

# Employee Benefits Report



PH (310) 541-4824  
FAX (310) 377-2016

500 SILVER SPUR ROAD, STE. 121  
PALOS VERDES, CA 90275  
WWW.MANIACIINSURANCE.COM



Benefit Administration

April 2011

Volume 9 • Number 4

## Increase the Value of Your Benefits Program with Benefit Statements



Employees often don't realize how much their benefits cost. A benefit statement can be an effective way to communicate the true value of your employee benefits package to your employees.

**M**any insurers provide employee benefit statements for employees, but most of these include only the benefits provided through an insurer, such as group health, life and dental insurance. But employers also provide other benefits—including Social Security, unemployment insurance, state disability, workers' compensation insurance, paid vacations and sick time, training, educational assistance and employee assistance programs—which probably don't

show up on insurer-provided benefit statements.

You could create your own employee benefit statements. However, allowing employees to calculate the value of their own benefits is more likely to get them thinking about their benefit package than handing them a sheet of paper would.

To create a worksheet, provide each employee with the following information:

- 1 Base annual earnings (BAE) = hourly rate x hours, or salary

*continued on next page*

## This Just In...

**H**ow will your organization observe National Employee Benefits Day? The International Foundation of Employee Benefit Plans says the annual observation, on April 4 this year, is an opportunity to acknowledge "trustees, administrators, corporate benefits practitioners and professional advisors" for the important role they play in their colleagues' well-being.

Millions of American workers depend on employer-provided benefits for their financial and physical health. Full-time workers in private industry have access to many employer-provided benefits:

- \* 74 percent have access to a retirement plan.

*continued on next page*

- 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.
- 3 Required contributions, including:
  - \* FICA (Social Security) = (BAE + taxable fringe benefits and taxable employer-paid deductions) x .042 (for 2011). Payable only on the first \$106,800 of earnings.
  - \* Unemployment insurance = BAE x your company's rate
  - \* State disability insurance contribution (in California, Hawaii, New Jersey, New York, Puerto Rico and Rhode Island. Calculation will vary by state.)
  - \* Workers' compensation insurance = BAE x class rate x experience modification factor
- 4 Medical and other benefits:
  - \* Medical insurance premiums = Total premium x percent of company's contribution
  - \* Dependent coverage = Total premium x percent of company's contribution
  - \* Life, dental, disability and other insured benefits = total premium x percent of company's contribution
- 5 Contribution to 401(k) = varies, depending on how your company handles matching contributions
- 6 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.
- 7 Educational assistance = The amount of money the company will pay for outside tuition, lab fees and books/materials.
- 8 Optional benefits = The sum of Items 4-7.

- 9 Total benefit package= Item 8 + Item 2 + Item 3

Some employers realize the value of benefit statements but fear few employees will take the time to calculate the value of benefits on their own. In that situation, we may be able to recommend a cost-effective solution.

Chances are their benefits cost far more than your employees realize. To investigate ways to get more from your employee benefit expenditures, please call our office. ■

## How do your benefits compare?

In 2010, private industry employer benefit costs averaged \$8.20 per hour worked, or 29.4 percent of the average total compensation cost of \$27.88 per hour worked.

Employer costs for paid leave averaged \$1.88 per hour worked (6.7 percent), supplemental pay averaged 78 cents (2.8 percent), insurance benefits averaged \$2.24 (8.0 percent), retirement and savings averaged 99 cents (3.6 percent), and legally required benefits averaged \$2.31 (8.3 percent) per hour worked. ■

*Source: Bureau of Labor Statistics*

- \* 86 percent have access to medical care benefits. Employers pay an average of 82 percent of the cost of premiums for single coverage and 70 percent of the cost for family coverage for participating workers.
- \* 74 percent have access to paid sick leave.

**A worker with access to a medical or retirement plan is defined as having an employer-provided plan available, regardless of the worker's decision to enroll or participate in the plan.**

*Source: Bureau of Labor Statistics, from March 2010 survey. (Most recent data available at press time.)*

This year, the celebrations will have a special focus on communicating employee benefits. For suggestions on improving your employees' appreciation of their benefits, please see the article on this page.

# What Plan Sponsors Need to Know About Target-Date Funds in 401(k)s

Regulations implementing the Pension Protection Act of 2006 made target-date funds a qualified default investment alternative (QDIA) in 401(k) plans. This means that when a plan uses target-date funds as the default investment, plan fiduciaries receive “safe harbor” protection and plans gain exemption from annual nondiscrimination testing requirements and “top-heavy” rules. This made target-date funds popular among plan sponsors...until the stock market crash revealed their weaknesses.

