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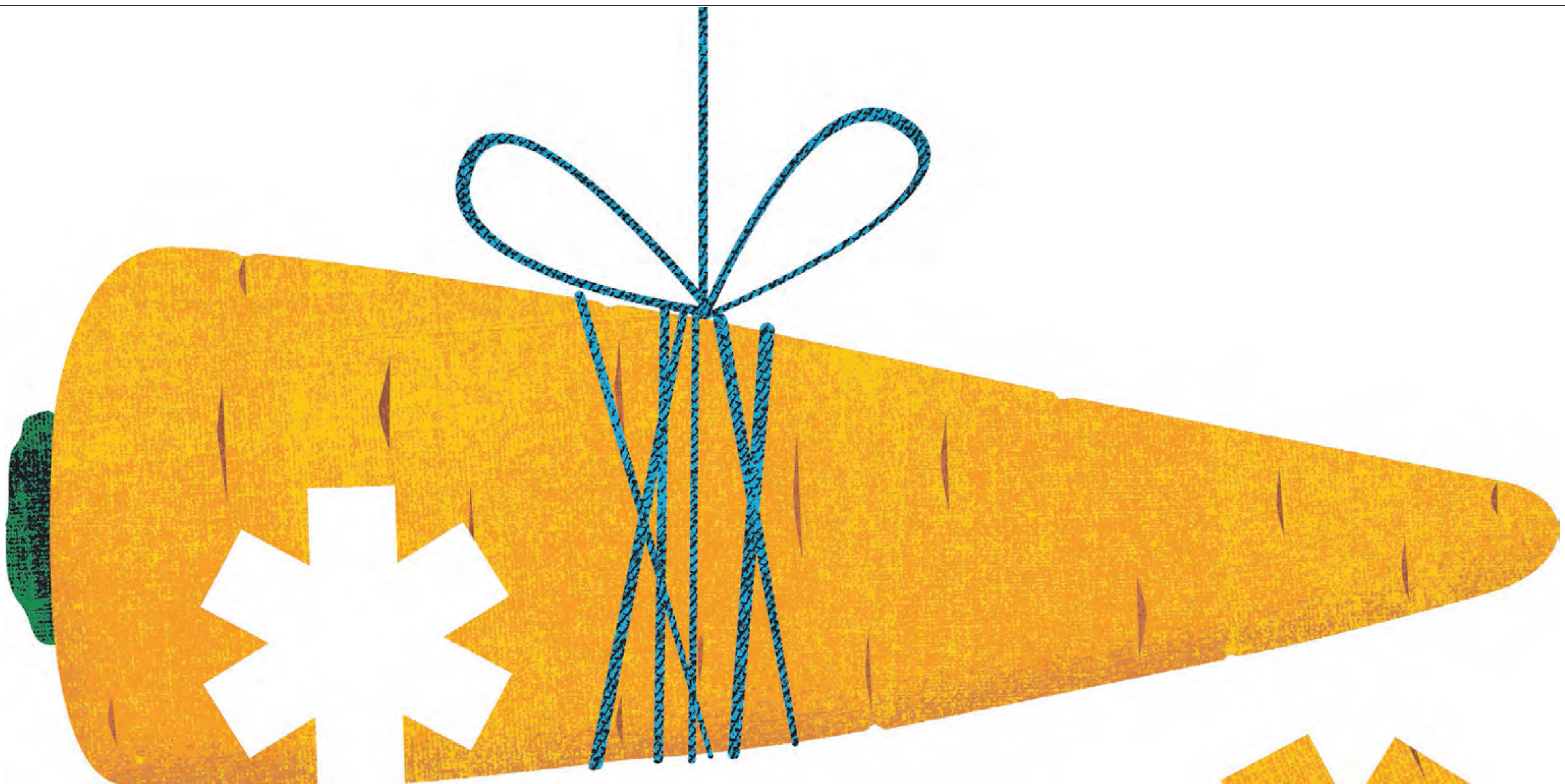
EMPLOYEE BENEFITS



