BENEFIT Plan Developments

A monthly report covering plan design and legislative changes

Volume 47, Number 9

Interest In HSAs On The Rise Among Employees

More than two-thirds of employees are interested in Health Savings Accounts (HSAs), a survey by CIGNA Healthcare found. But a study by the Employment Benefit Research Institute (EBRI) has warned that the new tax-advantaged accounts, created as part of the 2003 Medicare legislation, will nearly always fall short of completely meeting the costs of health care in retirement.

When presented with a list of possible options for their health care plan, employees across an age range of 18-59 showed similar levels of overall interest in a plan that includes an HSA, according to CIGNA.

Respondents reported finding several features of the HSA particularly appealing, including the opportunity to secure tax-free earnings or investment income and carryover funds from year-to-year. Some 80% said they would be interested in an account they could take with them when they change jobs, while 65% said they would be attracted by the opportunity to invest the money. Nearly 80% said they would like to use an HSA to help pay for health care after they retire, and more than half said they would find it appealing if the account included a debit card or check that they could use to pay for health care expenses.

But the employees surveyed were less certain about the concept of the high deductible health insurance policy associated with the HSA. Some 48% of the respondents said they preferred to have a health care plan with higher payroll deductions or premiums, but lower deductibles; while just 35% said they would rather have a plan with lower payroll deductions or premiums, but higher deductibles.

Commenting on the results of the survey, Tom Croswell, CIGNA Healthcare's senior vice president for Consumerism and Integration, said, "This shows a level of consumer uncertainty about how a health savings

In This Issue

Summit Financial Group

*A **Summit** Consolidated Group Company*

1350 South Boulder, Suite 300
Tulsa, OK 74119
Phone: (918) 663-0991 • Fax: (918) 663-0840
www.yoursummit.com

Services to Value, People to Trust

account plan would apply in their personal circumstances, but it also indicates receptivity to the idea of such an account. It also highlights an opportunity to provide consumers with more choices and information to help them choose a health care plan that's right for them."

In addition, the survey found that 58% of respondents said they would like to have data that allowed them to forecast how much their medical care will cost in the future so that they can select the right health care plan.

The EBRI study suggests, however, that the HSA may not be adequate to address the health care needs of people after retirement. For people already age 55 and older, researchers note, the HSA would, due to contribution limits, be incapable of producing enough savings to substantially offset retiree health expenses. An employee who is 55 years old in 2004 would, by age 65, only be able to contribute a maximum of $44,000 to an HSA—far less than would be needed to cover insurance premiums and out-of-pocket medical expenses in retirement.

EBRI estimates that a retiree who lives to age 80 will need around $137,000 to pay for insurance and other medical expenses, assuming a 7% annual increase. A retiree who lives to age 90 could need as much as $250,000 to cover health-related costs.

Workers who are now in their twenties would not fare much better in retirement, EBRI concludes. While an employee could, in theory, save more than $300,000 in an HSA over a 40-year period, the value of this sum would likely be substantially eroded by increased health care costs, which tend to outpace the overall rate of inflation.

"If the availability of HSAs encourages today's workers to focus on the issue, that will be a constructive step," said EBRI president and CEO, Dallas Salisbury, "but merely starting an HSA is no guarantee that a growing problem will be solved."

The Health Savings Account may not be adequate to address the health care needs of people after retirement.

Benefits Make Up A Larger Portion Of Employee Compensation Costs

Benefits, as a percentage of total compensation, rose from 27.4% in March 2001 to 29% in March 2004, the U.S. Department of Labor's Bureau of Labor Statistics reported in a study of employer costs for employee compensation.

Employer costs for employee compensation averaged $24.95 per hour worked in March 2004, according to the report. Of that amount, wages and salaries, which averaged $17.71, accounted for 71% of these costs, while benefits, which averaged $7.23, accounted for the remaining 29%.

Among private industry employers, benefits as a percentage of total compensation were slightly lower at 28.5%, but have risen from 27% in March 1999. Average private industry employer compensation costs were $23.29 per hour worked in March 2004, with benefits accounting for $6.65 of this figure.

Among state and local government employees, benefits as a percentage of total compensation were 30.8% in March 2004. Total compensation costs for these employees amounted to $34.21 per hour worked, of which benefits accounted for $10.52.

Broken down by type of benefit, paid leave averaged 6.7% of compensation per hour worked for all workers, supplemental pay averaged 2.4%, insurance benefits averaged 7.7%, retirement and savings averaged 4.0%, and legally required benefits (i.e. Social Security, Medicare, unemployment insurance and workers' compensation) averaged 8.1%.

Health care coverage made up the bulk of insurance benefits costs, accounting for an average of 7.2% of total compensation for all workers. For state and local employees, retirement and savings benefits made up an average of 6.1% of compensation, compared with only 3.4% for employees in private industry.

Broken down by private industry occupational group, benefits costs as a percentage of total compensation were highest among management and professional employees (27.9%), and lowest among service sector workers (24.2%).

Dental Coverage Remains Affordable

The cost of dental insurance is holding steady compared with other forms of medical coverage, according to a report focusing on dental benefits for state employees by the Segal Company.

