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777 Zeckendorf Blvd. • Garden City, NY 11530 • (516) 745-7500

This
Just
In...

BENEFITS

What Are Your Employees' Benefits Worth?



 An AARP lawsuit has stalled employers' ability to coordinate retiree health benefits with Medicare. On Feb. 4, AARP, the American Association of Retired Persons, received a judge's order temporarily blocking the Equal Employment Opportunity Commission (EEOC) from implementing a rule that would allow employers to coordinate retiree health benefits with Medicare without violating the Age Discrimination in Employment Act (ADEA). The ADEA prohibits offering different benefits of employment based on age. In 2004, the agency had approved proposed final regulations that would allow employers to reduce, change or eliminate retiree health benefits when retirees become eligible for Medicare.

In response to AARP's suit, the EEOC has agreed not to implement regulations on retiree health benefits before April 5, 2005. AARP's suit contended that "...the EEOC is charged with preventing age discrimination, not with making health care policy choices that could result in employers eliminating benefits for those who become eligible for Medicare." However, employer groups say that preventing employers from coordinating retiree benefits with Medicare makes retiree benefits too expensive and will prompt many employers to drop retiree benefits.

Wages and salaries for private sector workers rose 2.4 percent in 2004. During the same period, benefit costs increased at more than twice that rate—6.9 percent. Employee benefit costs now account for nearly 30 percent of the average worker's total compensation, according to a U.S. Bureau of Statistics analysis of data from September 2004. This compensation includes wages and salary; legally required benefits, including Social Security, Medicare, unemployment insurance and workers' compensation; and benefits employers provide voluntarily, including life, health and disability insurance, paid leave and retirement and savings benefits.

Employers know they have a sizable investment in employee benefits. But do your employees? A benefit statement can help your employees better understand the benefits you provide and their value, which can enhance satisfaction and retention. It can also help employees understand the importance of any cost-cutting measures you have or plan to impose.

You could create benefit statements for each employee. However, allowing employees to calculate the value of their own benefits is more likely to get them thinking about their benefit package. To create a statement, provide each employee a worksheet with the following information:

- 1 Base annual earnings (BAE) = hourly rate x hours, or salary**
- 2 Benefits included in base salary:**
 - * Paid holidays = hourly rate x 8 x number of paid holidays (for full-time employees)
 - * Paid vacation = hourly rate x 8 x number of vacation days per year (for full-time employees)
 - * Paid sick leave = hourly rate x hours taken
 - * Internal training = The amount your company spends per employee on internal training and education



**EMPLOYEE
BENEFITS
REPORT**

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Smoking: Employees' Rights vs. Employers'

There's little doubt that smoking is harmful to health. The Centers for Disease Control says that, "Tobacco use remains the leading preventable cause of death in the United States, causing more than 440,000 deaths each year and resulting in an annual cost of more than \$75 billion in direct medical costs. Nationally, smoking results in more than 5.6 million years of potential life lost each year." In addition to the medical costs, smoking also costs \$80 billion per year in lost productivity. It causes cancer, cardiovascular diseases and respiratory diseases, such as emphysema and asthma. Despite this, 23 percent of adult Americans still smoke.

Employers bear a big portion of the health costs of smoking. A 2000 study by Action on Smoking and Health, a nonprofit antismoking and nonsmokers' rights organization, found that smokers cost employers \$1,000 more per year in healthcare costs than nonsmokers. Smoking can cause cancer, emphysema and other lung problems. Nonsmokers who breathe in secondhand smoke also suffer health effects. "Every year as many as 3,000 nonsmokers die of lung cancer and at least 35,000 nonsmokers die of heart disease caused by inhaling secondhand tobacco smoke," said Beverly Kingsley, MD, epidemiologist with CDC's Office on Smoking and Health (OSH).

Allowing smoking in the workplace could also increase your workers' compensation costs. "Employees in New York, California, Florida, Kansas, Massachusetts, New Mexico and Wisconsin have qualified for workers' comp for lung cancer, emphysema, asthma and chronic bronchitis caused by secondhand smoke," according to www.legalsurvival.com.

Employers have taken a variety of actions to rein in smoking-related healthcare costs. These range from banning smoking in the workplace, to offering smoking cessation programs, to paying a higher portion of nonsmokers' insurance premiums, to refusing outright to hire smokers. We'll take a look at each of these measures and the benefits and possible pitfalls of each.

- Workplace smoking bans. To date, California, Connecticut, Delaware, Florida, Idaho, Maine, Massachusetts and Rhode Island have state laws banning smoking in most workplaces. Nineteen states have laws that ban smoking in some establishments. Some municipalities also have smoking bans. To find out whether your community bans smoking in the workplace, see the Americans for Nonsmokers' Rights Web site, www.no-smoke.org/goingsmokefree.php?dp=d13p140. If your community has no laws prohibiting workplace smoking, you can choose to ban smoking on your worksite. Your ban can extend outdoors to premises owned or leased by the company.