2011 BENEFITS TRENDS

Greater choice, increased focus on health, more innovative perks

By Joe Mullich

Never underestimate the power of perks: Employees rank benefits as one of their top contributors to job satisfaction, according to a recent study. As companies look to trim costs, yet retain and attract better workers, they are increasingly pouring over their benefits packages, sometimes several times a year. Here are some key ways benefits are changing:

Rise in "non-monetary" perks. To retain and attract employees in 2011, the top perk on the table is subsidized training/education, according to a new survey of CFOs by Accountemps, the temporary staffing firm. Some 29 percent of the CFOs cited training as a key retention/attraction perk, while almost one in four plan to entice employees with flexible schedules. The top perks share one common theme: they don't cost employers anything out of pocket. "Budgets are still tight, so companies are stepping up with low-cost or non-monetary perks," says Brett Good, a senior district president with Accountemps. "When we were recovering from the dot-com busts, companies took a similar approach to keep employees engaged and in their seats." Other perks, which won't bust company coffers, include matching gift programs, free or subsidized lunch or snacks, childcare, dry cleaning, fitness centers and subsidized transportation — all of which were cited by about one in 10 CFOs.

Career development trumps tuition. Feeling stymied in their career paths by the downturn, younger workers are encouraged by an uptick in mentoring and career-development programs. "Employees see their career growth as the best source of security. They want to stay current on all aspects of their areas of expertise and learn at an accelerated rate," says Elaine Varelas, managing partner at Keystone Partners, a career management and transition services consulting firm. She notes these programs are focused on high-potential mid-level managers who want executive coaching, assessment and other targeted career development as opposed to tuition reimbursement. "These leaders will be vital to organizational success as the boomers retire — right now, there are fewer experienced professionals available and ready to take their place in senior leadership," she says. "Companies will pay anywhere between $15,000 and $25,000 per person to accelerate the development of new leaders — far less than it would cost to hire from the outside."

Sabbaticals make a return. In the Accountemps survey, Good was surprised to see that nearly 10 percent of CFOs put sabbaticals on the perk plate for the year ahead. "People have cut down to the bone, and are operating with skeleton crews, so it's a little surprising to see sabbaticals return, since they are usually taken by the most senior and necessary employees," he says. Numerous Fortune 100 companies and smaller firms have embraced sabbaticals during the downturn to reward their high performers. For example, at ARRYVE, a Seattle-based strategic consulting firm, employees with five years tenure get to choose either two months of paid sabbatical or a $25,000 bonus as recognition for their commitment to the firm. "Depending on what phase of life you're in, some choose the cash and some choose the time with friends and family," says Chris Smith, the company's co-founder.

Generational differences addressed through benefits. As the multigenerational workforce expands, a study from supplemental insurance provider Aflac found that four in 10 companies are tailoring benefits based on employees' different life stages. In some cases, it is influencing whether coverages such as dental or vision are offered or bonuses to replace some health benefits have greater value. "As if HR executives don't have enough to juggle in 2011, there will be a continued need to manage the new cocktail of company culture — traditionalists, baby boomers, Generation X and Generation Y employees," says Ron Agypt, senior vice president of broker sales USA for Aflac. He predicts as companies start to address these generational nuances, some benefits could make a return, like life insurance, which has hit a 50-year low in the U.S.

Moving to higher deductible plans. In their desire to reduce costs, companies are moving toward high-deductible health plans (HDHP) with health savings accounts (HSA). By coupling the two together, employees get a double benefit — they pay lower

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Illustrations by Michael Austin

A Post-Crisis Assessment of 401(k)s

By Jack VanDerhei, *research director of the Employee Benefit Research Institute (EBRI)*

401(k) balances typically fluctuate with market returns from year to year, as vividly demonstrated by the recovery from one of the worst bear markets for stocks since the Great Depression. However, 91 percent of 401(k) participants with account balances at the end of 2007 through 2009 are estimated to have more money in their 401(k) accounts on March 1, 2011, than they had at the pre-recession market peak in October 2007.

