

# BENEFIT

## *Plan Developments*



A report covering plan design and legislative changes

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## A Benefits Review Can Help Companies Trim Costs

Employers can respond positively to the current economy by taking action to reduce employee benefit costs, while still boosting the well-being of their workers, according to a report published by the Wellness Council of America (WELCOA).

The report, “Financial Wellness: Thrifty Ideas for Turbulent Times,” was written by Jeff S. Rubleski, director of sales strategy for Blue Cross Blue Shield of Michigan, and by David Hunnicutt, president of WELCOA. The authors outlined a number of steps employers can take to minimize their benefit costs without reducing coverage for workers.

First, the authors recommended that employers work with their benefits advisor and health insurance provider to find out whether their current health care plan is the most cost-

effective. If it is not, employers might consider switching to a different plan during or before the annual open enrollment period. If a change is made, they added, employers should establish a communication plan so that workers understand and utilize the new options.

Especially if cuts are being made in health care coverage, businesses

may want to consider offering “voluntary” benefits that are paid for by employees, such as individual life insurance, accidental injury coverage, critical illness insurance, dental or vision coverage, and long-term care insurance. “Voluntary benefits can fill in critical insurance coverage gaps for employees, reducing financial risk when a claim for a covered voluntary benefit occurs,” the authors noted.

Rubleski and Hunnicutt also observed that many sponsors of 401(k) plans fail to make adequate efforts to educate employees about the advantages of contributing to these plans. The report recommended that employers start by assessing their overall retirement plans and making sure that the matching contribution and vesting schedule promote employee participation.

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Moreover, the authors said, “typically, there is a tremendous opportunity for better employee education regarding the operation of the plan and how the plan benefits the employee.” They pointed out that targeted education efforts, which may be provided by the company’s pension investment plan advisor, will likely increase employee participation in the plan and boost employee contributions.

In some cases, retirement plan sponsors may want to consider adding a Roth 401(k) option or automatic enrollment features to the plan. “Companies that have elected automatic enrollment have reported success in increasing both employee participation in the plan and increased employee contributions,” according to the report.

In addition, Rubleski and Hunnicutt suggested that employers consider using financial incentives to improve participation rates in wellness programs, thereby reducing health care costs and enhancing the fitness and well-being of employees. In particular, the authors advised businesses to consider strategic incentive programs designed to encourage employees to complete a health risk assessment, to participate in focused care and disease management programs, and to adopt healthy behaviors related to nutrition, weight management, and exercise. Properly designed incentives linked to the employer’s health care plan can, the authors asserted, dramatically increase employee participation in targeted programs and also help to identify those employees who have elevated health risk factors.

Finally, the report advised employers to take action to leverage the success of the changes made to their benefit plans by implementing a financial education program designed to encourage workers to make better use of benefit programs and to make better financial decisions in their daily lives. By implementing these ideas, Rubleski and Hunnicutt concluded, employers “will take measurable, cost-effective steps” to optimize the investments they have made in their benefit programs, as well as in the financial and physical health of their employees.

## Employers Continue To Provide Health Benefits

Despite their ongoing commitment to providing health care benefits to their employees, a growing number of employers are adjusting their health care strategies and are expressing concerns about their ability to provide insurance coverage moving forward, according to a survey conducted by the National Business Group on Health (NBGH) and human resources consultancy Watson Wyatt. Meanwhile, a report released by the Robert Wood Johnson Foundation (RWJF) showed that, even as the number of American adults who lack health insurance continues to rise, coverage rates for children are improving due to an expansion of government programs.

The NBGH and Watson Wyatt surveyed 489 large U.S. employers in January 2009. Results showed that 62% of employers are very confident that they will be able to offer health care benefits in 10 years’ time. However, researchers noted, this represents a sharp drop from 73% of the companies surveyed last year.

“This is the first time in the 14 years that we have conducted this survey that employer confidence has declined, and it is not related to an increase in cost trends,” said Ted Nussbaum, director of group and health care consulting at Watson Wyatt. “This clearly reflects the uncertainty among large employers over the impact that the fragile economy is having on their ability to stay competitive in the face of health care costs that persistently rise at double the rate of general inflation.”

The survey also found that only 41% of the employers surveyed are sticking with their current health care strategy, while the remainder have indicated that they have made adjustments or expect to do so this year.

The findings further showed that employers have mixed views on the health care reform proposals currently under

discussion in Washington. When asked whether they support or oppose certain types of initiatives, 68% said they are in favor of consumer-directed account-based plans, but just 36% support individual or pay-or-play mandates, which require employers to provide health benefits for their employees or pay a penalty to offset the costs the government incurs in providing coverage. In addition, only 12% would like to see a change in tax policy that removes tax deductibility of employer premium contributions.

The survey found that 34% of respondents currently offer health savings accounts (HSAs), but that 43% expect to have added these consumer-directed accounts to their coverage options by 2010. In addition, the number of companies conducting dependent eligibility audits is rising: 61% of respondents in 2009 said they conducted dependent audits, compared with 54% in 2008 and 47% in 2007.