Workplace smoking bans reduce nonsmokers' exposure to secondhand smoke and encourage smokers to reduce their consumption

of tobacco or even quit. A 1992 internal memo from Phillip Morris company reported that the company's own study found that, "Smokers facing... [total workplace smoking bans] consume 11%-15% less than average and quit at a rate that is 84% higher than average." The memo also says that, "If smoking were banned in all workplaces, the industry's average consumption would decline 8.75-10.1% from 1991 levels and the quitting rate would increase 74% (e.g., from 2.5% to 4.4%)."

No laws prohibit employers from banning smoking in the workplace. Even if your state has a "smokers' rights" law, employers do have the right to prohibit smoking on their premises. And doing so can improve air quality and reduce your exposure to liability for secondhand smoke.

- Smoking cessation programs. In 1999, 31 percent of employers surveyed by the Society of Human Resource Management offered a smoking cessation program. A recent study from the Netherlands found that paying the full cost of smoking-cessation treatment increased quit rates by 50 percent, according to a report in Medical News Today (www.medicalnewstoday.com).

Many providers offer smoking cessation programs, which can vary widely in methods and effectiveness. The Office on Smoking and Health of the U.S. Department of Health and Human Services offers a brochure on smoking cessation programs called Support for Employees Who Smoke. It includes information on the health benefits of smoking cessation, descriptions of the various types of smoking cessation programs available, and a useful checklist to help you evaluate smoking cessation program providers. www.cdc.gov/tobacco/research_data/environmental/chap4.pdf.

- Charging different insurance premiums for smokers/nonsmokers. Some companies require smokers to pay a higher percentage of their health insurance premiums. Others give nonsmokers a discount for their coverage. But beware—the federal Health Insurance Portability and Accountability Act (HIPAA) prohibits employers from requiring individuals to pay higher premiums on the basis of any health-status-related factor. Positioning your program as a discount for adhering to a wellness (no smoking) program might help protect your company against charges of violating the HIPAA or discriminating



3 Required contributions, including:

- * FICA (Social Security) = BAE x 6.2% (include up to \$90,000 in BAE for 2005; amounts over this exempt)
- * Medicare = BAE x 1.45% (no maximum)
- * Unemployment insurance = BAE x your company's rate
- * State disability insurance (in California, Rhode Island, New Jersey, New York, Hawaii, and Puerto Rico). BAE x applicable rate
- * Workers' compensation insurance = BAE x class rate x experience modification factor

4 Medical and other optional benefits:

- * Medical insurance premiums = Total annual premium x percent of company's contribution
- * Dependent coverage = Total annual premium x percent of company's contribution
- * Life, dental and other insured benefits = total annual premium x percent of company's contribution
- * Contribution to 401(k) = varies, depending on how your company handles contributions
- * Employee assistance program (EAP) = varies with your EAP. Add your per-employee cost to the value of the benefits received. For example, some EAPs provide five free visits to a participating counselor per problem. Multiply the number of covered visits by the average hourly counseling fee in your area. This can range from \$75 on up, depending on your area.
- * Educational assistance = The amount of money the company has paid for outside tuition, lab fees and books/materials.

- * Transportation benefits = The value of any employer-provided transit passes, parking or subsidies for these.
- 5 Total benefit package = Item 2 + Item 3 + Item 4

Some employers realize the value of employee benefit statements but think employees might not take time to calculate their own benefits. In that situation, we might be able to recommend a cost-effective outsourcing solution. Chances are your employee benefits cost far more than your employees realize. To investigate ways to get more from your employee benefit expenditures, please call our office. □

Investing in benefits communications pays!

A recent analysis by human resources consultant Watson Wyatt revealed the importance of benefit communications in employee retention and satisfaction. The analysis found that average turnover among top employees was five percentage points lower at employers with good benefits communication programs and mediocre benefits than at employers with good benefits packages but mediocre communications. Those employers that had both good benefits and good communications had the best retention record, with a turnover rate 9 percent lower than at the employers with good benefits and poor communications.

Another Watson Wyatt study found only 22 percent of employees were satisfied with their rich benefit programs at organizations that poorly communicate the value of these programs. At organizations that effectively communicate the value of less rich benefit packages, 76 percent of employees expressed satisfaction. So, before spending more on benefits, consider whether you are communicating your existing program effectively. □

against smokers. The program also should have a sound actuarial basis—discounts should reflect the actual cost difference between insuring a nonsmoker and a smoker. You should also give employees an opportunity to qualify for a discount at least once a year.

In structuring your program, you'll have to decide whether you want to take employees at their word or whether you want to test them for nicotine use. Testing for nicotine, a legal substance, could raise privacy concerns.

- * Refusing to hire smokers, and firing those who smoke. A 1988 survey by the Administrative Management Society found 6 percent of all employers (about 6,000 companies) discriminated against off-duty smokers. That percentage has certainly increased since then.

