

NOT FOR DISTRIBUTION

# EMPLOYEE BENEFIT Adviser

September 2008 • [employeebenefitadviser.com](http://employeebenefitadviser.com)

## EMPLOYEE BENEFIT ADVISER OF THE YEAR

**John Kahle** continues his quest to make the value of employee benefits explicit

## TRYING TIMES

call for bold retirement advisers

## BETTER PLANNING =

better sales



## Aflac receives flack from one reader, EBA plans to investigate further

**A** debate has officially begun over Aflac's place among employee benefit advisers. A letter last month, from Amy Harris of Aflac, asserted that Aflac reps and independent brokers can partner together to advance both their businesses. Harris says Aflac reps are not in competition with advisers, as was stated in the opening lines of "Benefits Binge" from the May 2008 issue of EBA.

This letter is from a reader who disagrees with Harris' depiction of Aflac reps and advisers operating in harmony.

I'm sorry I missed Adviser's comments about Aflac representatives from May 2008.

From my experience, Aflac representatives would not qualify as "benefit advisers." They are ill equipped to help clients find a solution. Rather, Aflac's approach would

be more accurately described as "a product looking for a market" — using (generally) inexperienced representatives working a rolodex.

I agree that Aflac is a successful company. It has been built on products specifically designed for a low medical loss ratio, high margins and high commissions — regardless of whether their policyholders need or understand what they bought.

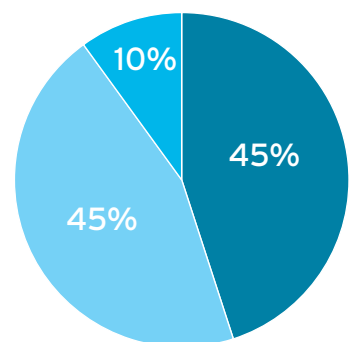
— B. Taylor  
Platinum Benefit Solutions

*The strong opinions don't stop there and we want to learn more about the Aflac/adviser dynamic. Rumor has it Aflac is launching a broker relations initiative. So, next month EBA will be asking experts from both sides about whether or not the two entities can (or already do) play nice in the sandbox.*

### Quick Poll

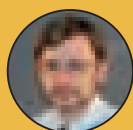
A recent EBA QuickPoll found advisers are split on whether they plan to mine retirement benefits for opportunities during the recession. Read more on how advisers may be able to take advantage of the economic situation on page 16 of this issue.

Do you plan to revisit clients' retirement plans in light of the economic downturn?



■ Yes ■ No ■ Maybe

### >> Got a hankering for more? Find it on the Raw Bar



Visit *Employee Benefit Adviser's Raw Bar* online at [eba.podhoster.com](http://eba.podhoster.com). It's where you'll find daily interviews with leading benefits professionals.

There's been a flurry of regulatory tweaks and updates on HSAs as of late. It's tough keeping all the updates straight. Listen in as **John Graham** of Segal walks through what's been released and what it means for workers and their employers.



One good thing about an economic downturn is that it causes employers to look more closely at their retirement plans. **Alison Borland** talks about what employers should be doing and how advisers can help.



Research from Eastbridge shows the voluntary benefits market grew about 7% last year. Listen in as **Bonnie Brazzell** talks about the big winners as well as who might be on the losing end as the economy continues to plague consumers.

Go online today to hear what these experts, and dozens of others, have to say about your business.



## ON THE COVER

# 32

**John Kahle is *EBA's* 2008 Employee Benefit Adviser of the Year.**

Cover photographer Lou Mora

## FEATURES

# 38

**Practicing preachiness**

More and more brokers and employers recognize real wellness results are often best achieved by real wellness champions.

# 44

**FSAs freshen-up**

Better communication and technology are making FSAs a big hit for some brokers.





78

## SOUND OFF

- 3** The relationship between Aflac reps and benefit advisers elicits strong opinions.

## FROM THE EDITOR

- 8** It's hard to tell clients what they don't want to hear, but it's time to do some advising.

