

BENEFIT

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Work-Life Benefits and Employee Retention

Recruiting and retaining employees who are both qualified and motivated is an ongoing challenge for most businesses. One way of building staff loyalty and increasing productivity is to put policies in place that help employees balance their commitments at work and at home.

Employees who have the time they need to care for children or elderly parents, or pursue further education or even hobbies, will likely be less stressed and more focused when they are at work. And by offering flexibility to employees, businesses will, in turn, have greater flexibility to employ people who prefer part-time or non-traditional work arrangements that also meet the needs of the company.

Demographic and societal changes inevitably have an impact on the workplace. The 9-to-5 workweek

was conceived with the “traditional family” in mind. But the male employee with a wife at home to take care of family matters today

represents a minority group in the U.S. labor force. Some 85% of American workers have immediate, day-to-day family responsibilities, according to Senate Resolution 210, a proclamation designating October as “National Work and Family Month,” that was passed by the Senate in September 2003.

The resolution, which identified issues confronting workers that can be addressed by the adoption of work-life programs and services, noted that 46% of workers are parents with children under the age of 18, and that nearly 20% of Americans have been responsible for providing or arranging care for family members or friends over the past year. Work-life programs are not just beneficial for families, the resolution declared; they are also key predictors of job productivity, job satisfaction, retention, and commitment to employers.

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Investing in a mix of programs tailored to the needs of its particular workforce can give a company a competitive edge.

“The workplace today is not our father’s workplace,” Ellen Galinsky, president of the Families and Work Institute observed in a testimony before the U.S. Senate Health, Education, Labor & Pensions Committee. “No longer are whistles that signal the start and end of the workday commonplace. No longer are photos of our family members at work the sole symbol of our lives outside of work.”

Despite the clear demand for programs that would support employees in juggling their personal and professional responsibilities, many business owners remain uncomfortable with the idea of “flexibility.” Some fear that the work would not get done outside of traditional work arrangements, or that the administrative burden of keeping track of staff with unconventional schedules would be too onerous. Other employers view flexible working as a perk to be scaled back or eliminated in periods of budget cuts and downsizing. A survey by the Alliance for Work-Life Progress and *Work/Life Today* found that the type and number of work-life programs declined during the recent slowdown, and are now only starting to return to pre-2001 levels.

While the work-life benefits offered to employees vary widely from company to company, some of the most common programs, according to *Work/Life Today*, include:

- Employee assistance programs
- Child care referrals
- Elder care referrals
- Tuition assistance
- Flexible schedules
- Wellness programs
- Back-up child care
- Paid maternity leave

Some of these benefits, such as referral services and flexible schedules, are inexpensive to provide; while others, like paid family leave or tuition assistance, are more costly. But given the potential return in improved productivity and employee retention levels, investing in a mix of programs tailored to the needs of its

particular workforce can give a company a competitive edge.

Most employers are aware that hiring part-time workers is usually more cost-efficient than taking on full-time employees, especially since part-timers often do not qualify for the full range of employee benefits, such as participation in health and retirement plans, or paid leave.

But because part-time workers receive fewer benefits, they are often less loyal to their employers. Some will leave a company if they are offered full-time employment elsewhere.

There are, however, some workers who prefer part-time schedules. These include parents with children, older workers, and students. While companies may not consider it feasible to offer part-time workers the same benefits package as full-time employees, they can improve retention rates of part-timers by providing them with flexible hours and the opportunity to take unpaid leave. These employees, in particular, tend to have pressing commitments outside the workplace, and value having the flexibility to alter their schedules to fit in teachers’ conferences, doctors’ appointments, or study time for exams.

The entry of large numbers of women into the workforce in recent decades has brought dramatic changes to the American workplace. Another transformation is underway as the labor pool ages. While many baby boomers will retire on schedule, some will want to continue to work well into their sixties, or beyond.

Seniors do, however, tend to want to put in fewer hours than younger workers. A survey by consulting firm Watson Wyatt found that one out of three older employees would continue working longer if their employer offered a phased retirement program. But researchers noted that many companies have yet to establish formal or informal arrangements, such as shorter work weeks or flexible hours, that would encourage older workers to delay retirement.

Traditional work and retirement patterns are in flux, according to the AARP website. The current trend is for people to leave and reenter the workforce a number of times throughout their lives. The AARP emphasizes that seniors, like younger adults, are likely to have family responsibilities, such as caring for grandchildren or sick relatives.

The AARP suggests that companies discuss alternative working arrangements with employees who wish to continue to work past retirement age, such as phased retirement, flextime, a compressed work week, part-time work, job sharing, telecommuting, job reassignment, or even job redesign.