No federal laws protect smokers' rights or ban discrimination against smokers. However, 29 states and the District of Columbia have passed such "lifestyle discrimination" statutes. Most of these laws only protect smokers, but the states of "...Colorado and North Dakota ban discrimination based on any form of legal off-duty behavior," according to the American Civil Liberties Union (ACLU).

Before implementing a ban on off-duty smoking, consider the possible negative effects. It might prevent you from hiring qualified job candidates or cause negative publicity. Before implementing any controls on legal off-duty activities, please consult an attorney specializing in employment law. To discuss strategies for controlling healthcare costs, please call us. □



The Pension Benefit Guarantee Corp. (PBGC) faces a projected deficit of \$23.3 billion, thanks to a spate

of costly bankruptcies in the past several years. The federal agency, created in 1974, takes over defined benefit pension plans when a plan sponsor goes bankrupt and pays retirees at least part of the benefits owed. It acts as the final guarantor for the pensions of 44 million Americans. About 20 percent of Americans have defined benefit pension plans. Defined contribution plans, such as 401(k)s, are not guaranteed.



The federal fiscal 2006 budget proposed by the Bush administration included provisions aimed

at strengthening the PBGC. Among other measures, the provisions would significantly increase insurance premiums that plans pay to the PBGC, prohibit financially troubled employers from increasing plan benefits, eliminate plant shutdown benefits and give companies the option to overfund their pension plans. This would allow plans to build surpluses that could carry them through harder economic periods.



Weyco, Inc., a Michigan benefits services company, recently fired four workers who refused

to take a nicotine test. The company had implemented a complete ban on employee smoking, even after hours, 15 months earlier and offered smoking cessation programs to help smokers quit. Although Weyco's actions might seem a bit extreme, many employers are taking steps to discourage employee smoking to cut their health costs. For more information, see P. 2.

Employer-Sponsored Roth 401(k)s Available in 2006

Beginning on January 1, 2006, Roth 401(k) will become another retirement savings option for employees. After January 1, participants in 401(k) and 403(b) plans (the nonprofit world's equivalent to a 401(k)), will be able to defer a portion of their salary into an account that shares many features of the individual Roth IRA.

As in a Roth IRA, employees will make their Roth 401(k) contributions with after-tax dollars, not pre-tax dollars as in a traditional 401(k). Although participants' contributions to a Roth 401(k) face a current tax bite, they will grow tax-free and eligible participants will be able to make withdrawals free of income taxes. Funds in a Roth 401(k) can also grow for a longer period of time than in a traditional IRA or 401(k). These plans require participants to begin making withdrawals by age 70½. Minimum withdrawals depend on the participant's remaining life expectancy (or the life expectancy of the participant and his/her spouse), as calculated in IRS life expectancy tables. Roth IRAs and 401(k)s do not require participants to begin withdrawals at age 70½.

Two pots vs. one

Employers can also match employee contributions to a Roth 401(k)—“typical” 401(k)s match up to 3 percent of salary. Though employees will contribute after-tax dollars to their Roth 401(k) accounts, employers can deduct matching contributions from their corporate income taxes. Because employee and employer contributions face different tax treatments, employers will have to deposit their contributions into a separate traditional 401(k) account and maintain separate books for these accounts.

Contribution limits

Currently, employees can save up to \$12,000 in pretax income in a traditional 401(k). Workers who opt to add Roth 401(k) contributions will be able to save up to a combined maximum of \$15,000 in their traditional and Roth 401(k) plan in 2006. Individuals age 50+ will be able to save an additional \$5,000 in “catch up contributions” per year.



“...contributions to a Roth 401(k) face a current tax bite, [but] they will grow tax-free...”

Retirement considerations

Although Roth 401(k)s will give employees more savings options, they will also increase the number of decisions employees will have to make. When they retire, employees will have two 401(k) accounts to draw from—one that has accumulated tax-free (the Roth) and whose withdrawals will be free of income tax, and the other (the traditional, employer-funded account) whose funds will be subject to income tax upon withdrawal. At retirement time, account owners will have to evaluate their current financial situation to determine whether it is best to take distributions from their traditional 401(k) account or the Roth 401(k) account. They can also roll Roth 401(k) funds over into a Roth IRA.

Because of this, and because Roth 401(k) contributions will be made with after-tax dollars, these plans are most likely to appeal to higher-income workers, who might not qualify for a Roth IRA. (To contribute to a Roth IRA, your modified adjusted gross income must be less than \$160,000 for married filing jointly, \$10,000 for married filing separately and you lived with your spouse any time during the year, and \$110,000 for single heads of household or married filing separately and you did not live with your spouse during the year). If you are looking for ways to help higher-income workers maximize their retirement savings, you will want to consider promoting the advantages of a Roth 401(k). For more information, please contact us. □



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