

JULY-AUGUST 2010

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SURVEY PROVIDES INDICATION OF HOW EMPLOYERS WILL REACT TO HEALTH REFORM

According to a recent survey of benefits professionals at 661 large U.S. companies, most employers say they will continue to offer health coverage rather than pay the penalty established under the Patient Protection and Affordable Care Act (PPACA), but underestimate the impact the 40 percent excise tax will have on their health plans.

The study, “The Impact of Health Care Reform on Employers,” was conducted in May 2010 by the business consulting firm Towers Watson. The purpose of the survey was to get an idea of how employers are responding to various health care reform challenges “that have far-reaching implications for retention, recruitment, productivity, workforce planning, change management and every aspect of the evolving employer-employee deal.”

According to a press release, key findings of the study include:

- » Most employers anticipate that health care reform will increase

their organization’s health benefit costs. Most say they plan to pass on the increase to employees (88 percent) or reduce health benefits and programs (74 percent). The majority (82 percent) of employers surveyed, however, remain committed to their leadership role in creating a culture of health by providing workforce health improvement/wellness initiatives.

- » Most employers intend to continue offering health insurance coverage instead of paying a penalty. Specifically, starting in 2014 when large employers must offer minimal essential coverage to full-time employees or pay a penalty, 88 percent of surveyed employers are either definitely, or likely, to continue to provide health benefit coverage.
- » More employers could be unwittingly subject to the 40 percent excise tax on high-premium “Cadillac” plans. Towers Watson estimates that the excise tax will affect more than 60 percent of employers when it becomes effective in 2018, with many more to

follow soon after. Only 46 percent of the employers surveyed, however, believe they will be subject to this tax.

- » More than three in four employers (85 percent) believe that health care reform will reduce the number of large organizations offering employer-sponsored retiree medical benefits. The survey also found that 43 percent of employers that currently offer retiree medical plans plan to reduce or eliminate them.
- » Fifty-eight percent of employers surveyed believe health care reform will drive large employers to adopt total replacement consumer-driven health plans (CDHPs) for their active employees.

The study can be found at:

[www.towerswatson.com/assets/pdf/1935/Post-HCR_Flash_survey_bulletin_5_25_10\(1\).pdf](http://www.towerswatson.com/assets/pdf/1935/Post-HCR_Flash_survey_bulletin_5_25_10(1).pdf)

Article Source: Littler Mendelson

RETIREMENT READINESS BY THE NUMBERS

A recent Hewitt & Associates study* consisting of more than 2 million employees at 84 large U.S. companies found that the average employee will need 15.7 times their final pay in retirement resources to maintain their current standard of living. The survey reveals that Social Security is expected to provide 4.7 times final pay, on average, for employees entitled to full retirement income benefit. This leaves 11 times final pay need, from other sources, to achieve the full 15.7 multiple.

The analysis goes on to conclude that 18 percent of employees who contribute to a defined contribution plan and do so over their full career are expected to achieve retirement readiness. On average, this should produce 13.3 times their final pay (including Social Security) leaving 2.4 times pay unfunded. When factoring in recent market volatility, the average worker who relies solely on their defined contribution plan is projected to meet 74 percent of their retirement income needs. This figure increases to 91 percent for those who are also covered by an active or frozen defined benefit plan.

There is some good news. Workers can significantly improve their situation by making a few small adjustments:

- » **Start saving today.** Approximately 26 percent of workers who are eligible for a defined contribution plan do not contribute.
- » **Regularly increase your contribution rate.** Even as little as a 1 percent increase in employees' contribution rates per year for 5-10 years may keep them on track to meet most of their financial needs at retirement.
- » **Work longer.** Delaying retirement to age 67 can significantly reduce their savings shortfall.

Contact your plan consultant to discuss creative ways to encourage positive savings habits and help employees achieve retirement readiness.

* Hewitt & Associates. "Employees Who Make Small Adjustments Can Dramatically Improve Future Retirement Income Potential." May 3, 2010. www.hewittassociates.com/Intl/NA/en-US/AboutHewitt/Newsroom/PressReleaseDetail.aspx?cid=8397

COMPLIANCE FAQ

Question: I understand that the Patient Protection and Affordable Care Act (PPACA) extends group health plan coverage for dependent children until age 26. What do I need to do in regards to our company's health plan?

Answer: Under the PPACA, all group health plans must provide coverage to a dependent child until the child's 26th birthday. The child does not have to be a student, a tax dependent of the employee or reside with the employee. The child may also be married or have his or her own dependents. However, the group health plan is not required to provide coverage for the child's spouse or dependents.

The dependent must be eligible for the same coverage as other aged dependents at the same cost. In other words, an employer cannot limit the older dependents to a specific plan or charge a higher premium deduction for their coverage than is charged to employees with younger dependents. The cost of the coverage is not taxable to the employee or the employer through the end of the tax year in which the child turns age 26. The dependent's expenses are also eligible for reimbursement under a health FSA or HRA.

Group health plans must comply with this requirement for plan years starting on or after Sept. 23, 2010. This means that an employer with a calendar year plan would need to comply by Jan. 1, 2011. The requirements do not apply to stand-alone dental or vision plans.

A grandfathered plan is not required to provide coverage for dependents who are eligible for other group coverage, not including coverage under either parent. Under the PPACA, a plan is considered to be grandfathered if it was in existence on March 23, 2010, and has not made certain significant plan design changes that cause the plan to lose its grandfathered status.

In regards to action items, employers should understand how the law impacts two types of dependent children. The first type is dependent children who are currently covered under the group plan, but will lose eligibility and coverage before the next plan year when the provisions are implemented. Many carriers are allowing employers to amend their plan mid-year to keep these children under the plan.

The second type includes children who were previously terminated from the plan (i.e., "aged off"). The law requires that these children be permitted to enroll in the plan prior to the next plan year during an open enrollment period, which must be at least 30 days in length. The employer or the insurance carrier must send notice to the employee notifying them of dependents' eligibility and instructions on how to enroll. An employer may choose to amend their plan earlier than required and permit these children to re-enroll on the plan prior to the next plan year. However, an employer must have the carrier's approval to implement these changes before the next plan year.

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