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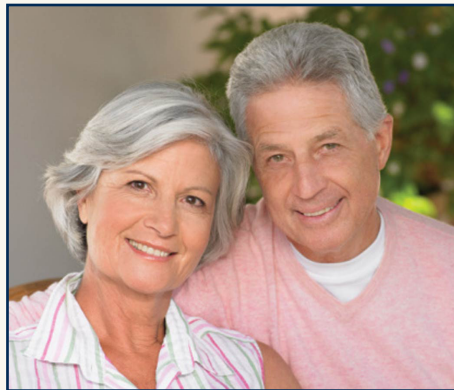
A RETIREMENT SOLUTION FOR YOUR HIGHLY- COMPENSATED EMPLOYEES

Highly-compensated executives have unique challenges funding their retirement. Not only do tax-favored qualified plans limit the amounts that highly-compensated employees may contribute to them, but the Social Security Administration caps Social Security contributions as well. All in all, there are very few traditional retirement savings vehicles available to executives and other key employees that allow them to maximize their retirement nest egg.

A solution? Employers may elect to sponsor a non-qualified 409(A) Deferred Compensation Plan, which works similarly to qualified 401(k) plans in that voluntary salary and/or bonus deferrals are contributed on a pre-tax basis. As with other qualified plans, the corporation may also match a portion of the employees' deferrals. With these plans, the employer credits earnings to a deferred compensation account balance based on hypothetical investment options (valuation options) selected by the executives. The earnings grow tax-deferred until benefits are paid. Executives may then defer income to save

for retirement or for some other event, such as college education for children.

Overall, there are several distinct advantages to establishing a non-qualified plan—to both the employer and the employee:



Advantages of these plans for the executive/employee:

- ▶ Deferrals can exceed IRS limits for qualified plans
- ▶ May remedy the reverse discrimination caused by qualified plan limitations
- ▶ Can provide significantly higher benefits than outside personal investments, as plan participants receive earnings on the entire pre-tax deferral amount and taxes are deferred on those earnings

Advantages of these plans for the corporation/employer:

- ▶ Avoid most of the cost and administrative requirements associated with establishing and maintaining a qualified plan under ERISA
- ▶ Exempted from non-discrimination rules and testing which apply to qualified plans, the corporation has the freedom to select participants and design the plan at its discretion
- ▶ Can tailor the benefits and plan design

to workforce demographics—which may attract executives, as well as increase commitment of existing executive employees

VOLUNTARY BENEFITS: PRODUCT AND PROGRAM TRENDS

While the leading driver in voluntary benefits sales continues to be employee interest, cost-shifting appears to be running a close second. Rising healthcare costs are forcing employers of all sizes to implement changes in their health plans that involve a significant shifting of the burden of cost for health-related coverage to employees.

While this cost-shifting practice was initially evidenced in higher co-payments and deductibles for health insurance, it has recently been manifested in the form of increased sales of health-related voluntary products as well. Specifically, products like voluntary dental, specified disease, short-term disability, hospital supplements and limited medical have seen significant sales spikes in an otherwise flat industry.

Voluntary programs continue to offer value to both employees and employers. Employees continue to get increased choices according to their personal needs, competitive rates and underwriting through the purchasing power associated with a group offering, guaranteed renewable benefits and the convenience of payroll deduction. For employers, the advent of cost-shifting has significantly expanded the breadth of health-related products available through voluntary channels. The result? Enhanced flexibility for employers to fill gaps not covered by core medical, expand benefits programs without adding costs, introduce choice and portability for more lines of coverage, and effectively create a method through which to recruit and retain top quality employees.

