said Dan Boisvert, president and CEO of Integrated Healthcare, a web-based CDHC administrator in Boston. "You have to teach them. Lifestyle factors like obesity and smoking are significant drivers of healthcare costs. Don't just tell employees to lose weight, give them information, then give them incentives."

Integrated Healthcare uses cash. If an employee accepts a health coach, the employer pays part of their annual deductible. If the employee meets specific goals such as losing 10 pounds or quitting tobacco, the employer pays another piece of the deductible. "For small employers, it comes to offering CDHC or not offering health coverage at all," Boisvert said. "Firms with fewer than 50 employees are embracing this change in substantial numbers."

Virgin Life Care offers a similar incentive program as a stand-alone benefit. For about $7 per employee per month,

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HSAS, HRAS, AND YOU

CONSUMER-DRIVEN HEALTH CARE (CDHC), is the buzzword. What it means is shifting health care costs from the employer to the employee. CDHC works by swapping high-cost, low deductible health coverage for low-cost, high deductible coverage. That gives employees a financial incentive to be better consumers and make lifestyle choices to stay healthier, thus spending fewer of their own dollars.

"The expectation is that you are completely exposed to the full cost of care up front," explained Michael Rosenfeld, vice president of Philadelphia-area benefits specialists Model Consulting. "If you have some skin in the game, you may be a more prudent buyer."

CDHC currently comes in two forms:

Health Savings Accounts (HSAs) match high-deductible health insurance with a tax-deferred savings account. Coverage carries annual deductibles of at least $1,050 for individuals or $2,250 for a family. Each employee deposits the amount of their deductible in a tax-free savings account and withdraws from the account to pay medical expenses. Like traditional health coverage, the plan kicks in once the deductible is reached.

Any unused savings roll over to the next year and keep accumulating interest tax-free. After retirement, the entire amount of the account can be used to cover health care costs.

Health Reimbursement Accounts (HRAs) also rely on high-deductible health insurance. The difference: employers reimburse employees for any health care costs up to the deductible limit. Employees cannot keep any unused contributions at the end of the year.

"This is a complete change in the paradigm of how health care is delivered," Rosenfeld said. "Everyone is going to end up there whether they want to or not." – F.G.

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Virgin uses a web portal and call center to encourage and monitor exercise and weight loss. Employees are rewarded with cash credits at Target, Best Buy, and other retailers.

"Walking for 20 minutes at day, briskly, like you were late for a meeting, is enough to make a difference in health and healthcare utilization," said Virgin Life Care CEO Christopher Boyce. "There are lots of diets out there that work, but the key to keeping weight off is to become more active. We provide the incentive and the monitoring."

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Partial benefits are another alternative. In Stamford, Conn., insurance consultancy Independence Holding Company recommends limited health coverage for part timers and short term plans for temps.

"It's not a full benefit," cautioned Jim Kinneally, vice president of corporate development, "but the idea is that you can offer something to these employees. After salary, the number two thing potential employees look at is benefits."

Insurance benefits are also getting more attention. North Carolina-based Integrated Benefit Solutions sees growing interest in disability coverage, especially from smaller companies. Employers are offering disability as a voluntary benefit, paid by employee contributions but at group rates. That can save employees well over half the cost of an individual policy, said IBS president Don Atherton.

Identity theft protection is also growing in popularity. The typical identity theft victim spends 600 hours repairing the damage. "It is a productivity issue for the employer," said Worldwide Assistance president Guillaume Deybach. "A lot of those hours must happen during working time."

ID theft insurance transfers that burden to a third party service center, Deybach said. Group coverage costs less than $30 per person per year for small firms.

Want something directly travel related? Think travel protection that covers emergency evacuation, foreign medical treatment, employee tracking, threat assessment, and other security services.

"Travel protection is an easy differentiator for an employer," said Assist American vice president Kurt Kelly in Princeton, N.J. "If there is a problem, any kind of problem, while an employee is on the road, all they have to do is call our operations center. It gives you great visibility with your employees."

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NEW RETIREMENT WRINKLES

The Pension Protection Act of 2006 (PPA) is big news in the retirement world. The 900-page bill was touted as a fix for underfunded retirement plans by airlines and other major employers, but PPA also made life easier for small employers and their employees.

"PPA is a very significant piece of legislation," said benefits attorney Jeffrey Kahn, shareholder in Greenberg Traurig's Boca Raton, Fla., office. "It is going to effect benefit plans of all sizes, including small firms and individuals. We are going to see more employees participate and their money will be better invested."

In many firms with optional retirement programs, fewer than half of eligible employees opt in. Kahn said industry analysts project that the new rules should boost participation by at least 35%.

"Exciting things are happening at the small business level," agreed Chad Parks, CFP, founder of TheOnline401k.com, a benefits management firm in San Francisco.

Most retirement plans are run by third-party administrators, or TPAs. A good TPA handles all administrative chores, Parks said. That includes setting up plans approved by the Internal Revenue Service, filing the proper IRS forms, tracking employee and employer contributions, and tracking compliance with IRS and Department of Labor rules.

For starters, PPA lets employers automatically enroll employees in 401(k) retirement programs unless the employee opts out. Under old rules, employees generally had to opt into retirement plans. Many didn't bother, Parks said, because retirement options were confusing and solid information tough to get.

PPA helps bridge the information gap by letting employers bring expert retirement advice to employees. Financial institutions, financial advisors, mutual fund brokers, and other retirement experts are lining up to grab a piece of what is expected to be a surge of new retirement program participants and contributions.

Tax deferred 401(k) plans should be the most popular choice, Parks said. Employees put a fixed percentage of compensation into a tax-deferred account, taking a tax deduction for the entire amount. Depending on the type of 401(k), the employer can match all, part, or none of the employee contribution.

Business owners should also pay attention to Individual Retirement Account (IRA) options, Parks added. All employees should be encouraged to establish some sort of IRA, he said. Company owners need a Simplified Employee Pension, or SEP. Current rules allow owners to sock away 25% of net profits, up to $44,000, annually. — F.G.