## HEALTH

- 10** HSA enrollments may not spike due to a new rule allowing IRA contributions, but it might make things a little better for retirees.
- 14** Chronic health problems reach a tipping point.

## RETIREMENT

- 16** Lean economic times are spurring employers to look at their retirement benefits.
- 20** Subprime fallout expands even further as some say pending suits will force review of fiduciary practices.

## VOLUNTARY

- 22** Executive benefits kill two birds with one stone. They help advisers establish additional revenue streams and burnish their standing with C-suite leaders.

## YOUR BUSINESS

- 52** Outlining a business plan is the first step towards success.

## MOVERS & SHAKERS

- 58** Whichever side of the benefits desk you sit on, you're really a professional communicator.
- 62** Wellness discussions give way to fundamental questions, like "are employers truly responsible for the health of their workforce?"

## SALES CALL

- 70** Gathering the right information about your prospect will help turn him into a client.

## JUST REWARDS

- 78** VSP's Barry Shinske is a broker's best bet for keeping vision benefits in focus, according to the results of our latest best group rep contest.

## BE PUZZLED

- 80** Don't be a baffled broker. Show off your problem-solving skills with this month's crossword.

## BE ADVISED

- 90** The floodgates have been opened for cash balance plans — it's time to catch the wave.

## Also Inside

- 83** PROVIDER PROFILES
- 88** BENEFIT MARKETPLACE
- 89** RESOURCE GUIDE



Robert Whiddon  
Editor-In-Chief

IT IS HARD TO TELL people what they may not want to hear. It is also your job.

# Lead or get out of the way

It's hard to be the bearer of bad news, but it's often the right thing to do and it's frequently a step in the right direction toward earning a client's trust and respect.

I know firsthand how hard it is. You won't find me barking at my readers. I'm accommodating — in interviews, at meetings, everywhere generally. Still part of my mission as a journalist is occasionally to tell people hard truths, even if they don't want to hear them, face them or do anything about them. I say don't shoot the messenger and duck. At least I'm assured in the knowledge that I've fulfilled my responsibility as a reporter. You need to do the same thing.

At a recent dinner event with some local benefits types I was struck by one broker's admission that he didn't think it was his place to tell employers what to do to get ready for their group health insurance renewal.

I put him on the spot. We'd gone around the table and the employers were hemming and hawing about how they thought renewals we're going to be a bit higher this year, but hopefully not drastically higher. No one had a game plan. No one sounded like a leader. I know employers spend a lot of time on renewals. They regularly apologize to me for missing an interview because one renewal meeting went long and the next was starting early.

I was surprised when they didn't have much to say. Surely the broker would have the marching orders, the list of exercises all employers need to do to be fit and ready for renewal time. Nope. Nothing. Sheepishness.

I get it. A lot of brokers tip-toe around their clients. Out of sight, out of mind. That's born out of the fact that too many brokers lift the phone only to pitch a product. Well, guess what? That's not how to earn a client's respect.

You can't always be the buddy. Employers want business solutions. Buddies don't meet budgets and they don't keep employees from walking out the door. They're paying you to give them good — albeit sometimes painful — advice. Do that.

There is a fight for legitimacy going on in your business, in my business, in all businesses. You don't have a lot of "hand" in your client relationships. You need to get some of it or someone else will.

EDITORIAL HEADQUARTERS  
1325 G Street, N.W., Suite 900, Washington, D.C. 20005  
202/504-1122 • Fax: 202/772-1448

**Publisher/Group Vice President:** Jim Callan  
**Editorial Director:** David Albertson  
**Editor-In-Chief:** Robert L. Whiddon  
**Managing Editor:** Molly Bernhart  
**Senior Editors:** Kelley Butler, Lynn Gresham  
**Associate Editor:** Leah Shepherd, Lydell Bridgeford, McLean Robbins  
**Director of Editorial Projects:** Marsha Turney  
**Senior Art Director:** Hope Fitch-Mickiewicz  
**Associate Art Director:** Robin Henriquez

EDITORIAL ADVISERS  
**Helen Box-Farnen**, vice president, Aon Consulting;  
**John Hickman**, partner, Alston & Bird LLP; **George Lane**, principal, Mercer; **Andy Torelli**, president, e3 Financial

