# Employee Benefits Report

AFFORDABLE BENEFIT SOLUTIONS

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# Rethinking 401(k) Plans in a Changing Economy

**Once considered the safe retirement choice, 401(k) plans and other employer-sponsored defined contribution (DC) retirement programs have come under renewed scrutiny in this soft economy. But a number of in-depth studies show that employees are sticking to their 401(k) plans, and their investments stack up nicely when compared to defined benefit and other retirement plans available to most workers.**

If you're trying to retain the best employees (and who isn't?), offering a 401(k) can be an important incentive. And making sure employees understand the value of that benefit, especially in today's economy, can help you reach retention goals.

## Investment patterns

With the economy showing signs of picking up, more 401(k) participants are increasing their contributions than decreasing them, marking a reversal in employees' investing patterns. According to a recent Fidelity Investments report, 4.7 percent of plan participants increased their 401(k) contribution rate in the second quarter of 2009, while only three percent lowered it.

What's more, thanks to diversification and ongoing contributions, the average account dropped 11 percent of its value in 2008. That's better than the S&P 500, which fell 19 percent during that time period. It also beats the assets of private sector and state and local government defined benefit (DB) plans, down 14 percent, and IRA assets, down 13 percent.

401(k) plans may also be a better fit than DB plans for employees who change jobs frequently. DB plans expose workers to the risk that the sponsor will freeze workers' benefits (by freezing the plan, terminating the plan or going out of business) or that a worker will lose or change jobs without accruing significant DB benefits.

For this reason, lower-income workers are more likely to be covered by 401(k) or other DC plans than by DB plans: 19 per-

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**Employers should be on the lookout for common retirement plan errors.** The Internal Revenue Service recently published a list of recurring mistakes it sees in large case audits of qualified retirement plans and in submissions under its Voluntary Correction Program. This list provides employers with a useful checklist for reviewing the operations of their qualified retirement plans.

A number of these errors result from the actions of the third-party administrator (TPA). Often the TPA's errors result from the employer's failure either to provide current and accurate information regarding eligible employees and eligible compensation or to properly review and monitor the actions of the TPA.

For more info, visit www.irs.gov/retirement/article/0,,id=96907,00.html

**Employers are starting to reverse salary cuts and freezes and reinstate matching contributions to 401(k) plans,** according to a survey by Watson Wyatt. Thirty-three percent of employers that froze salaries plan to unfreeze them within the next six months, up from 17 percent two months ago. Forty-four percent plan to roll back salary cuts in the next six months, compared with 30 percent who said so earlier this year. The survey also found that 24 percent of employers plan to reverse reductions to 401(k) match contributions in the next six months, versus five percent in June 2009.

# Are Vision Plans a Clear Choice?

**Among the "big four" healthcare benefits — medical, dental, prescription drugs, and vision — it's the latter that is the least likely to be offered by companies and the least likely to be used. According to the most recent US Department of Labor National Compensation Survey, just 28 percent of companies offer vision care benefits.**

However, companies that offer vision care reap a number of benefits, starting with productivity. Vision disorders can result in a marked decrease in productivity, which costs businesses an estimated $8 billion annually, according to a report released by the Vision Council of America (VCA).

The report also found that an estimated 11 million Americans have uncorrected vision problems, ranging from refractive errors (near- or far-sightedness) to sight-threatening diseases such as glaucoma or age-related macular degeneration. Nearly 90 percent of those who use a computer at least three hours a day suffer vision problems associated with computer-related eye strain.

Employees in professions ranging from engineers, construction workers, stockbrokers, software developers, to accountants and administrative assistants are among those most at risk for developing vision problems that affect their work performance.

Another study cited in the *Journal of the American Optometric Association* found that in the presence of very little visual degradation, such as glare on a monitor, employees show an efficiency decline of four percent to 19 percent in accomplishing standard tasks.

