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March 2013 Benefits Spotlight

We're just three months into 2013, and a lot has happened in employer-sponsored benefits. The federal government is issuing regulations for the 2014 full implementation of the Affordable Care Act (ACA), the retirement industry is abuzz about IBM's new "once a year" contribution to employees' 401(k) plans, and new entrants into the private exchange marketplace for health and welfare benefits continue to emerge. While there is plenty to mull over, we've highlighted two issues that we think will be of particular interest and provided links to detailed information to help you work through them.

Essential Health Benefits

The Department of Health and Human Services issued final rules on February 20, 2013, outlining standards for coverage of essential health benefits (EHB) and the determination of actuarial value (AV) for the individual and small group insurance markets. Importantly, these rules also have implications for larger, fully-insured employer plans as well as self-insured plans. The fact sheet on the website of the Center for Consumer Information & Insurance Oversight provides a succinct overview. It lists the 10 categories of services and benefits that ACA mandates and also defines the various levels non-grandfathered plans must meet: 60% for a bronze plan; 70% for silver; 80% for gold and 90% for platinum. A link on the fact sheet to the CCIIO's AV calculator allows you to determine the level of your plan. It might prove to be an interesting exercise to take!

Buck Consultants, in its February 27, 2013, issue of FYI, discusses why the EHB, annual cost-sharing limits on EHB and actuarial value limits on EHB are important to large group plans. As the article explains, even though large plans aren't subject to the EHB guidelines, they must meet "minimum value" requirements and do away with any annual or lifetime dollar limits on EHB. With respect to out-of-pocket maximums, the final regulations do apply to cost sharing in non-grandfathered self-insured and large group plans. This includes deductibles, coinsurance and copayments for in-network providers, which may mean some plans will have to be modified to meet the new requirements.

Lastly, the DOL has published a set of Frequently Asked Questions on the limitations of cost sharing under ACA. You will find it here.

Retirement Income Adequacy: 11 Times Final Pay?

The lack of retirement readiness among baby boomers, specifically, and American workers, generally, gets a lot of press and has been well documented by studies done by EBRI, among others. There's good reason for the scrutiny. Employees who can't afford to retire and poverty-stricken retirees present a real societal challenge. Findings from Aon Hewitt's 2012 Retirement Income Adequacy at Large Companies indicate that an average, full-career employee who contributes to an employer-sponsored retirement plan needs 11 times final pay to expect to have enough money to retire comfortably at age 65. This also assumes that the individual will collect Social Security benefits. What this survey of employees at large companies also reveals is that, on average, employees who contribute to their employer plans are currently on track to replace 8.8 times their pay, assuming they are full-career contributors who retire at age 65. While that may not seem too far off the mark, the report points out that "full career" employees represent only half of the study's population. Of the 2.2 million employees in the study, only about 15% have positioned themselves to have an adequate retirement income.

The study also looked at what employers and employees can do to improve the results. Recommended strategies for employers include implementing auto enrollment and auto escalation, offering investment advice, and taking a more thoughtful approach to designing plans to effect change in participants' behavior. For employees, strategies boil down to "retire later" - perhaps delaying retirement to 67 or even 70 - and "save more." The recommended combined percentage for employer/employee contributions is 17%. Neither of those two options - delaying retirement and saving more - will be easy for many Americans. The study is an interesting, if sobering, look at the prospects for retirement for much of our workforce.

Here's a little perspective on retirement income security in the United States. The Natixis Global Asset Management's (NGAM) annual index of retirement security worldwide ranks the country 19th on its scale, behind European countries and Canada. As reported by PlanSponsor, the NGAM index shows the U.S. lags behind less affluent nations on measurements of income and health, despite its ranking as the largest pension market in the world and its higher per-capita spending on healthcare.

The DOL's EBSA takes the issue of retirement income adequacy seriously. EBSA officials are reviewing a number of initiatives designed to boost retirement savings, reduce fees, improve asset allocations and ensure a reliable stream of income from retirement savings. The Department recently issued a brief, three-page document with guidelines for fiduciaries to select and monitor target date funds. The paper is available here.