ADVERTISING HEADQUARTERS  
1770 Breckinridge Parkway, Suite 500, Duluth, GA. 30096  
770/381-2511 • Fax: 770/935-9484

ADVERTISING SALES STAFF  
**National Advertising Sales Director / Northeastern Regional Manager:** Jim McLaughlin, james.mclaughlin@sourcemedia.com  
**Central Regional Manager:** Gary DeHart, gary.dehart@sourcemedia.com,  
**Western Regional Manager:** Lydia Fiorina, lfiorina@jjhs.net  
**Provider Profiles and Benefit Marketplace:** Kurt Kriebel, Kurt.Kriebel@sourcemedia.com  
**Production Director:** Deborah Kim  
**Production Coordinator:** Ivetta Jimenez  
**Marketing Manager:** Amy Metcalfe, amy.metcalfe@sourcemedia.com

CIRCULATION STAFF  
One State Street Plaza, 27th Floor, New York, NY 10004  
212/803-8200 • Fax: 212/803-1568  
**Customer Services:** 800/221-1809 • Fax: 212/803-1592  
custserv@sourcemedia.com  
**Reprints:** Charlton Sanabria, 212/803-8377  
**Group Circulation Director:** Michael O'Connor  
**Fulfillment Director:** Jessica Reid

CONFERENCES  
Benefits Management Forum & Expo  
**National Account Executive, Conference and Exhibitions Group:** Chris Frey • 212/803-6568  
christopher.frey@sourcemedia.com



SourceMedia, Inc.  
**Chairman & CEO:** James M. Malkin  
**Chief Financial Officer:** William Johnston  
**Pres., Banking Group:** Jeff Scott  
**Pres., Acuity:** Hugh Jones  
**VP, Finance:** Richard Antoneck  
**VP, Sales & Customer Service:** Steve Andrezza  
**SVP, Operations:** Celie Baussan  
**EVP, Marketing & Strategic Planning:** Anne O'Brien  
**Senior Director, Human Resources:** Ying Wong

REPRODUCTION POLICY  
No part of this publication may be reproduced or transmitted in any form without the publisher's written permission.

TRANSACTIONAL REPORTING SERVICE  
Authorization to photocopy items for internal or personal use, or the internal or personal use of specific clients, is granted by SourceMedia, provided that the appropriate fee is paid directly to Copyright Clearance Center, 222 Rosewood Dr., Danvers, MA 01923, U.S.A.

# Tax break on an IRA-to-HSA rollover may have little impact on enrollment

**A NEW IRS MEASURE focuses on HSA funding methods. It won't necessarily increase participation, but it may help some retirees.**

In an effort to spur funding of health savings accounts, the Internal Revenue Service recently issued guidance on boosting HSA balances with money from individual retirement accounts.

Individuals covered by a high-deductible health plan that also own a traditional or Roth IRA can make a one-time IRA-to-HSA funding transfer without facing federal income taxes or penalties. The transfer amount, however, cannot exceed the individual's maximum HSA contribution limit.

In Notice 2008-51, which implements provisions under the Health Opportunity Patient Empowerment Act of 2006, the IRS outlines 10 scenarios on how the rules would apply.

For example, a 57-year-old worker with a maximum annual HSA contribution of \$3,800 and an IRA account balance of \$13,550 could transfer \$3,800 from the IRA to the HSA.

The distribution from the IRA account is not included in the worker's gross income and is not subject to the additional tax. As a general rule, IRA and Roth IRA

holders are subject to a 10% income tax penalty for premature withdrawals before age 59 1/2.

The money will have to go directly from the IRA trustee to the HSA trustee. If the individual ceases HDHP coverage within a one-year period of the transfer, then he or she no longer receives the tax break.

The guidance states that employers are not responsible for notifying the IRS whether an employee remains an eligible individual during the testing period.

