HR insider bulletin

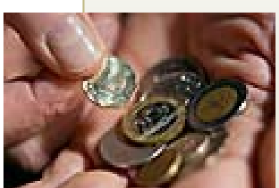
........ NOVEMBER 2004 ........

Travers, O'keefe
11 Hanover Square
New York, NY 10005
Tel: 212.742.7900
Fax: 212.742.9416

*Robbing Peter . . .*

## Healthcare Costs Up; 401(k) Savings Down

Even though increases in healthcare costs appear to be moderating, employers and employees aren't rejoicing. Years of double-digit increases in health costs have taken their toll on employers' revenue and employees' compensation and savings.



To cover increasing health costs, nearly half of employees surveyed in a recent Employee Benefit Research Institute (EBRI) survey said they cut contributions to savings accounts, while a quarter cut their contributions to 401(k) and other retirement accounts.

"Americans are coping with the rising cost of healthcare in a variety of ways, but it is clear that rising health costs are causing financial pain among many and are leading to a reduction in savings in general and retirement savings in particular," said EBRI chief executive Dallas Salisbury.

The annual Profit Sharing/401(k) Council of America survey also found that employees seem to be cooling toward 401(k) retirement plans. Whatever their reasons, a decline in overall employee participation could have widespread ramifications for companies and for their more highly compensated employees due to compliance testing requirements.

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## CCH: Absenteeism Reaches 5-Year High

Last-minute no shows cost employers $610 per employee, or approximately $60,000 for small employers to over $1 million for large employers annually, according to the 14th annual CCH Unscheduled Absence Survey. Ironically, most employees who fail to show up for work aren't physically ill, according to the survey. Only 38% of unscheduled absences are due to personal illness, while 62% are for other reasons, including family issues (23%), personal needs (18%), stress (11%), and entitlement mentality (10%).

A major reason for employee "no shows" is workplace morale. Companies with low morale continue to see approximately one-third (35%) higher rates of unscheduled absences compared to companies rated as having good morale, according to the CCH survey.

Another factor impacting unscheduled absences is employers' cutting back on allowing employees to carry over unused sick days. However, employers are taking other steps to help employees effectively manage time off. CCH notes that some 63% of employers offer a Paid Leave Bank, or Paid Time Off (PTO), under which personal, vacation, and sick days are combined into a single bank of days that an employee can use in any way he or she needs. (*Continued on back*)

*Incenting Healthcare*

## Employers Continue to Squeeze Costs

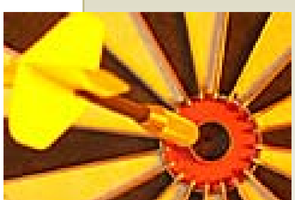
Even though evidence continues to mount that the growth in healthcare costs is slowing, this year's 11.2% hike is still five times the rate of both inflation (2.3%) and workers' earnings (2.2%), according to a recent Kaiser Family Foundation/Health Research & Educational Trust (HRET) survey.

Amidst such cost-control strategies as raising employees' premiums, copays, and deductibles, as well as implementing tiered drug formularies and disease management and wellness programs, some employers are using incentives (such as cash to employees who choose to opt out of medical coverage or switch to a spouse's plan) and disincentives (such as a spousal surcharge or higher family premiums for higher wage earners) to control costs. While cost shifting remains a common tactic, other employers are restricting eligibility, delaying eligibility for health benefits for new workers, or discontinuing coverage, according to the Kaiser-HRET report. (*Continued on back*)

## Healthcare Costs Up . . .

*(Continued from front)*

Principal's third-quarter 2004 Financial Well-Being Index shows that some 78 percent of employees at companies with between 10 and 1,000 workers continue to be beset by worry about their financial security—particularly about their long-term financial future. On the other hand, employees who take the time to establish formal retirement planning goals are more likely to be confident about their financial futures, and they tend to contribute more of their salary to their plan and hold larger account balances, according to the American Express Retirement Services Satisfaction Participant Survey.



Dow Jones Newswires notes that many businesses believe that a high 401(k) participation rate among young, lower-paid employees helps foster company loyalty. As more and more companies shun defined benefit plans, they need a viable retirement savings option to offer to the rank and file.

To encourage younger workers to participate in savings programs, Dow Jones notes that many employers are stepping up their education campaigns or increasing the amount of employee contributions they match to an average of 3 percent. In the Principal survey, nearly half of employees surveyed (47%) said they would enroll in a program that automatically increased their 401(k) deferral rate an additional 1% each year. ■

## Unscheduled Absences . . .

*(Continued from front)*

Employers included in the survey now use an average of eight work-life programs in an effort to curb unscheduled absences. Alternative Work Arrangement, Leave for School Functions, Telecommuting, and Compressed Work Week are the most effective programs as they provide employees with greater control over when and where they work, according to CCH. The increased number of employers offering eldercare programs now puts it on par with the percentage of employers offering Emergency Childcare (31%) and On-Site Childcare (29%). While the use of absence control programs has decreased, disciplinary action remains the single-most used absence control program (91%).■

## Incenting Healthcare . . .

*(Continued from front)*

Numerous organizational operations are also affected by the rising cost of healthcare coverage, according to a recent Society for Human Resource Management (SHRM) survey. In order to cover the cost of healthcare coverage, employers said they are likely to decrease: other benefits, hiring new staff, employee salary/raises, training/professional development, and technology investments. On the other hand, employers are also likely to produce savings in other areas in order to cover healthcare costs via increased expectations of employee productivity, increased cost of consumer services/products, exploration of offshoring/outsourcing, and downsizing/layoffs. ■

## . . . . . . . . . . Bulletin Briefs . . . . . . . . . .

♦ *ERISA Requires Distribution of Notice in Native Language*

Plan sponsors have a legal obligation under ERISA to provide notices in a foreign language where certain conditions exist: (1) If a plan covers fewer than 100 participants and 25% or more of the participants are literate only in the same non-English language, or (2) If a plan covers 100 or more participants and if the lesser of: 500 participants or 10% of the participants are literate in the same non-English language.

♦ *IRS Says Employee Holiday Gifts Are Taxable*

Employers who provide year-end or holiday gift certificates or other cash equivalent gifts or bonuses to employees might want to consider the gifts' taxability and review their payroll practices in light of the IRS' recent Technical Advice Memorandum. The Memorandum indicates that cash and cash equivalents do not qualify under the de minimis exception of Section 132 of the Internal Revenue Code and therefore should be included in employees' wages. Consult with your tax advisor for more information.

♦ ***Reminder**: New COBRA Forms in Effect for 2005 Plan Year*

The new COBRA notification rules take effect for plan years that start on or after Nov. 26, 2004. ■

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