This overall percentage varies significantly by age and tenure with the current employer. Regardless of age, more than 90 percent of those with less than 10 years of tenure today are back to their October 2007 balances; however, approximately one-quarter of 401(k) participants with 20 or more years of tenure with the current employer have not yet fully recovered.

Analysis of time-series data of 401(k) participants provides several additional insights:

- First, participation in the 401(k) system has paid off, with an average annual growth rate of 10.5 percent from year-end 2003 through year-end 2009 for consistent participants during that period. The growth rate will undoubtedly increase when the EBRI/ICI 401(k) database (the largest of its kind, with about 21 million participants) is updated for year-end 2010 later this year.
- Second, the historical problems with low participation rates among young and low-income employees are beginning to be mitigated as more 401(k) sponsors adopt automatic enrollment provisions.
- Third, the historical problems of overly conservative investments for some young employees and overly aggressive investments for some older employees are starting to diminish as target-date funds increase their concentration within 401(k) portfolios.
- Fourth, the problems of excessive concentration of company stock in 401(k) portfolios has subsided considerably since the Enron debacle. Moreover, the investment patterns of newly hired participants suggest that this trend will continue to decrease with time.

One of the primary questions in assessing 401(k) plans is whether they can provide sufficient retirement income, when combined with Social Security benefits, to replace an adequate percentage of pre-retirement income.

Previous studies have shown that workers, after a full career of eligibility in a 401(k) plan, can have nominal retirement payouts (excluding Social Security benefits) of between one-half and two-thirds of their pre-retirement income. In contrast, employees who have fewer years of participation in 401(k) plans, either because they work for an employer that does not sponsor a 401(k) plan or they choose not to participate, will find their expected replacement percentages reduced, in some cases substantially.

Recent Retirement Confidence Survey results have found that full-time workers earning less than $25,000 would be much more likely to reduce the amount saved if they were no longer allowed to deduct retirement savings plan contributions from taxable income.

As these workers are the most likely to be at risk for inadequate retirement income, it is important to weigh the potential impact of any modifications to the tax status of qualified retirement plans on those who will most need these additional resources in the future.

Benefits Trends

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premiums and use pre-tax dollars. The number of people with HSA/HDHP coverage has grown steadily with 22 million people now enrolled in HDHP plans nationwide, according to Paul Fronstin, head of health research for the Employee Benefit Research Institute (EBRI).

Gap insurance draws interest. Bob Risk, vice president of sales for financial services company Lincoln Financial Group says that as employees face higher co-payments, deductibles and premiums in their health insurance coverage, they are expressing more interest in "gap" or "bridge" insurance that cover out-of-pocket health costs, such as those high deductibles. In Risk's view, as employees take more responsibility for choosing and funding their own benefits, the contract language for coverage will become increasingly straightforward. "While the level of interest is increasing in gap insurance, a fair amount of education is necessary," Risk says. "As health care reforms make individual consumers accountable for their benefits, they will become better consumers of medicine."

Encouraging treatment that improves health. A growing number of companies are embracing the notion of value-based insurance design (VBID), where employees' out-of-pocket expenses for certain medical procedures are reduced to encourage their use of them. "Diabetes has been the poster child for VBID," says Fronstin of EBRI. "A number of employers found when they eliminated the co-payment for diabetes medication, compliance with the treatment regimen increased." Many firms indicate an interest in adopting this approach in the coming years.

New approaches to time off. Companies are finding all sorts of fresh ways to give weary workers more leisure time. For example, PerkettPR, a high-tech public relations firm, increased vacation time by five days as a morale booster in lieu of pay raises, which the company couldn't afford. PerkettPR also has a program where employees can take off an additional 40 hours per year for community service work; many companies find younger workers want to work for companies that commit to being good corporate citizens.