### PREACHING TO THE CHOIR

"This particular guidance does not actually encourage employers and employees to participate in an IRA or HSA, because it's basically aimed at individuals who are already in those accounts," says Cara Woodson Welch, director of public policy at WorldatWork, an HR association based in Arizona.

Most public policy initiatives try to encourage employers to offer IRAs and HSAs and for employees to take advantage of those accounts, explains Woodson Welch, who works out of the association's Washington, D.C. office.

The IRS guidance is more of a funding measure than one promoting increased enrollment in HSAs. Woodson Welch says workers are typically saving through a 401(k), as opposed to also having an IRA



► Cara Woodson Welch



or Roth IRA. “The guidance is pretty restrictive in terms of the number of people who own both an HSA and IRA,” she adds.

Two recent reports by the U.S. Government Accountability Office suggest the same.

GAO found that only 10% of households own a traditional or Roth IRA and participate in 401(k) plans. In 2007, nearly 33% of all households held traditional IRAs, 15% owned Roth IRAs and about 8% participated in employer-sponsored IRAs.

On the HSA side, the agency reports the number of Americans covered by HSA-eligible plans increased significantly between September 2004 and January 2007 — from about 438,000 to approximately 4.5 million. However, HSA-eligible plan coverage still represents only about 2% of individuals with private health insurance in 2006.

### SPREADING THE WORD

“When we started our HSA program in January 2008, we mentioned to our workers that they could transfer IRA funds into an HSA,” says Patrick C. Donahue, vice president of compensation and benefits at Saint Barnabas Health Care System.

For its 2009 open enrollment period, the New Jersey-based health care provider, which is a private employer, will include information about the IRA-to-HSA distribution in its printed materials on HSAs.

“The material will basically say ‘for those of you who have an existing IRA you can transfer funds to your health

savings account without facing a tax penalty,” says Donahue. “It’s really a tax issue for the employee.”

The new funding mechanism, however, may offer some financial relief for workers without retiree health benefits, says Donahue, whose organization employs 15,000 benefit-eligible workers, but does not offer retiree medical coverage.

The tax exemption on the transfer, coupled with the fact that HSAs

permit participants to accumulate tax-free savings to pay for medical expenditures, may mitigate health care expenses for some retirees.

“Owners of HSAs can use funds from the account to pay for Medicare premiums, Medicare supplement premiums and health insurance premiums between the time an individual retires and the time he or she is eligible for Medicare,” explains Donahue

The policy sounds great “as long as brokers and HSA custodians are

willing to administer the transfer,” observes Lynne Hammerschmidt, assistant vice president and manager of health and welfare benefits at Wyommissin, Pa.-based Sovereign Bank.

“As with any of these programs, I guess there is always room for fraud, but

I still like the idea” of the rollover, she adds. The bank, which employs about 12,000 workers, is gearing up for an aggressive HSA communication campaign for its next open enrollment.

“I’m sure we will include this information in our communications,” asserts Hammerschmidt. **EBA**



Patrick Donahue

The policy sounds great as long as brokers and HSA custodians are willing to administer the transfer.

# Chronic conditions reach tipping point, afflict more than half of Americans

BY LEAH CARLSON SHEPHERD

**F**or the first time, a majority of insured Americans are being treated for a chronic medical condition, according to a new report from Medco, a pharmacy benefit management company.

In 2007, 51% of insured Americans were taking prescription drugs to treat at least one chronic health problem. Many of these patients are on multiple medications. One-fifth of the population used three or more chronic drug treatments last year, contributing to soaring medical costs and raising concerns about the health of the nation.

"It appears that we have now reached the tipping point where treating chronic diseases and conditions is more common than not," says Dr. Robert Epstein, Medco's chief medical officer. "This data does paint a pretty unhealthy picture of America. But there is a silver lining. It does show that people are receiving treatment, which can prevent more serious health problems down the road."

However, Steve Raetzman, a health care consultant with Watson Wyatt, comments, "[Employers] should be alarmed, and it's only going to get worse because ... we're all getting older. That's why a getting a [better] primary care system is important."

He counsels employers to get more people with chronic conditions to participate in programs to help them manage their chronic conditions.