## Sidebar: Vision Plan Factoids

- **Employers can gain up to $7 for every $1 invested in vision coverage.**
- **More than eight out of 10 consumers say they would be interested in a vision plan.**
- **Half of all people with diabetes do not know they have it. Diabetes mellitus is the leading cause of legal blindness in the U.S. today.**
- **By age 65, one in three seniors will have a vision-impairing eye disease.**
- **Premium vision benefits cost only $70-$80 annually, compared with $4,256 for medical premiums.**

***Source: National Association of Vision Care Plans***

## Types of packages

Vision insurance typically comes in the form of either a *vision insurance* or a *discount vision plan.* Typically, a vision insurance plan provides enrollees eye care services in exchange for an annual premium, a yearly deductible for each insured, and a co-pay each time an insured accesses a service. A discount vision plan provides eye care at fixed discounted rates after an annual membership fee is paid; some have a deductible.

Both kinds of plans can be custom-designed to meet the requirements of a wide range of businesses, including small- and medium-sized businesses, nonprofits, school districts and unions.

Vision insurance generally covers the following basic services:

- ✔ Annual eye examinations, including dilation
- ✔ Eyeglass frames
- ✔ Eyeglass lenses
- ✔ Contact lenses
- ✔ LASIK and PRK vision correction at discounted rates

Vision insurance costs vary for employers, depending on the size of the company and how the program is designed. You can even offer it at no cost to you as part of a voluntary benefits program. Employees can expect to pay a monthly premium or membership fee and/or a small deductible or co-pay, depending on the services they use.

## Getting started

Start by asking your medical benefits provider if it offers vision care either as a standard or premium option in any of its plans. If not, we can find a plan directly through a specialty vision insurance provider.

Ask your employees if they'd be interested in vision insurance and gauge their willingness to contribute to the cost. Talk about their recent and estimated future vision care needs, their costs and the amount they would hope to save with a vision benefits plan.

Analyze your company needs and compare available vision care benefits packages. Look for convenient access to optometrists and ophthalmologists, likely savings for your employees, overall user friendliness of the plan and cost to your employees and/or your company.

Solicit preliminary proposals for benefits

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cent of working-age households earning less than $25,000 have a DC plan, versus only seven percent with a DB plan. For working-age households earning $25,000 to $34,999, 42 percent have DC plans, versus 17 percent with DB plans, according to the American Benefits Council.

## Myth busting

Despite their popularity, a number of myths persist around 401(k) plans, particularly around fees. An Investment Company Institute report found that 401(k) participants have generally concentrated their assets in low-cost mutual funds. The average total expense ratio incurred by 401(k) investors in stock funds was 0.74 percent in 2006, less than half of the 1.50 percent simple average for all stock funds and ***lower*** than the industry-wide asset-weighted average of 0.88 percent.

As a result, 401(k) mutual fund investors not only incur low average expense ratios in stock mutual funds overall, but also in each broad type of stock fund: domestic stock funds, hybrid funds and foreign stock funds.

Employees who shy away from 401(k) plans due to worries about fees may be missing a favorable investment opportunity. Lowest-fee options in many plans often are those with relatively low long-term returns (for example, a money market fund) or higher risk (such as employer stock). Most employees will fare poorly if they invest solely in these low-fee options without regard to the risks or historical performance.

The most important task for a 401(k) participant is to construct a diversified account with assets allocated appropriately based on his or her savings goals. Fees and expenses are only one component to consider and should always be considered along with other key information, including investment objectives, the fund's historical performance and risks.

## Explaining the upside

Employees tend to shy away from making voluntary contributions during down periods, but the best time to buy is when the investment price is at its lowest. The beauty of a 401(k) is that employees don't have to make the decision of when to buy — it just happens on a regular basis through payroll deduction.

If you have a group of participants who previously only put money into checking or savings accounts or certificates of deposit, this may be the only other place where they're managing their money. As the plan sponsor, you have to assume that they're not experts about investments, so it falls upon you to provide information that is understandable for them.

Benefits such as match provisions and profit sharing offer exceptional value that employees are simply not going to find in any other type of retirement plan. They also enjoy significant tax savings from 401(k) plans.

Bottom line: Without offering investment advice, it's important to continue to tell your employees why a 401(k) is a valuable asset and why they need to contribute to it. ■

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packages and select the vision insurance plan that best meets your criteria. Decide how to divide the premium costs between your employer contribution and the percentage that will be deducted from employee paychecks.