By adapting to the needs and desires of their older workers, employers will be able to hold on to workers with valuable experience and knowledge of the company. “As the economy recovers and baby boomers reach traditional retirement ages, labor shortages will reemerge as an important issue,” observed Valerie Paganelli, senior consultant with Watson Wyatt. “Employers would be wise to consider phased retirement strategies that address older workers’ needs and that will help maintain an adequate supply of talent and experience in the years to come.”

Sen. Grassley Urges The Treasury To Fix The FSA

Concerned that the “use it or lose it” rule is discouraging many Americans from saving for medical bills in a tax-favored flexible savings account (FSA), Sen. Chuck Grassley of Iowa, chairman of the Senate Finance Committee, has written a letter to Treasury Secretary John Snow, urging his department to redesign the FSA.

“These flexible spending accounts are a good way to help employees meet their health care needs,” Grassley said. “Unfortunately, employees have to use the money in their accounts by the end of the year, and they lose the money if they don’t. That doesn’t make any sense. And it’s a deterrent to using flexible spending accounts. I hope the Treasury Department will fix this problem so more Americans will feel comfortable setting up these useful accounts.”

Under section 125 of the Internal Revenue Code, employees are currently permitted to contribute at the beginning of the year to an FSA in lieu of other forms of compensation. The pre-tax savings in the account can be used to pay for health expenses that are not covered by insurance. Currently, however, the rule stipulates that the employee loses any funds left in the FSA at the end of the year.

In explaining to Snow why he would like to see this “use it or lose it” rule abolished, Grassley wrote, “I am aware of no other area of benefits law in which we allow—let alone mandate—that employee dollars set aside for benefit expenses revert back to the employer. The current rule unjustly enriches employers at the expense of hard-working employees who participate in FSAs.”

In addition, Grassley pointed out, “the ‘use it or lose it’ rule causes inefficient allocation of health care dollars by providing an incentive for employees to incur unnecessary health care expenses at the end of the year to use up the account. Of course the ‘use it or lose it’ rule also has the effect of dramatically reducing employee participation in FSAs because employees do not want to risk forfeiting or wasting their hard-earned money.”

Grassley recommended that, while legislative remedies to this problem have been proposed, the Treasury Department should examine closely its authority to change the ‘use it or lose it’ rule. “Modifying this rule,” Grassley told Snow,



Currently, the employee loses any funds left in the FSA at the end of the year.

“would help millions of Americans meet their health care expenses and make the FSA rule more rational.”

Employers Pass On Rising Cost Of Prescription Drugs To Workers

As prescription drug prices and usage continue to escalate, employers are passing a growing proportion of the cost of drug insurance coverage on to workers, according to a study based on data compiled by the Bureau of Labor Statistics (BLS).

The number of employers charging more than \$10 for a prescription drug co-payment has risen from 10% in 1993, to more than 70% in 2003, according to the BLS. Over the same time span, the percentage of companies offering prepaid plans with co-payments under \$10 fell from 80% to less than 10% a decade later.

The BLS reported that U.S. aggregate spending for prescription drugs has more than tripled, due largely to a combination of rising prices and an increase in the use of prescription drugs. The average price of a prescription jumped from \$22.06 in 1990 to \$45.79 in 2000. But BLS researchers noted that growing consumption was responsible for the bulk of the increase in spending. The number of prescriptions filled by Americans between 1992 and 2002 grew 74%, from 1.9 billion to 3.3 billion.

In an effort to contain expenditures on pharmaceuticals, employers have started offering employees incentives to choose lower cost prescription drug options. Many companies now offer higher reimbursements for pharmaceuticals, network pharmacies, and mail order

services. The BLS found that, in 1993, fewer than 30% of companies offered higher reimbursement for generics, compared with more than 80% in 2003.

IRS Ruling Allows Employers To Alter Disability Plans

The IRS recently issued a new ruling outlining how employers can amend their group disability plans to give employees greater flexibility in choosing whether to pay federal income tax on employer-paid premiums in a given year. The ruling offers employers the opportunity to enhance their disability benefits simply by altering the terms of their plan.

Generally, an employer pays the premiums of a group disability insurance plan for eligible employees on a pre-tax basis, and the premiums are not included on the employee's W-2 form. But the IRS Rev. Rul. 2004-55 holds that employers can offer employees the option of being currently taxed on these short- and long-term disability premiums.

This could be an attractive choice for employees who are concerned about becoming disabled, as any disability benefits received by the employee would then be excluded from his or her gross income. Employees may elect to be taxed on the premiums prior to the beginning of each plan year, but the choice is then irrevocable for the year. Taxation of disability benefits is based on whether the employee paid tax on the premiums in the year he or she became disabled, regardless of whether tax was paid in previous years.



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