Employee Benefits Report

BROKERAGE AND ADMINISTRATIVE SERVICES

3000 Atrium Way, Suite 300 • Mt. Laurel, NJ, 08054
1-800-786-CBDI (2234) • www.cbdi-inc.com

Wellness May 2011 Volume 9 • Number 5

Weight-Related Claims Create Heavy Burden for Employers

According to the U.S. Centers for Disease control, in 2006, obese people spent $1,400 more in medical care costs than did people of normal weight. Obese individuals also spend 77 percent more money for necessary medications than non-obese persons.

Researchers have linked obesity and overweight to the following health conditions:

- Coronary heart disease
- Type 2 diabetes
- Cancers, such as endomet rial, breast, and colon
- High blood pressure (hypertension)
- High total cholesterol or high levels of triglycerides (dyslipidemia)
- Stroke
- Liver and gallbladder disease
- Sleep apnea and respiratory problems
- Degeneration of cartilage and underlying bone within a joint (Osteoarthritis)
- Reproductive health complications

Moreover, 74 percent of all healthcare costs in the U.S. result from four chronic conditions: cardiovascular disease, cancer, diabetes and obesity. These chronic conditions increase your group medical costs. They also affect worker productivity: the more chronic medical conditions an employee has, the higher the

continued on next page

This Just In…

On average, a female retiring at age 65 can expect to live another 19 years, 3 years longer than a man retiring at the same age. Savings can increase a woman's chances of having enough money to last during her retirement.

This, combined with the following factors, mean your female employees need extra encouragement to participate in your retirement plan:

- **Women are more likely to work in part-time jobs that don't qualify for a retirement plan. And working women are more likely than men to interrupt their careers to take care of family members. Therefore, they work fewer years and**

continued on next page

probability of absenteeism or presenteeism.

Many see overweight and obesity as matters of personal responsibility. But employers can help solve the problem. By encouraging employees to slim down, your employees will be healthier and the company can reduce its healthcare costs.

Key components to consider when developing a strategy to encourage healthy weight loss include the following:

- Involve employees throughout the process.
- Offer programs at a time and place convenient to employees.
- Reward participants for achieving program goals.
- Offer a variety of programs to meet different employee needs.
- Change the workplace environment to support healthy lifestyles (e.g., provide healthy selections in vending machines, post pictures or newsletter articles of successful participants, and offer healthy low fat foods in cafeteria).

As part of the National Strategy to Combat Obesity, the nonprofit Trust for America's Health (www.healthyamericans.org) suggests employers consider the following actions:

- Offer employees programs and health benefits that help them stay healthy, including nutrition, physical activity and obesity counseling; subsidize health club memberships and provide insurance coverage for preventive services. Investing in employee health not only improves productivity but also cuts down on absenteeism.
- Provide opportunities for employees to be active during the day. Maintain clean, well-lit stairwells to encourage employees to take the stairs, for example.
- Encourage commuting by foot or bike by providing bike racks, lockers and showers.
- Provide healthy food options in vending machines and in cafeterias.
- Encourage employees to engage in physical activity on their lunch hours and breaks. Employers have long allowed smokers to step outside for a cigarette break. Consider offering "walking breaks" instead, whereby employees can leave their desks for 10 minutes or so to walk around the office. Walking breaks can improve mental focus in addition to physical health.
- Advocate for prevention services. Generally, physicians do not receive enough support, resources or reimbursement from insurance companies to prescribe preventive care for patients with chronic diseases. Employers can ask their insurers to offer plans that cover nutrition counseling, weight loss and weight management programs to decrease obesity and prevent the development of chronic diseases.
- Recognize that good health starts in childhood. Do you encourage mothers to nurse their newborns as long as possible? Formula-fed babies have a greater risk of becoming overweight and suffering chronic conditions such as allergies than breast-fed babies. The incidence of diabetes and other chronic health conditions is growing among juveniles due to sedentary lifestyles and overeating. If you provide dependent healthcare benefits, does your plan cover wellness and weight loss services for children?

