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The following news summaries were developed by Gabriel, Roeder, Smith & Company to inform clients and other benefit professionals of news in the benefits industry. Our thanks to Mary Ann Vitale for her diligent work on this issue. To receive this publication electronically, send an email to web.admin@gabrielroeder.com with "SUBSCRIBE NEWS SCAN" in the subject line. To stop receiving this publication electronically, send "UNSUBSCRIBE NEWS SCAN" in the same manner. Copies of this and other benefit-related publications are available on the GRS web site at www.gabrielroeder.com.

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Ice Miller Provides Guidance on Reporting of HELPS \$3,000 Exclusion

Attorneys at the law firm of Ice Miller have recently posted guidance on reporting the \$3,000 HELPS exclusion for federal tax purposes. "HELPS" is the acronym commonly given to Pension Protection Act § 845, which allows retired public safety officers to exclude up to \$3,000 annually from federal taxation for distributions made from an eligible governmental plan to pay premiums for qualified health insurance or long-term care. Key statements made in the Ice Miller guidance include:

- "The governmental plan deducting and paying the insurance premiums will not be responsible for reporting the amount paid in premiums on the Form 1099-R issued to the retiree. Rather, the retiree will be required to report the amount claimed as an exclusion on his or her Form 1040."
- "Although a governmental plan which is deducting and paying qualified premiums for a retiree does not adjust for those amounts in box 1 or 2a of the Form 1099-R, the plan may choose to reflect the qualified premiums paid in the Notes section of the form. This may be helpful to retirees as they complete their Form 1040 for the year."
- "[A] governmental plan is not required to determine whether an individual retiree is an eligible retired public safety officer nor to obtain any certification from the individual on that point."

Additional details are provided at:

www.icemiller.com/enewsletter/Bulletins/EBenAlertReportingofHELPSExclusion.htm

CRR Reports on Stability of Defined Benefit Plans in the Public Sector

In December 2007, the Center for Retirement Research at Boston College (CRR) released its report *Why Have Defined Benefit Plans Survived in the Public Sector?* The report is the second in a series of studies on state and local pension plans that CRR is undertaking for the Center for State and Local Government Excellence.

According to the report, 92% of active public-sector workers were covered by defined benefit (DB) plans in 2005, while only 33% of private-sector workers were so covered. By comparison, in 1975, 98% of active public-sector workers and 88% of private-sector workers were covered by DB plans. To explain why governments have retained their DB plans, the report examines several factors, including:

- *Workforce* – The report found that the public-sector workforce is generally older, less mobile, more risk averse, and more unionized than in the private sector. In addition, state and local workers tend to have longer tenure. In 2004, the median tenure for public-sector workers was 7.7 years compared to 5.0 years for private-sector workers. Public workers also have lower displacement rates. In 2005, the average job loss rate for public-sector workers was 4% compared to 10% for private-sector workers.
- *Employer* – The report points out governmental employers are perpetual entities that do not go out of business and face fewer market pressures than private firms. While both public- and private-sector DB plans are subject to risks that cause fluctuations in pension assets and liabilities, state and local governments are better able to manage the financial volatility. The report also notes that public DB plans have retained their traditional actuarial methods, and so are better able to smooth their contributions over time.
- *Regulatory Environment* – Public DB plans are also exempt from many of the federal regulations that apply to private plans (such as ERISA). This helps to reduce their administrative costs and allows later vesting in plan benefits. Additionally, nearly all public-sector employees contribute to their defined benefit plans, which helps to manage costs.

A future CRR report will examine state and local governments that offer defined contribution plans as a primary plan or as a supplement to their defined benefit plan.

The report is available at: http://crr.bc.edu/images/stories/Briefs/slp_2.pdf

Pew Study Reports on Public-Sector Retirement Benefits

On December 18, 2007, the Pew Charitable Trust's Center on the States (PCS), an independent nonprofit organization, published its report, *Promises with a Price*. The report focuses on the long-term costs of public-sector pensions, retiree health care, and other retirement benefits. PCS estimates that state governments have promised to pay \$2.73 trillion in pensions and other retirement benefits over the next three decades. This includes \$2.35 trillion in pensions for state employees and teachers, and an additional \$381 billion in retiree health care and other non-pension benefits. (Note, the retiree health care estimate is for state employees only.)