As employers strive to continue to provide health care benefits to their employees, a growing percentage of Americans, especially children, are covered by government programs, such as Medicare and Medicaid, and a declining number of non-elderly adults have private insurance coverage, a study by RWJF revealed.

The findings of the RWJF study were based on a state-by-state analysis of data from the U.S. Census Bureau from the periods 1994–1996 and 2006–2007. Results showed that, by 2007, 45.7 million Americans had no health insurance, and that, between 1994 and 2007, the percentage of men who were uninsured rose from 19% to 22%, while the percentage of women increased from 16% to 18%. Yet, over the same period, the percentage of uninsured children fell by 13 points, largely due to additional coverage provided by government insurance programs like Medicaid and the State Children's Health Insurance Program (SCHIP).

Moreover, the analysis showed, the percentage of non-elderly Americans with private health insurance fell between 1994 and 2007 from 73% to 67%, with some of the largest decreases seen in Alaska, North

Carolina, Utah, Vermont, and Virginia. The study also found that the average costs for an individual health insurance policy rose 61% between 1996 and 2006, from \$2,560 to \$4,118.

“The case for reform couldn't be clearer,” said Risa Lavizzo-Mourey, M.D., M.B.A., president and CEO of RWJF. “Further inaction means that costs rise, businesses struggle, and workers go without. As high as the numbers of uninsured people seem to be, they don't even reflect the current crisis with millions of Americans losing their jobs, which puts their insurance status in jeopardy. And the more people who become uninsured, the harder it is on our health care system.”

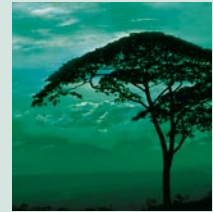
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## Low Financial Literacy Hinders Retirement Planning

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Research indicates that financial literacy rates are low among many groups of Americans, especially the elderly and those with low incomes and educational attainment, according to a study presented in March at a conference on financial literacy sponsored by organizations including the Brookings Institution and the Retirement Security Project. In addition, researchers provided details of recent studies investigating ways to improve knowledge of financial issues among vulnerable populations.

The paper, “Financial Literacy, Retirement Planning, and Retirement Wellbeing: Lessons and Research Gaps,” was written by Annamaria Lusardi of Dartmouth College and Olivia S. Mitchell of the Wharton School, University of Pennsylvania. Over the past several years, the authors explained, they have designed and implemented survey questions to measure financial literacy, starting with questions that were included in the 2004 U.S. Health and Retirement Study (HRS), a nationally representative survey of respondents aged 50 and older. In addition, researchers designed a set of questions for the Rand American Life Panel




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(ALP) to measure both self-assessed knowledge and actual financial knowledge.

The results of these and similar studies, Lusardi and Mitchell said, have revealed a low level of financial literacy among older Americans. For example, they noted, more than half of older respondents cannot perform a simple calculation regarding interest rates over a five-year period, and a majority do not know that holding a single company stock entails greater risk than holding an equity mutual fund. In addition, just one-third of respondents in the general population understand the power of interest compounding and how credit cards work.

The findings also indicated that a sizable group of older workers are not planning for retirement, even when it is only a few years away: When workers aged 51–56 were asked in the 2004 HRS whether they had ever attempted to calculate how much they need to save for retirement, one-third of respondents in this group indicated they had not even tried to make the calculation.

Financial literacy is so important to retirement planning, the authors said, because their research indicates that people who know about the power of compounding interest and who can do simple calculations are much more likely to be retirement planners. Moreover, they emphasized, financial literacy is not just a proxy for educational attainment or demographic factors such as gender or race; instead, even after accounting for these characteristics, research shows that financial literacy continues to be an important determinant of planning.

To help address these shortfalls, the authors recommended some general approaches, as well as more targeted initiatives aimed at specific groups known to have low levels of financial literacy. According to the authors, designers of financial literacy programs should, for

example, avoid very limited interventions, such as single sheets of numerical information or single hour-long educational sessions. In addition, programs should provide not just information, but also the tools needed to process and organize the information. Generally, these interventions should employ communication methods that do not rely heavily on numbers and statistics, but instead use broader economic and finance theory in presenting advice.

Observing that women tend to display much lower levels of financial literacy than men, even though their need for retirement planning is greater given their work histories and projected longevity, the authors described an intervention they believe could prove effective in encouraging women to save. They proposed providing a group of women with a guide containing succinct descriptions of the risks they will face in retirement, especially longevity risk, and offering simple actions they can take to manage these risks more effectively. These guides would rely more on charts than on figures and statistics, and incorporate messages related to women's roles as caretakers of children and aging parents. More concretely, the program would offer these women a means of accessing low-cost life annuities. The authors suggested that researchers investigate the efficacy of this approach to establish whether it makes sense to implement an intervention of this kind on a large scale.

Regardless of how it is achieved, Lusardi and Mitchell stressed that the ultimate goal of financial literacy initiatives should be to encourage people to plan for their retirement. "The reason why retirement planning is so important," the authors observed, "is that it is a strong predictor of retirement wealth: those who plan end up at retirement with double the amount of wealth of those who do not plan."




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