Employers can do only so much, but by encouraging healthier habits in the workplace, you may see the results in the bottom line. For more suggestions on improving wellness or cutting employee healthcare costs, please contact us.

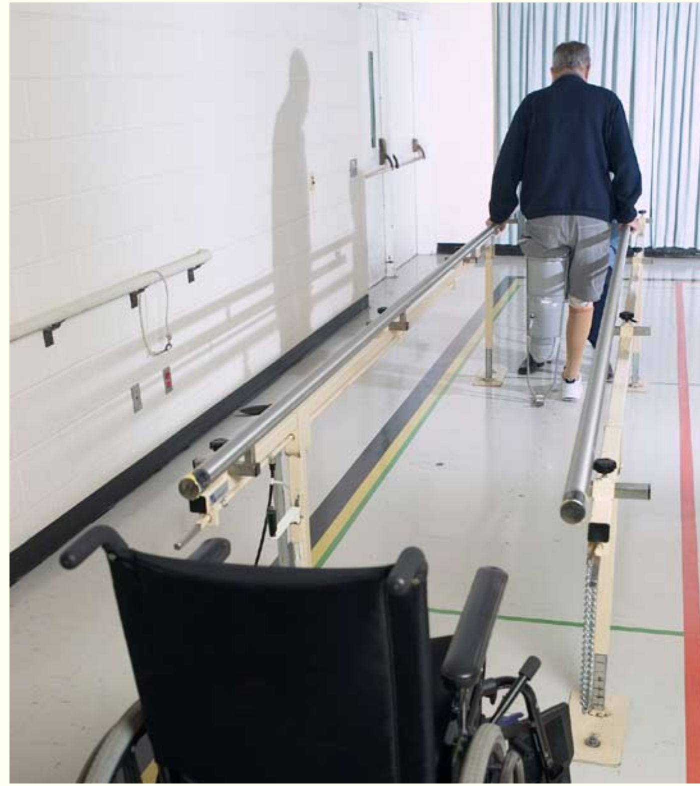
contribute less toward their retirement, resulting in lower lifetime savings.

- **Of the 62 million wage and salaried women (age 21 to 64) working in the United States, just 45 percent participated in a retirement plan.**
- **By and large, women invest more conservatively than men.**

For more information on retirement education, please contact us. And for more information on Roth 401(k) retirement savings plans, please see the article on P. 4.

AD&D Insurance Provides Big Benefits at Little Cost

Accidental death and dismemberment are not things many people enjoy talking about. Accidental death and dismemberment (AD&D) coverage provides valuable benefits when the unthinkable occurs. With its low cost, AD&D makes a valuable addition to any employer's benefits package, particularly for the vast majority of workers who do not have individual disability insurance.



Unintentional injury ranks as the fifth leading cause of death among all Americans. AD&D policies provide a set payment, typically $100,000, to beneficiaries when an insured dies from injuries suffered in an accident.

AD&D coverage doesn't help just the family of a deceased, however. The "dismemberment" part of the policy's name comes from the fact the policy also pays if an insured loses a limb or its use in an accident. The benefits payable depend on the loss. For example, a policy might pay half of the death benefit for the accidental loss of one hand or arm or one foot or leg. If the insured lost two or more limbs (combination of arms and legs), the policy would pay the entire face value (death benefit) to the insured.

AD&D policies may also cover the sudden loss of vision or hearing. The same principles apply. If an insured loses one eye (or its use), the policy would pay one half the benefit. If he/she loses both eyes, then the insured will receive the entire face value of the policy.

AD&D is particularly attractive for young workers, who statistically are more likely to die from accident than illness. For these workers, AD&D is substantially cheaper than regular life insurance and may be an attractive alternative to individual term life if your organization offers AD&D on a voluntary basis.

If your organization plans to pay for AD&D benefits, the incredibly low cost of AD&D premiums might come as a pleasant surprise. This is because the occurrence of accidental death and other losses covered is extremely rare, so insurance companies do not pay out very often. Hence, AD&D insurance is among the least expensive benefits you can offer. However, for the families of an employee who suffers an accidental death or dismemberment, the benefit will prove valuable indeed.