The report also finds that states have accumulated assets of over \$1.99 trillion to pay the \$2.35 trillion in pension promises, making them 85% funded on average, as of 2006. However, states have only accumulated \$11 billion of the \$381 billion for retiree health care and other non-pension benefits, making them only 3% funded. The report notes that in order to fund these long-term costs for other post-retirement benefits, some states are fully funding their annual required contribution, establishing irrevocable trusts, restructuring benefits, or combining these approaches to reduce costs.

The report also compares public and private retirement benefits. According to PCS, 90% of public sector employees are covered by defined benefit plans compared to only 20% of private sector employees. In 2005, the median pension for public-sector employees was \$17,640 compared to \$7,692 for private-sector employees. Retiree health benefits (of any kind) are provided to 82% of public-sector employees compared to only 33% of private-sector employees.

Overall, the report finds that many individual states are strengthening their fiscal health by allocating funds to pay retirement benefits, restructuring benefits to reduce costs, and improving the governance and oversight of their retirement systems. However, while the report concludes that the overall condition of state pension plans is generally positive, it emphasizes the importance of making annual required contributions and ensuring that newly promised benefits are genuinely affordable.

The report is available at:

http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/State_policy/pension_report.pdf

CRS Reports 401(k) Accounts May Be Substantially Reduced by Plan Expenses

On October 17, 2007, the Congressional Research Service (CRS) released its report, *Retirement Savings Accounts: Fees, Expenses, and Account Balance*, which examines the effect of expense ratios on the account balances of defined contribution plans, such as 401(k) plans. The expense ratio is the ratio of fees paid by plan participants for plan administrative services divided by the value of plan assets.

According to CRS, nearly 43% of private-sector employees participated in defined contribution plans in March 2007. In 2006, the average expense ratio for stock mutual funds in a 401(k) plan was 0.76% (76 basis points), but ranged from about 0.40% to 2.00%. Typically, larger employer-sponsored plans have below-average expenses while small employers have above-average expenses.

To illustrate the effect of fees on account balances, the report provides an example of a median-earning couple who invest 6% of their earnings annually in a 401(k) plan. If annual expenses charged on plan assets are high (i.e., 200 basis points), the couple would accumulate \$263,663 over 30 years. If the annual expenses are low (i.e., 40 basis points) the couple would accumulate \$354,434.

A copy of the report is available for a fee by calling BNA PLUS at 800-372-1033 or emailing bnaplus@bna.com.

Workplace Absenteeism Due to Chronic Health Conditions Costs Employers \$30 Billion Annually

On October 9, 2007, the American Hospital Association (AHA) released its report titled *Healthy People Are the Foundation for a Productive America*. The study finds: "Health care – that helps employees stay well, recover and return to work after illness, and effectively manage chronic conditions – not only benefits individuals but also has a positive effect for employers and the economy as a whole."

According to the report, three common chronic conditions, namely asthma, diabetes and hypertension, cost U.S. employers \$30 billion annually and cause 164 million days of work lost per year. For every 1,000 working Americans, 927 days of work are lost due to asthma, 181 due to hypertension, and 112 due to diabetes. On a state-by-state basis, workplace absenteeism varies widely:

- Asthma costs employers about \$23 billion annually due to absenteeism. States with the highest annual rates of absenteeism due to asthma include Maine, Massachusetts, New Hampshire, and Michigan. States with the lowest rates include North Carolina, South Carolina, and Hawaii.
- Hypertension accounts for an estimated 2.8 million days of work lost per year in California alone. States with the highest rates of absenteeism due to hypertension include all of the states in the Southeast. States with the lowest rates include most of the states in the Southwest, except Texas and California.
- Diabetes costs employers about \$2.8 billion annually. States with the highest rates of absenteeism include Mississippi, Alabama, and South Carolina. States with the lowest rates include Colorado, Minnesota, and North Dakota.

The report finds that, increasingly, employers (including hospitals) are realizing that a worker's health status has a direct effect on daily productivity. Therefore, employers are promoting health and wellness among their employees. In general, workplace health promotion and wellness programs have resulted in savings due to lower medical costs, reduced absenteeism, increased productivity, and fewer claims for workers' compensation and short-term disability.

The report is available at: <http://www.aha.org/aha/trendwatch/2007/twoct2007health.pdf>