One novel time-off approach, which has grabbed a lot of media attention in the past year, is unlimited leave. The concept is that workers know how much leave they need, and the best workers won't abuse the privilege, so there's no need to set vacation limits. Another emerging strategy accommodates workforce generational differences. Older workers can cash in some of their abundance of vacation time and transfer this money to their retirement accounts, while young workers can purchase additional time off — a perk they seem to deeply value.

> *41 percent of employees said a well-communicated benefits program would make them less likely to leave their jobs.*
>
> — AFLAC STUDY

Giving employees more control. In a recent survey, about three in four employees said they would be more likely to remain at an organization with more customized people practices, where employees are empowered to make decisions about everything from their own benefits to how best to improve their work environment. For example, at ARRYVE each employee is given a $500 stipend to make the company better in any way they see fit. "Some employees choose to purchase massages for their co-workers. Other employees have purchased organic food for low-cost, healthful lunches or chosen to pool money to create a company library," says company co-founder Smith. "It's been a fantastic way to put the health and culture of the firm in the hands of the employees."

Greater regulatory scrutiny. This year employers are required to self-report their failures to comply with COBRA, HIPAA and other health plan regulations to the IRS. "This hasn't been done before, and they aren't sure how to tackle the compliance obligation," says Timothy J. Stanton, an attorney with the law firm Ogletree, Deakins, Nash, Smoak & Stewart, PC. "Most companies are not focused on counting slip-ups on COBRA administration, so they need to figure out how to proactively get on top of this." The excise tax for COBRA violations and other group health plan failures is generally $100 per day per affected individual. He suggests companies make sure they have the proper indemnification clauses in place with health care providers.

Health becomes a family affair. A new study from the Society of Human Resource Management (SHRM) reveals that the ever-changing family patchwork is causing companies to expand health care coverage to dependent grandchildren (39 percent), domestic partners (38 percent offered opposite-sex domestic partner health care coverage and 37 percent offered same-sex domestic partner coverage) and foster children (37 percent). In addition, under the Affordable Care Act, health plans that offer dependent coverage are now required to make the coverage available until a child reaches the age of 26. Beginning in 2014, children up to age 26 can stay on their parent's employer plan (even if it's a grandfathered plan), although grandfathered plans have the option of denying coverage if the child has other coverage available through an employer. Attorney Stephanie Smithey at Ogletree Deakins notes that this coverage may be taxable in some states.

Switching jobs for benefits. Benefits are becoming more than a source of satisfaction — they could be a key mechanism for recruitment. "In a recent study, 53 percent of all workers said they are likely to look for a new job in the next 12 months," says Agypt of Aflac. "But 54 percent said they are willing to take another job opportunity that included slightly lower compensation but a more robust benefits package. People have seen what happens to their friends, relatives and neighbors when they lose their jobs, and they're concerned about what will happen to them if they get hurt or sick," he adds.

Lifestyle preferences increase. A new study from SimplyHired.com, a job search engine, shows that as the economy thaws, workers won't settle for opportunities that don't fit their lifestyles: nearly half of job seekers said health care insurance is non-negotiable, 46 percent said working close to home is important and 60 percent said they would prefer to telecommute. However, workers are willing to give up benefits they find of lesser importance — one in five job seekers would concede their office to keep a job and 14 percent would forfeit their vacation days.

> *"As employees face higher co-payments, deductibles and premiums in their health insurance coverage, they are expressing more interest in 'gap' or 'bridge' insurance."*
>
> — BOB RISK

Finance education goes to the next level. Increasingly, companies are providing tools to help employees manage the costs of life. With the downturn, some companies are taking financial education even further. For example, the Breakers Palm Beach, the well-known oceanfront resort, provides employees with interactive seminars on personal money management; workshops about home ownership and foreclosure prevention; and free tax return assistance on-site for employees who make $42,000 a year or less.