## What Is a Target-Date Fund?

Financial planning experts recommend allocating investments among different assets, such as stocks, bonds and cash. Generally, financial planners recommend that younger individuals keep the majority of their retirement portfolio in stock funds and a smaller percentage in more stable bond funds. As they get closer to retirement, most individuals should have a greater portion of their investments in bonds and cash.

Target-date funds arose because many 401(k) participants simply left their plan assets in the default funds. Target-date funds make long-term investing more convenient for 401(k) participants by automatically changing the investment mix or asset allocation over time, with the goal of maximizing funds for a specific retirement date. The name of the fund often refers to its target date. For example, “Portfolio 2030,” “Retirement Fund 2030” or “Target 2030” would be funds designed for individuals who intend to retire in or near the year 2030. Most funds will allocate more assets into more conservative investments as the target date approaches, typically shifting from a mix weighted toward stock investments in the beginning to a mix weighted more toward bonds.

Despite their popularity, target-date funds have risks. According to the SEC, 2010 target-date funds lost an average of nearly 24 percent in 2008, the year the stock market crashed. Losses ranged from 9 percent to 41 percent, affecting the goals and dreams of many investors who had planned to retire near 2010.

Target-date funds can have very different investment strategies and risks, even if they

*continued on next page*



have the same target date. They do not guarantee sufficient retirement income at the target date, and investors can lose money.

Both the SEC and the U.S. Department of Labor have proposed new rules that would require 401(k), 403(b) and similar retirement plans to provide more specific disclosures related to target-date funds offered as investment options. Specifically, the proposed amendments would require explanations of:

- ✦ Allocation of assets.
- ✦ How allocations will change over the years.
- ✦ Graphic illustrations of how asset allocations will change.
- ✦ What the fund's "target date" means.
- ✦ The risk involved in investing in a target-date fund.

The regulations would help plan participants make more informed decisions about their investments. However, many 401(k) plan participants invest in target-date funds because they do not want to make decisions on their investments on a regular basis. Plan sponsors should review the investment options offered to ensure that they suit participants' needs.

Employers that sponsor 401(k)s can offer financial education to employees, to encourage them to participate in their plans and to actively manage their investments. Employees who are educated and engaged in their benefits programs have more appreciation for their value. For information, please contact us. ■

As of March 31, 2010, the Securities and Exchange Commission (SEC) estimated assets of target date funds registered with the Commission at approximately \$270 billion. ■

## The High Cost of Alcoholism

Illicit drugs get all the attention, but alcohol—legal, cheap and readily available—causes more health problems and takes a greater financial toll than any illegal drug. The Substance Abuse and Mental Health Services Administration (SAMHSA) of the U.S. Department of Health and Human Services sponsors Alcohol Awareness Month in April to raise awareness of alcohol abuse and encourage people to make healthy, safe choices.

About 1 in every 12 adults in the U.S. abuse alcohol or are alcohol dependent, says the National Institute on Alcohol Abuse and Alcoholism. Odds are good that alcohol abuse is affecting your employees and your company's bottom line.

Although the stereotypical heavy drinker is an unemployed slacker, most heavy and binge drinkers have jobs. The 2009 National Survey on Drug Use and Health found that 75 percent of heavy drinkers were employed, while a similar percentage among adult binge drinkers were employed either full- or part-time. SAMHSA defined heavy use as five or more drinks on the same occasion on each of five or more days in the past 30 days, and binge use as five or more drinks on the same occasion on at least one day in the past 30 days.



Alcoholism and alcohol abuse cut across all lines of gender, race, age and class. However, the heaviest drinking occurs among persons between the ages of 18 and 25 years. Employees in certain occupational classes have higher rates of drug and alcohol abuse. Above-average rates of heavy alcohol use occur in the following fields: construction, handlers, helpers, and laborers (15.7 percent), machine operators and inspectors (13.5 percent), transportation and material movers (13.1 percent), precision production and repair workers (13.1 percent), and employees in food preparation, including wait staff and bartenders (12.2 percent).

### The costs to employers

Alcohol abuse takes an economic toll in many ways. Direct costs include expenditures for the prevention and treatment of alcohol abuse and dependence and treating the medical consequences of alcohol consumption, estimated at \$26.3 billion in 2000. Add to that the premature loss of more than 75,000 lives per year.

Alcohol abuse also affects productivity. A paper from 1991 estimated alcoholism caused 500 million lost workdays each year. And it also affects quality of work, morale and turnover.

The “big picture” numbers don’t mean much when you’re trying to balance your own organization’s books, however. To estimate how much problem drinking costs your business, see the alcohol cost calculator developed by the Ensuring Solutions to Alcohol Problems initiative of the George Washington University Medical School at [www.alcoholcostcalculator.org](http://www.alcoholcostcalculator.org).