## LOOKING AHEAD

Overall, Medco expects drug utilization growth of 2% to 3% this year and the same amount in 2009 and 2010. Likewise, it expects drug prices to increase by 4% to 6% this year and the same

amount over the next two years. The relatively low 2% drug trend in 2007 is attributed mainly to generics use and mail-order pharmacies, Medco researchers assert.

Patent expirations, expected conversions to over-the-counter status and new drug approvals are expected to be key drivers of future drug costs, according to the study.

Drugs with U.S. sales of almost \$24 billion could lose patent protection in the next three years, opening the door for lower-cost generics. Treatments for cancer, infections and central nervous system disorders are the leading areas of drug development.

## TOP MEDS

Diabetes drugs are the top driver of drug inflation now, recently surpassing lipid-lowering drugs.

Meanwhile, treatments for neurological problems, mental health and pain were the top therapeutic categories contributing to drug spending in 2007, followed by cardiovascular problems and gastroenterology.

Declines for lipid-lowering drugs, antidepressants and nonnarcotic pain relievers moderate the trend.

Treatments for high cholesterol and high blood pressure were the most commonly used medications overall, with more than 20% of Americans on antihypertensives and almost 14% on cholesterol-lowering drugs. These also were among the top four medications taken by men ages 20 to 44, whose use of cholesterol-lowering drugs surged more than 80% in seven years.

"Younger people are increasingly being treated for heart-disease-related conditions, such as high cholesterol

and hypertension," observes Epstein. "There's no doubt that rising rates of obesity are having a major impact on our health. These chronic conditions are incredibly costly for the nation and will become exponentially so if we're seeing these problems show up at a younger and younger age."

Medco identified narcotic pain relievers, anticoagulant and antiplatelet drugs, and medications used to treat attention deficit hyperactivity disorder as therapeutic classes to watch for rapid spending growth. In contrast, antihypertensives, ulcer and heartburn drugs, antibiotics and allergy drugs showed relatively slow growth in spending last year.

In the specialty drug category, the top therapeutic areas included autoimmune conditions (26% of specialty drug spending), multiple sclerosis (17.4%), cancer (17.3%) and growth hormone deficiency (6.1%). Overall, specialty drugs account for 11% of total drug spending. Medco does not expect generic equivalents to become available for most of those drugs.

While senior citizens unsurprisingly show the highest prevalence of chronic medication use, younger adults are quickly catching up. Notably, 48% of women ages 20 to 44 are being treated for a chronic condition, compared to one-third of men their age. Antidepressants are the most commonly used medication among this group, with 16% of women ages 20 to 44 taking them. This demographic group also claimed the sharpest increases in the number of patients on chronic medications, rising more than 20% between 2001 and 2007, the study indicates. **EBA**

## Tough times have employers looking to improve retirement benefits



**AN ECONOMIC DOWNTURN** may be the perfect time for advisers to focus on their retirement business

It may be difficult to see the silver lining of a recession, but the truth is that bad economic times provide many opportunities for employee benefit advisers.

“When the market’s up it’s easy to not look backwards, but when it’s down it’s a good time to look at the plans,” says Neil Netoskie, retirement plan adviser for Compass Bank.

A new Hewitt study shows that companies are more actively managing their retirement plans this year and focusing on reducing retirement plan risk. Experts agree economic uncertainty reinforces this trend.

“Employers and employees are both feeling a crunch across the board. With gas prices going up and the general economy it is creating quite a bit of pressure,” says Alison Borland, defined contribution consulting practice leader at Hewitt Associates.

### MATCHES HOLD STRONG

Employers are trying to reduce fees and cut admin costs, but — at this point — they are not reducing benefits.

“[W]e’re not seeing employers cut back on their match,” says Borland.

Matches are not going up across the board either, according to Hewitt’s research. Just 12% of employers plan to add to or increase the company match this year, and a fraction of that (2%) plan to reduce or eliminate the company match. Employers have limits as to where they’re willing to cut costs and the match appears to be safe, meaning enrollment will remain attractive to employees.

### FOCUS ON FEES

One way employers are cracking down on costs is by taking another look at fees.

