

Retirement Overhaul

Pension Act Shores Up DB Plans; Makes 401(k) Savings Automatic

THE HOUSE and Senate have passed the Pension Protection Act of 2006 (PPA) which represents the most sweeping overhaul to U.S. pension laws in more than 30 years, according to John Boehner (R-OH), House Majority Leader.

The bill, which is expected to be signed by President Bush, strengthens the funding rules for defined benefit (DB) plans (especially underfunded and "at risk" plans) and addresses retirement savings held in IRAs, 401(k), and other defined contribution plans. The provisions also may make changeovers from pension plans to 401(k) plans and IRA-type arrangements less traumatic for employers and employees alike if more employers continue to freeze or terminate existing pension plans, according to CCH.



While the goal of the new Act is to restore the financial health of traditional corporate pensions and to prod more employees to

build retirement nest eggs, "the new Act should make employers more willing to put in the automatic enrollment provisions for 401(k) plans," says Alicia Munnell, director, Center for Retirement Research at Boston College. "We need to make these plans as easy and automatic as possible."

As the burden of preparing for retirement shifts away from employers toward workers, many employees are financially unprepared *(Continued on back)*

Funding HSAs . . .

Contributions Must be 'Comparable'



WHILE EMPLOYERS do not have to contribute to employees' Health Savings Accounts (HSAs), those that do must make comparable contributions (same dollar amount or same percentage of the annual deductible) to the HSAs of all comparable participating employees, according to final regulations recently issued by the Internal Revenue Service (IRS). These final regulations apply to employer HSA contributions made on or after January 1, 2007.

Only eligible individuals may fund HSAs. An "eligible individual" is someone who is covered by a high-deductible health plan (HDHP) and no other plan that is a non-HDHP, subject to certain limited exceptions, according to Deloitte's *Washington Bulletin*. The term "comparable participating employees" refers to employees who are eligible individuals covered by the employer's HDHP who have the same category of coverage (i.e., self-plus-one; self-plus-two; and self-plus-three or more).

The final regulations provide that collectively bargained employees (i.e., those covered by a bona fide collective bargaining agreement under which health benefits were bargained in good faith) are disregarded for comparability testing purposes, according to the Employee Benefits Institute of America.

In addition, employer HSA contributions that are made through a cafeteria plan are subject to the cafeteria plan nondiscrimination rules under Code Section 125 vs. the comparability rules. In general, under the final rules, if employees are allowed to contribute to an HSA by salary reduction through a cafeteria plan, all employer contributions to the employee's HSA will be treated as being made through a cafeteria plan (and thus excluded from the comparability rules), according to Business & Legal Reports. ■

WellnessWorks

Employers Seek Help from Insurers

EVEN THOUGH employers may indeed be shifting insurance costs to employees, many are also taking greater interest in their workers' health and asking their health plans to help. U.S. Surgeon General Richard Carmona believes that preventive intercession should be the cornerstone of our healthcare system, and he wants plans to actively promote the health of their members.



Likewise, employers also say they want some help from their insurers in designing and implementing preventive programs, and *(Continued on back)*

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for retirement, according to Deloitte's 2005-2006 Annual 401(k) Benchmarking Survey.

For example, today only about 25 percent of private-sector employees are covered by a traditional pension plan, making provisions to bolster 401(k) savings plans and individual retirement accounts all the more crucial to workers, according to Sylvester J. Schieber, Watson Wyatt benefits expert. The changes in the pension bill not only will affect 401(k) plans, but also will apply to 403(b) plans for

workers in non-profit organizations and 457 plans, which are for government employees.

When companies offer 401(k) plans, some 20 percent of employees don't sign up, and they tend to be the younger, lower-income workers who would benefit greatly, according to the Employee Benefit Research Institute. "These are the workers who are not going to depend on Social Security and Medicare to support them in retirement," says Matt Moore, senior policy analyst, National Center for Policy Analysis.

Likewise, many older workers have ended up with a lot of company stock in their 401(k) portfolios, putting them at risk if something happens to their employer, or they have invested so conservatively that they're losing out on market gains that could boost their nest eggs. The Act directs the Department of Labor to outline options that employers will have to help workers get better returns on their savings.

More information about this complex legislation is available via the official website for pension reform at: www.dol.gov/ebsa/pensionreform.html. ■



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Carmona agrees. He wants health plans to develop specific incentive programs to encourage employer and employee participation in wellness programs. "Health plans should invest in their membership, reinforce good behavior," says Carmona.



Research shows a return of \$3 for each \$1 spent by employers for wellness programs, according to Dee Edington, PhD, director, Health Management Center, University of Michigan. The savings come from reduced absenteeism and increased productivity.

Edington notes that companies need about an 80 percent participation rate to achieve these savings, and an incentive of about \$200 per employee appears to be the tipping point.

While a strong focus on preventive care may not solve the healthcare crisis, it is one important way employers and employees can work together to make healthcare more affordable, according to Daniel Krajnovich, CEO, UnitedHealthcare (Indiana). Even though lifestyle choices are ultimately determined by individuals, Krajnovich says that employers can take 10 important measures to create a health-conscious mindset in their work environment to better control healthcare spending:

(1) Educate employees about healthcare costs and trends; (2) Create a sustainable awareness and momentum for change via frequent communication of healthcare facts; (3) Invite local healthcare experts to talk to your employees about back injuries, obesity, diet, etc.; (4) Adopt a health plan with strong financial incentives; (5) Offer a smoking cessation program or a no smoking environment; (6) Engage employees in total healthcare cost management via making thoughtful decisions about their health and healthcare expenses; (7) Promote/use the internet to keep employees informed of personal healthcare issues; (8) Invest in wellness; (9) Be creative with fitness; and (10) Offer healthy choices in vending machines, office snacks, and cafeteria menus. ■

Bulletin Briefs

◆ Celebrate National 401(k) Day on September 8

National 401(k) Day is an annual celebration that encourages employers to set aside time at the workplace to spotlight the importance of their employer-sponsored profit sharing and 401(k) plans. Sponsored by the Profit Sharing/401(k) Council of America (PSCA), this year's theme, *Trading Places*, reminds workers that saving now in their employer-sponsored 401(k) can help them trade work for the retirement life they want. A variety of free materials is available at www.401kday.org.

◆ Employers Flock to Federal Security Database

More employers are utilizing a federal database to check the legal status of prospective new hires. Participating employers are required to enter all new employees' I-9 form information into the Basic Pilot software which immediately verifies if the information is correct. Check out this free site at: <http://www.uscis.gov/graphics/services/SAVE.htm#two>. ■

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