Per capita dental claims cost rose by 5.8% in 2002, while total premium rates increased by 2.7%, the consultancy concluded in its 2003 Segal State Health Benefit Survey. The survey found that the average per-person monthly premium came to $23.44 for employee-only coverage, and $62.87 for employee-and-family coverage in 2002. Researchers noted, however, that there were considerable differences in the cost of premiums among the states surveyed. Around 42% of the states participating in the survey have dental programs with no deductible.

The cost of dental plans should grow slowly, the consultancy predicted in its 2004 Segal Health Plan Cost Trend Survey. This year, charges for coverage by fee-for-service (FFS) indemnity plans are expected to rise by 7.4%, dental preferred provider organizations (DPOs) by 6.8%, and dental health management organizations (DMOs) by 5.2%. The gap between DMOs and other types of plans is projected to grow in 2004.

Segal speculated in the report that dental plan cost increases tend to be lower than medical plan increases because improved dental hygiene and prevention have kept utilization rates relatively stable.

Flextime Valued By Professionals

As pressures at the office mount, striking a balance between work and home life is becoming increasingly important to professionals, a survey by Accountemps on employee attitudes towards benefits found.

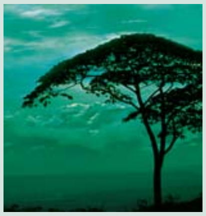
In a national poll of chief financial officers (CFOs), 30% of those surveyed rated flexible schedules as the benefit employees at their companies value most. Retirement savings, by contrast, was cited as a top priority by just 17%, and extra time off by 16%.

Health benefits were rated as most important by 13% of the CFOs surveyed, and spot bonuses by another 13%. Only 3% of respondents rated equity incentives as the most popular benefit among employees.

Commenting on the survey results, Max Messmer, chairman of Accountemps and author of *Motivating Employees For Dummies*, said, "Lean staffing levels mean many employees are working longer hours. At the same time, a growing number of professionals must meet mounting personal obligations, including caring for children and elderly relatives. For this 'sandwich generation' of employees, increased control of their time enables them to balance competing demands."

Messmer added: "Not all companies are able to provide flexible schedules; it depends on the nature of the business and the number of people employed. However, firms that can offer this benefit may have an advantage when recruiting and retaining staff."

When considering whether to offer flextime, and to which employees, Messmer recommended that managers consider customer service requirements, the work ethic of individual



Striking a balance between work and home life is becoming increasingly important to professionals.

employees, and the importance of teamwork in the organization.

Congress Urged To Take Action On Cash Balance Plan Conversions

In a recent hearing on cash balance defined benefit pension plans before the House Committee on Education and the Workforce, supporters argued that, for most workers, cash balance plans are preferable to traditional defined benefit plans, and urged Congress to remove the legal uncertainties that have discouraged employers from converting from defined benefit to cash balance schemes.

A cash balance plan—sometimes referred to as hybrid plan, because it is a cross between a defined benefit and a defined contribution pension scheme—allows workers to earn portable benefits through monthly pay and interest credits. Generally, benefits are earned more evenly over the course of a career than with traditional pension schemes, in which most of the benefits accrue close to retirement. Critics of cash balance schemes argue that they are age discriminatory because the equal pay credits are more advantageous for younger workers, who have a longer time to earn interest and accrue benefits. Advocates stress that cash balance plans are better for workers who do not remain with the same employer for their entire career.

"A broader group of employees—including lower-income workers and women—earn greater benefits with shorter service under cash balance plans than traditional plans," said Rep. John Boehner, chairman of the committee, in a statement made at the hearing.

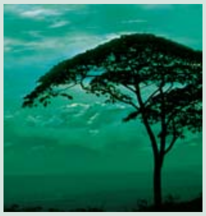
Boehner argued that traditional plans are best-suited to the small proportion of employees who work for the same employer for most of their career, and collect an early retirement subsidy when they leave the company in their mid-50s. "I'm concerned that cash balance critics are focused not on providing meaningful retirement benefits to our overall workforce, but solely on protecting a small fraction of employees who can afford to retire early," he said.

Boehner also warned that the "recent wave of litigation surrounding cash balance plans has raised significant concerns about the continued viability of this important retirement option, and if this issue is not addressed in a responsible manner, many employers will leave the voluntary pension system altogether and the defined benefit system will all but cease to exist."

Referring to a series of conflicting court decisions on cash balance plans, James Delaplane, special counsel for the American Benefits Council, told the committee that a recent survey showed that "41 percent of hybrid plan sponsors said they would freeze their plans if the legal uncertainty was not resolved within a year."

Ellen Collier, director of benefits for the Eaton Corporation, explained how her company successfully implemented a cash balance plan. Collier pointed out that if employers rule out offering hybrid plans because of the legal risks involved, their choices would be limited to staying with traditional pension designs, or moving to defined contribution plans. "Clearly, it is employees that lose out as a result of today's uncertainty surrounding hybrid plans," she said.

A number of witnesses called upon Congress to move forward on the issue of cash balance plans, clarifying which plan designs satisfy current age discrimination rules. They also asked that Congress provide legal certainty for existing hybrid plan conversions, set down rules to govern future transitions to hybrid plans, and reject benefit mandates that prevent employers from modifying benefit programs or force employers to leave the defined benefit system.



If employers rule out offering hybrid plans because of the legal risks involved, their choices would be limited to staying with traditional pension designs, or moving to defined contribution plans.