You can provide coverage in a separate AD&D policy, or by simply adding coverage to term life policies you already have in place through an accidental death and dismemberment rider. With an

continued on next page

AD&D rider, the insurance company will pay a "double indemnity." This means if a covered accident caused the insured's accidental death, the beneficiary would receive the life policy's death benefit, plus a benefit under the AD&D rider.

Coverage Questions

Before offering AD&D coverage, it's important to understand—and to convey to employees—what AD&D covers and what it doesn't. "Accidental death" under the policy means that an unforeseen circumstance caused a death unrelated to a malfunction of the body. An example of "malfunction of the body" would be someone suffering a stroke or heart attack while driving. If the heart attack or stroke occurred before the accident and the accident resulted from that bodily malfunction, the policy would not cover the accident. If the accident leads to death, many policies require this unfortunate incident to occur within ninety days of the accident for benefits to be paid. In addition, policies usually stipulate that the cause of death must be directly related to the injuries incurred from the accident.

It's important to keep in mind that AD&D policies do not cover death by any form of illegal or crime-related activities. Policies also don't cover death by suicide. And because they don't cover death from illness, an AD&D policy is no substitute for life insurance coverage.

Nevertheless, AD&D policies provide a valuable benefit for employees who use their bodies to earn their livelihood.

Is AD&D coverage right for your company? We can help you analyze your current benefit program and employee needs. ■

Correction: In our April issue, the subhead for the article "What Plan Sponsors Need to Know About Target-Date Funds in 401(k)s" stated "…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 should have read: "when a plan uses target-date funds as the default investment *along with a qualified automatic contribution arrangement (QACA)*…" We regret the error.

Employer-Sponsored Roth 401(k)s Offer Another Savings Option

To help higher-income workers maximize their retirement savings, consider adding a Roth 401(k) option to your retirement benefits menu. Unlike traditional or safe harbor 401(k)s, Roth 401(k)s place no limits on an employee's income in determining if he or she can make contributions. Younger and lower-income workers might also decide the advantage of tax-free income in the future, when they could be in a higher tax bracket, outweighs the benefits of lower taxes in the present.

What Is a Roth 401(k)?

A Roth 401(k) combines features of the traditional 401(k) with those of a Roth IRA. Roth 401(k) and 403(b) plans (the nonprofit world's equivalent of a 401(k) plan) differ from traditional or safe harbor 401(k)s in several significant ways:

- Participants make their contributions with after-tax dollars, but earnings grow tax-free and eligible participants can make withdrawals free of income taxes. To qualify as tax-free, individuals must participate in the plan for at least five taxable years, plus have reached age 59 ½ or suffered a disability. Beneficiaries can also make tax-free withdrawals after the employee's death.
- Funds in a Roth 401(k) can grow for a

continued on next page

longer period of time than in a traditional IRA or 401(k). The traditional 401(k) requires participants to begin making withdrawals by age 70½. Roth IRAs and 401(k)s do not require participants to begin withdrawals at age 70½.

- Roth 401(k)s appeal to higher-income individuals because they place no limits on an employee's income in determining if he or she can make designated Roth contributions. Employers and employees cannot contribute to a traditional 401(k) if the individual's compensation exceeds $245,000 (for 2011).

As with traditional pre-tax accounts, annual contribution limits apply to designated Roth accounts. The combined amount contributed to all of an individual's designated Roth accounts and traditional, pre-tax accounts in any one year cannot exceed $16,500 in 2011. Employees who will be age 50 or older at the end of the year can make an additional $5,500 catch-up contribution.

Considerations for Plan Sponsors

Employers wanting to offer a Roth 401(k) option to their retirement benefits menu do not have to change plan providers. You can generally add a Roth option to your traditional or safe harbor 401(k) plan. Employees can make Roth contributions or traditional pre-tax contributions or both. Employees who make both types will have two separate accounts. A 401(k) or 403(b) plan cannot offer only designated Roth contributions—it must also offer traditional, pre-tax elective contributions.