RECENT SURVEYS FORECAST 2007 MEDICAL TREND

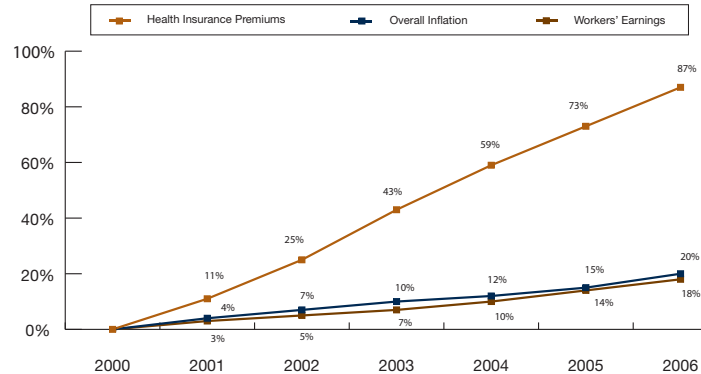
As the January open enrollment season approaches, several studies have recently been released detailing cost trends in medical, pharmacy, and dental premiums in 2006 and providing projections for 2007.

According to the Kaiser Family Foundation, premiums for employer-sponsored health insurance rose by 7.7% between Spring 2005 and Spring 2006. Although this was the lowest rate of increase since 2000, it is still more than double the increase of both overall inflation (3.5%) and wage gains (3.8%). Since 2000, cumulative increase of health insurance premiums has been 87%, compared to 18% for inflation and 20% for wage growth (see Fig 1).¹

The Segal Health Plan Cost Trend Survey looked at projected trends for 2007. Although declines in trend for medical and pharmacy are expected, all medical plan types were forecasted to see cost increases in 2007 that continue to be more than twice the increase of inflation (CPI-U of 4.1% as of July 2006) and the annual increase in workers' earnings (also 4.1% as of July 2006). For active employees and retirees under age 65, the medical trend including pharmacy was projected between 1.1% for Point of Service (POS) plans and 13.3% for indemnity plans.²

Aon and Towers Perrin have also recently released their own health cost trend surveys. Similar to the Kaiser study, Towers Perrin found the average premium increase for all plan types to be 7% in 2006, with a projected increase of 6% in 2007.³ The Aon survey focused on trend rates by plan type for plan years beginning between April and September 2006. That study showed that the medical trend was more than three times the rate of inflation (3.4% CPI-U as of March 2006). For active employees and retirees under age 65, the medical trends including pharmacy ranged from an average of 11.9% for POS plans to 14.4% for indemnity plans.⁴

Figure 1: Cumulative Changes in Health Insurance Premiums, Overall Inflation, and Workers' Earnings 2000 - 2006



Note: Data on premium increases reflect the cost of health insurance premiums for a family of four.

Source: KFF/HRET Survey of Employer-Sponsored Health Benefits, 2001-2006; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 2001-2006; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April), 2001-2006.

The trend for prescription drug coverage is projected to decelerate in 2007 to levels in line with the medical trend. Segal projects a trend of 11.9% in aggregate retail costs, with a 19.5% increase in specialty drugs.² The Aon survey showed an increase of 12.2% for general pharmacy coverage and 17.0% for specialty drugs.⁴

For additional explanations of these trend forecasts, including projected trends for dental and vision coverage, please refer to the studies referenced.

Sources:

1. Kaiser Family Foundation - Employer Health Benefits 2006 Annual Survey (September 2006) <http://www.kff.org/insurance/7527/index.cfm>
2. 2007 Segal Health Plan Cost Trend Survey (August 2006) <http://www.segalco.com/publications/surveysandstudies/2007trendsurvey.pdf>
3. Towers Perrin 2007 Health Care Cost Survey (October 2006) http://www.towersperrin.com/tp/jsp/hrservices_webcache_html.jsp?webc=HR_Services/United_States/Press_Releases/2006/20060926/2006_09_26.htm&language_code=en_US&selected=press
4. Aon Spring 2006 Health Care Trend Survey (Forecasts for twelve-month rating period beginning between April and September 2006 - released May 2006, Fall survey due out November 2006) http://www.aon.com/us/busi/hc_consulting/employee_benefits_cons/health_welfare/articles/spring_2006_healthcare.pdf

HR HOTSPOT

Saving Too Little, Too Late

45% of workers say their greatest financial regret is delaying saving for retirement.



27% of employees say they regret saving too little in their early working years.

20% of workers say the best financial lesson they learned was to diversify their portfolios.

16% of employees say the best advice they received was to invest the maximum in their 401(k)s, IRAs, and non-qualified plans.

Only **30%** of workers have a plan for their retirement income.

Source: Principal Financial Group 2006