Clash of perceptions. A new study from Aflac identified a clash of perceptions with regard to how well companies are communicating their benefits programs: Four in 10 HR executives believed they were "extremely/very" effective in benefits communications, while nearly seven in 10 employees rated their HR departments "somewhat" or "not very/not at all" effective. Improving these efforts is vital to retention: 41 percent of employees said a well-communicated benefits program would make them less likely to leave their jobs.

People seek guarantees. According to Lincoln Financial Group, the turbulent economic situation of the past few years, which saw the value of most retirement accounts tumble (and then return), has whetted interest for greater financial protection. Employees are seeking information on benefits products that offer guarantees, including universal life, survivorship life, variable universal life and variable annuities. With consumer risk awareness of guarantees rising, Lincoln believes companies should consider offering benefits that protect employees against market fluctuations.

Beyond the cookie cutter. In industries where competition for key employees is intense, some companies are standing out with the kind of unusual perks that were common during the dot-com boom. Akraya, Inc., an IT consulting firm, offers employees complimentary professional house cleaning every two weeks to ease the burden of household chores after a long day at work. "In Silicon Valley, job seekers expect to see cool, unique benefits besides the usual health care/dental/life insurance package," says Eszter Szikora, the company's marketing communications manager. "We are considering adding other similar perks that are not the norm to keep up with Silicon Valley demand, such as a monthly free mani/pedi and relaxing on-site massages for employees." Resumes are being accepted now.

Joe Mullich has received more than two dozen awards for writing about education, technology and other topics.

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Workers Are Waking Up to "The New Normal"

By Dallas Salisbury,
president and CEO of the Employee Benefit Research Institute (EBRI)

Compared with the depths of the recent recession, the start of 2011 posted a number of favorable economic signs, including a declining unemployment rate and improving stock market. So how do most Americans currently view their future retirement prospects, now that they appear to have improved?

They're more realistic than they've ever been. For the past 21 years, EBRI has conducted its annual Retirement Confidence Survey (RCS), and the 2011 results — just released — are among the most encouraging we've ever measured. More than a quarter (27 percent) of workers now say they are "not at all confident" about having a comfortable retirement, up 5 percentage points from the level measured just one year ago.

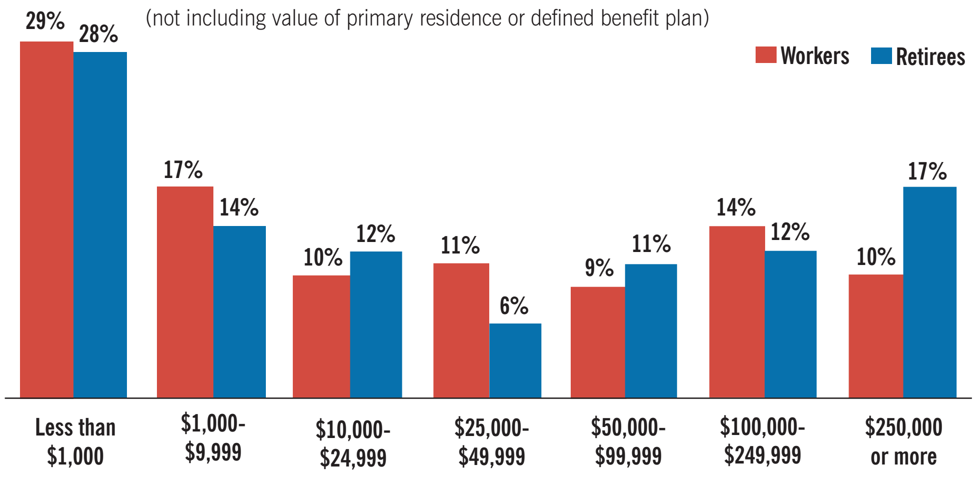
Looking at the other side of the coin, only 16 percent of workers say they are "very confident" that they can afford retirement, down 13 percentage points from a year ago — and the lowest rate we've ever found over the past two decades.