Employers can match employee contributions to a Roth 401(k), just as they do with a traditional 401(k). Because employee and employer contributions face different tax treatments, employers will have to deposit their contributions into a separate traditional 401(k) account and maintain separate books for these accounts. Employers can deduct their contributions as a business expense.

Plan sponsors must treat designated Roth contributions exactly the same as traditional, pre-tax elective contributions when performing annual nondiscrimination testing.

Considerations for Retirees

Although Roth 401(k)s give employees more savings options, they will increase the number of decisions employees must make after retirement. Employees who have made designated Roth contributions

Comparisons of Roth 401(k), Roth IRA, and traditional 401(k) retirement plans

Roth 401(k) plan	Roth IRA	Traditional 401(k) plan
Employee contributions are made with after-tax dollars.	Same as Roth 401(k) plan.	Employee contributions are made with before-tax dollars.
Investment growth accumulates without any tax consequences.	Same as Roth 401(k) plan.	Investment growth is not subject to Federal and most State income taxes until funds are withdrawn.
No income limitation to participate.	Income limits: married couples, $179,000, singles, $122,000 adjusted gross income.	Same as Roth 401(k) plan. No income limitation to participate.
Contribution limited to $16,500 in 2011 ($20,000 for employees 50 or over).	Contribution limited to $5,000 in 2011 ($6,000 for employees 50 or over).	Same as Roth 401(k) plan.
Withdrawals of contributions and investment growth are not taxed provided recipient is at least age 59½ and the account is held for at least five years.	Same as Roth 401(k) plan.	Withdrawals of contributions and investment growth are subject to Federal and most State income taxes.
Distributions must begin no later than age 70½. (This may change.)	No requirement to start taking distributions.	Same as Roth 401(k) plan.

Source: U.S. Department of Labor

continued on next page

Correction: *The article "Increase the Value of Your Benefits Program with Benefits Statements" in our May issue said: "FICA (Social Security) = (BAE + taxable fringe benefits and taxable employer-paid deductions)x .042 (for 2011)." That rate should be .062. We regret the error.*

who also received employer matches will have two 401(k) accounts to draw from—one that has accumulated tax-free (the Roth) and whose withdrawals will be free of income tax, and the other (traditional, employer-funded account) whose funds will be subject to income tax upon withdrawal. At retirement time, account owners will have to evaluate their current financial situation to determine which account to take distributions from.

They can also roll Roth 401(k) funds over into a Roth IRA. Because of this, and because Roth 401(k) contributions will be made with after-tax dollars, these plans are most likely to appeal to higher-income workers, who might not qualify for a Roth IRA. (To contribute to a Roth IRA in 2011, your modified adjusted gross income must be less than $179,000 for married filing jointly, and $122,000 for individual filers.

If you are looking for ways to help higher-income workers maximize their retirement savings, you will want to consider promoting the advantages of a Roth 401(k). For more information, please contact us. ■

Defining "Overweight" and "Obese"

The U.S. Centers for Disease Control define overweight and obesity as "ranges of weight that are greater than what is generally considered healthy for a given height" and that "increase the likelihood of certain diseases and other health problems." The CDC uses body mass index, a ratio of weight to height, to determine weight ranges for overweight and obesity. An adult who has a BMI between 25 and 29.9 is considered overweight, while an adult with a BMI of 30 or higher is considered obese.

To put this in perspective, a man of average height (5'9") would be considered overweight at 169 to 202 pounds, and obese at 203 pounds or more. A woman of average height (5'4") would be considered overweight at 145 to 169 pounds, and obese at 174 pounds or more.

The National Institutes of Health reports that more than two-thirds (68 percent) of all adults in the U.S. are overweight, while 33.8 percent are obese. Although the BMI correlates with body fat for most people, it does not measure body fat. As a result, people with a lot of lean muscle mass, such as athletes, could have a BMI that indicates they are overweight when they actually have little body fat. For more information and access to an online BMI calculator, see www.cdc.gov/healthyweight/assessing/bmi/adult_BMI/index.html. ■

Employee Benefits Report