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January 2014 Benefits Spotlight

The shift among American employers to defined contribution retirement plans--where employees bear the responsibility and risk of contributing to and managing retirement accounts--is well documented. Now, it seems, this same approach could also take hold within the employer-provided health benefits arena. This month we look at two challenges a "DC" strategy to benefits plan management pose for employees and employers alike: the ability of employees to convert accumulated 401(k) assets into a reliable stream of income, and determining whether and how to take a DC approach to health benefits.

Developing a Plan for Lifetime Income Isn't for the Faint of Heart

The first stage of any plan for lifetime income has to begin with saving enough in the first place by making good decisions about deferrals and asset allocations into an employer-provided plan. That's not always easy for financially strapped participants or those who simply prefer to spend their money now rather than save it for later. But if accumulating enough assets for retirement is difficult for employees, converting those sums into lifetime income can be even more of a challenge. It's even gotten the attention of the U.S. Department of Labor. In May 2013, the Department issued an advanced notice of proposed regulations regarding periodic lifetime income projections for defined contribution plan participants. As part of that advanced notice, a Fact Sheet spells out the assumptions and safe harbors the DOL is proposing for providing these projections, while a proposed Life Time Income Calculator illustrates how participants' accumulated savings would translate into a stream of income from an annuity.

Retirement income strategies are also the concern of the National Association of Government Defined Contribution Administrators, which issued this July 2013 paper on the topic. The 18-page document provides a good overview of in-plan and out-of-plan options, as well as a discussion of the risks and benefits associated with various strategies.

Of course, an annuity an employee purchases on his or her own with proceeds from a DC plan is one solution. But annuity contracts are complex and should not be entered into without due diligence, something employees may be ill-equipped to do. Newer, in-plan income products might offer a more cost-effective and potentially safer solution for some, but these types of products are not yet widely available. In addition, there are concerns about the legal and fiduciary framework that make them viable options for DC plans. An article published in the October 2013 issue of *NYU Review of Employee Benefits* looks at how plan fiduciaries may be able to make decisions about in-plan annuity products and insurers without further guidance from the DOL.

A March 2013 paper by John Shoven of Stanford University and Sita N. Slavov of the American Enterprise Institute offers an entirely different approach to generating retirement income. Their *Efficient Retirement Design* is written in a surprisingly easy-to-understand style despite the fact that the authors are economists (apologies to Messrs. Shoven and Slavov and economists everywhere). The paper makes the argument for deferring Social Security payments until age 70 to maximize the amount of that monthly income stream and for using 401(k) money to fund the first few years of retirement. For two-wage earner households, they also suggest taking a spousal benefit from the lower wage earners' Social Security until the higher wage earner reaches 70 and can collect on his or her own account, thus ensuring the highest possible benefit. The paper shows the financial advantage to this approach under a number of different scenarios.

Is a DC Approach to Healthcare Benefits in Your Company's Future?

It's not news that employers are trying to contain the cost of healthcare benefits. Efforts to keep the lid on trend pre-date the Affordable Care Act. Now with the ACA's Cadillac Tax looming, employers are redoubling their efforts to keep the cost of their plans down. In addition, the ACA's insurance exchanges have prompted growth and interest in private insurance exchanges where employers can send their employees with a fixed amount of dollars to shop for the health benefits that best suit their needs. These private exchanges are a continuum of consumer-directed health plans that, in theory, make employees better consumers of healthcare because they are more cautious when spending their own money.

According to a December 2013 article in *HRExecutive*, there has been a rise in consumerism as more employers and plan participants opt for account-based high deductible plans. One source quoted in the article, Helen Darling, President of the Washington-based National Business Group on Health, noted that one of the catalysts for the uptick in HDHP/HSA plan enrollments is the recession and its financial impact on household income. Employees are interested in the lower paycheck deductions for these plans. At the same time, these lower cost plans are also good for the bottom lines of employers.

Is a defined contribution strategy the next step down the path of cost containment for employers? Does the emergence of private health insurance exchanges make that more of a possibility? What are the advantages and disadvantages of this approach? Two publications by Sibson Consulting offer insights into these questions. The firm's July 13 paper, *What You Need to Know Before You Join a Private Exchange*, is a good starting place to learn about the variations that exist in private exchange models. The November 2013 issue of the firm's *Spotlight* provides an overview of key considerations for employers who are contemplating switching to an exchange, including whether it is necessary to move to an exchange to implement a DC approach and what administrative changes a move to an exchange may trigger.

You'll also find workshops and general sessions devoted to this topic at our 2014 San Francisco conference.

A Slowing Trend

Sibson Consulting's 1st Quarter 2014 *Trends* gives a quick snapshot look at health benefit plan cost trend rates, which are projected to be the slowest in 14 years. This issue also includes a thumbnail look at recent ACA compliance and employer cost containment strategies.