Why do I view this as encouraging rather than dismal? Americans are going in the right direction; they are right to focus on the long term. During the go-go years, the RCS results showed high false confidence. Hope was setting aside reality. A lottery win appeared to be assured, since the hard work of saving was to be avoided.

Now, it seems workers are finally waking up to the reality of what they're facing: "the new normal" of systemic, long-term challenges, such as ever-rising health care costs with no control in sight and fiscal crises which are already bringing cuts in social safety-net programs, employer pensions and health care. Added to this are other challenges including the impact of lower interest rates and investment returns, and a rapid increase in the over-65 population with longer life expectancy. And the list goes on.

Total Savings and Investments Reported, Among Those Providing a Response

(not including value of primary residence or defined benefit plan)



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2011 Retirement Confidence Survey

Many workers seem to recognize the tough retirement realities they have ignored — and experts have warned about — for years:

Delayed retirement: The portion of workers who expect to retire after age 65 has increased over time, from 11 percent in 1991 to 36 percent in 2011. One in five workers say they now intend to retire at an older age than they had planned.

Working for pay in retirement: In 2011, 74 percent of workers said they expect to work in retirement (up 4 percentage points from last year); it is three times the percentage of retirees who currently say they actually worked for pay during retirement.

Paying for health care in retirement: Even though current retirees are very optimistic about being able to pay for health care in retirement (68 percent are confident vs. 30 percent who are not confident), those currently working say they won't be as lucky. Today's workers are almost evenly split about having enough money for retiree health care, with 48 percent "very or somewhat confident" and 50 percent "not too confident" or "not at all confident." (2 percent either didn't know or refused to answer.)

Behind schedule: When workers are asked to evaluate their progress in planning and saving for retirement, 70 percent state that they are behind schedule. This is 15 percentage points higher than the 55 percent who fell behind schedule in 2005.

More Changes Needed

The good news: Many Americans are finally realizing they are in trouble and are changing their expectations about retirement savings — but more need to change their behavior as well. Our research found:

Currently saving: Among workers, almost 60 percent say they and/or their spouse are currently saving for retirement. This is down from 65 percent in 2009 but equivalent to other years. About two-thirds (68 percent) say they have already saved for retirement. This figure is also down, from 75 percent in 2009 but the same as last year.

More assets needed: Among workers surveyed (who provided this type of information), almost 30 percent say they have less than $1,000 in savings and assets. More than half report that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plans, is less than $25,000 (see figure). Workers using a savings plan at work or an IRA are faring the best.

More planning: Just 42 percent say they and/or their spouse have tried to calculate how much money they will need to have saved by the time they retire to afford a comfortable retirement. This is up 10 percentage points from 1995.

Better preparation for unforeseen retirement required: A growing number of workers say they expect to work longer, but that's not what happened for many of those already retired. As the RCS has long found, nearly half of current retirees (45 percent) say they retired earlier than they planned, mainly because of a health problem, disability or economic change that forced them to leave their jobs. This indicates that individuals need additional planning to prepare for the possibilities of disability and long-term care, and additional training to keep their job skills marketable.

More Information Welcomed

The RCS finds that few workers and retirees (23 percent each) say they obtained investment advice from a fee-only professional financial advisor, although it should be noted that number rises with income. Most say they'd rather make their own decisions, which indicates that further education and planning are needed.

The RCS also finds that overwhelmingly, workers want new information about how to make the most of retirement savings. They support the idea of receiving periodic statements showing how much they should save so that they can maintain their current lifestyle after they retire and how much retirement income they could expect from the money they currently have in their accounts.

The Time is Right

The years ahead are likely to include more pension, Social Security and health care reforms. All proposals suggest lower benefits, higher individual costs and fewer set promises.

The RCS suggests that public recognition of the need to save for the future, and keep saving, may have arrived just in time.