### What employers can do

**Check your group health insurance plan.** Does it provide benefits for alcohol or drug addiction treatment? America’s Health Insurance Plans, an insurer trade organization, reports that 70 percent of group plans offer coverage for programs to prevent alcohol dependency; 68.8 percent of plans allow members to self-refer into substance abuse programs, and 79.4 percent of plans cover medications to treat alcohol dependency.

Under the Mental Health Parity and Addiction Equity Act of

2008, certain group health plans cannot place stricter coverage limits or lower financial limits on mental health or substance abuse benefits than on medical/surgical benefits. The Act applies to employers with more than 50 employees that offer group health plans that include mental health and/or substance abuse benefits. If your plan does not provide benefits for mental health or substance abuse, the Act does not require you to provide them.

**Offer an EAP.** Some studies have found EAPs (employee assistance programs) effective in reducing employees’ alcohol problems. EAPs can train supervisors to recognize alcohol-related problems and refer workers to the EAP. The EAP can provide confidential assessment, refer employees for diagnosis and treatment, work with community resources to provide needed services and conduct follow-up after treatment. EAP professionals may also collaborate with your health plan provider and serve as liaisons between managed care companies and treatment providers. Employees can also self-refer for EAP services.

**Consider testing for alcohol and drug use.** Remember the Americans with Disabilities Act (ADA) protects people recovering from addictions, which includes alcoholism. You cannot ask job applicants if they have been addicted in the past. You can ask them if they currently use illicit drugs; however, since alcohol is not illegal, you tread on dangerous ground if you ask about alcohol use.

If you test employees, decide when you are going to test. Some employers test all employees, or all employees in safety-sensitive positions. Others opt for random testing, which might have some deterrent effect and costs less than testing of all employees in a class. Some employers only test “for cause,” such as after every accident or when a supervisor or co-worker has reason to suspect drug or alcohol abuse. Regardless of the method you choose, the following action steps will protect your organization from liability:

- ✓ Notify employees of your testing program and the grounds for which they might be tested for drug use.
- ✓ Protect the privacy of individuals whom you test. Test results should remain confidential.
- ✓ Check the reputation of the testing lab. False positives can lead to

firming someone who doesn't deserve it—which can lead to a lawsuit. To protect your company, make sure any contract you enter with a testing lab gives the lab—and not your company—primary liability for any mistakes.

- ✓ Develop a procedure for handling positive results before they occur. An EAP can provide referrals and follow-up.

For more information on alcoholism and addiction benefits, EAPs and other benefit-related questions, please contact us. ■

## How to Spot Problem Drinking: A Quiz

**D**o you suspect an employee has a drinking problem? The following Alcohol Use Disorder Identification Test (AUDIT) from the Ensuring Solutions to Alcohol Problems program can help you determine whether he/she needs professional help.

- 1 How often do you have a drink containing alcohol?
- 2 How many drinks containing alcohol do you have on a typical day when you are drinking?
- 3 How often do you have six or more drinks on one occasion?
- 4 How often during the last year have you found that you were not able to stop drinking once you had started?
- 5 How often during the last year have you failed to do what was normally expected from you because of drinking?
- 6 How often during the last year have you needed a first drink in the morning to get yourself going after a heavy drinking session?
- 7 How often during the last year have you had a feeling of

guilt or remorse after drinking?

- 8 How often during the last year have you been unable to remember what happened the night before because you had been drinking?
- 9 Have you or someone else been injured as a result of your drinking?
- 10 Has a relative, or friend, or doctor or other health worker been concerned about your drinking or suggested you cut down?

The AUDIT is scored based on an answer range. Questions 1-8 are scored as follows: Never = 0; Less than monthly = 1; Monthly = 2; Weekly = 3; and, Daily or almost daily = 4. Questions 9-10 are scored based on yes/no responses: No = 0; Yes, but not in the past year = 2; and, Yes, during the past year = 4. A score of 8 or more is associated with risky drinking. Higher scores (13 or more for women and 15 or more for men) indicate the likelihood of alcohol dependence. ■

# Employee Benefits Report



The information presented and conclusions within are based upon our best judgment and analysis. It is not guaranteed information and does not necessarily reflect all available data. Web addresses are current at time of publication but subject to change. This newsletter is FINRA-compliant; Smart's Publishing does not engage in the solicitation, sale or management of securities or investments, nor does it make any recommendations on securities or investments. This material may not be quoted or reproduced in any form without publisher's permission. All rights reserved. ©2011 Smart's Publishing. Tel. 877-762-7877. [www.smartspublishing.com](http://www.smartspublishing.com)