Write a detailed statement of your employee vision benefits package and include it in your personnel policy handbook with all necessary information to assist employees in selecting the benefit. Don't forget to sell the benefits of the plan to ensure maximum participation. ■

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employees even in the toughest of economies. This means going beyond mere legal compliance and engaging in benefits communication with the same strategic planning and implementation as any communication program, internal or external. Your communications should cover any or all of the following:

- Benefit overviews and updates
- Orientation, training and educational programs
- Comparison charts
- Legal updates
- Directory information

And be available through a number of channels:

- Brochures and leaflets
- Paycheck stuffers
- Presentation materials
- Newsletters
- Emails
- Online

**Define healthcare benefits within a broader context:** A benefits communications plan should link directly to your company's business objectives and include well-defined, measurable performance outcomes. It should provide employees with the latest information about healthcare costs and the impact on company performance. The plan should specify what employees can do to help minimize the effects of cost increases on themselves and the company.

**Align leadership and engage managers:** Every company should view the healthcare cost crisis as a business issue affecting its productivity, profitability and reputation, and one that should not be shouldered by the HR department alone. Organizations can help by working to define issues, build trust, encourage employee partnership and guide key behavior changes. This requires leaders and managers to continuously inform and engage employees around the issue.

**Bottom line:** Health and money are emotionally charged subjects. A communications plan that focuses on two-way communication and provides dynamic and easy-to-use tools can help you create a better benefits environment and save your company money. ■

# Supercharge Your Benefits Communications

**Every year, it's estimated that more than 80 percent of employers revamp their benefit plans, yet only 20 percent of employees make new elections. You can improve those figures by taking time to review your benefits communications and decision support system. After all, your employees need to understand their benefits before they see them as benefits.**

Here's the all-important why: Driving employees to the right plans increases employee satisfaction with benefits, and it helps contain healthcare costs for both your organization and your employees.

Historically, companies have limited discussion of healthcare benefits with employees before the annual "open enrollment" period (usually fall to January 1). This minimal contact may cover legal compliance (and in best cases inform employees of their options), but it does little else to help lower costs and motivate employees.

Creating a year-round, dynamic conversation between your company and employees can help you create a dialogue that moves the perception from "us against them" to "we're in this together."

And here's the best part: Improved communications may also reduce your workload considerably. A recent Gartner study found that HR organizations spend between 70 and 80 percent of their time dealing with administrative activities. Often employees can deal with these activities online using a self-service HR portal, once they understand how to use it.

### Talking points

Here are some strategies for improving your benefits communications, reducing your workload and making employees more satisfied with their benefits decisions:

**Make it comprehensive:** A good program poorly communicated is a poor program in the eyes of an employee. Your job, in part, is keeping your best and brightest

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## Time to Take it Online?

Over the last several years even smaller companies have been taking benefit communications and decision-support systems online. A number of vendors are available to help you tailor an online solution to your needs.

Online benefits portals offer a number of features that can be matched with print materials:

- Medical plan selection tours: Interactive, guided tours help employees select the right plans.
- Dynamic plan comparison: Shows how different plans compare on features, coverage and cost.
- Medical cost estimator: Allows employees to compare relative costs under the different plans available.
- Flexible spending account calculator: Models impact of pre-tax contributions for FSAs.
- Retirement and life insurance calculators: Help set savings goals and model impact of 401(k) contributions.
- Benefits self-service: Employees can complete transactions in single session.
- Availability: Employees can access benefits information 24x7 via the Web for use at home with spouse or partner Employees and new hires see only the benefits for which they're eligible.
- Cost savings: Paperless enrollment eliminates printing costs.
- Helps drive employees to right plans: Increases CDHP participation and lowers healthcare costs.
- Wellness content: Helps employees take more control over their healthcare.
- Analytics and dashboards: HR or benefits administrators can view site use trends and other statistics to better tailor plans to employee/employer goals.

The cost of going online is lower than ever, and new tools and applications make the choice an easy one even for smaller companies. For assistance, please contact us. ■