“Employers are making sure that what



they’ve got is the best they can have. A lot of clients don’t pay attention to what they’re paying out in fees,” says Netoskie.

As an adviser, Netoskie uses fee disclosure as a way to attract and retain clients. He recently won a new plan by showing the sponsor what they were actually getting from their adviser for how much they were paying. This mid-sized plan’s fees topped what Netoskie makes servicing his largest plan.

“I told them, ‘What you’re paying in total fees is way more than what I ask for, and I’ll show you, from my books, a plan that’s equivalent to yours. And I’ll show you what I’m making in terms of compensation,’” says Netoskie.

Focusing on fees could be a smart strategy for advisers at this time. In an effort to reduce plan fees, 29% of employers plan to alter their fund options this year. Twenty-nine percent of employers also plan to reduce costs by swapping mutual funds for institutional funds, says Hewitt.

“It’s a trend that was happening before the economy slowed as part of risk aversion. But we’re seeing an increase, or at least significant attention, in that area both

## Retirement

because of new DOL regulations and the additional awareness about high fees,” says Borland.

Netoskie also says it's advantageous to look at another area that's received publicity as of late: fiduciary responsibility. According to Hewitt, 35% of companies say they are very likely to review their 401(k) plan governance structure or hire a third party monitor to review their investment options this year. Employers are nervous about the economy and want to mitigate their risks. If advisers can show them how to be better fiduciaries, employers will feel more secure.

“As they see the advantage of what I can bring to their business, then they're mine for a long time,” says Netoskie.

### REVISITING PLAN DESIGNS

The economic climate also has employers reviewing plan designs. More than half (55%) of companies offering a defined contribution plan intend to review their fund operations, including expenses and revenue sharing.

“Evaluating the plan design is still a good idea, so not necessarily cutting back or enriching ... simply evaluating whether the structure of the design is maximizing the value that employees get from the plan,” says Borland.

Plan design changes aren't just happening on the DC side. Among those companies offering pension plans, 63% say they are very likely to perform funding and accounting projections, 30% plan to perform an asset liability study, and 29% are very likely to assess the risks that their pension plans are running based on current strategies, says Hewitt.

Netoskie says the recession could be spurring DB plans to make a comeback for some smaller companies.

“I'm actually seeing an uptick in new defined benefit plans for the small- to mid-sized companies,” says Netoskie. “You have five to 10 highly-compensated people running the company and then you have 20-30 people in the middle

that are making decent money and then you have the people at the bottom who are either part-time or have minimum salaries or something like that.”

The stock market is volatile and employers appreciate the predictability of DB plans — they won't be surprised by a downturn in the market or an upturn in salaries. There's significant value to employers when they can, depending on the age and the salary of the person, put up to \$180,000 in for an employee with a cash balance defined benefit plan. The requirements are less stringent and as a qualified plan there is a tax advantage for the company, explains Netoskie.

A recent Mercer study found large DB plans are also much stronger these days. Fueled by strong assets and an increase in discount rates, the funding health of DB plans at S&P 500 companies increased for the second straight year in 2007. The median funded status rose from 89% in 2006 to 94% in 2007, and aggregate pension assets exceeded aggregate pension liabilities for the first time since the end of 2001.

### PARTICIPANT REVIEW

Advisers can help employers reduce costs in their retirement plans by cleaning out terminated employees. Employers may not know that 30% of participants on an average plan are terminated employees, says Jim Langenwalter, chief marketing and sales officer of RolloverSystems. Fidelity Investments conducted a similar study and found 30% of participants across all their plans were no longer with the sponsoring companies. Advisers who bring this to a client's attention have the opportunity to produce significant savings. Having terminated employees on a plan increases costs because it increases the total members and decreases the average asset size of the plan. The smaller the average account size, the more expensive the plan.

“Because of auto-enrollment em-

ployers are putting more people on the plans, but there's still turnover running between 10% and 20% a year across the nation. This is creating more and more terminated accounts and more people with small balances,” says Langenwalter.

His company helps employers manage terminated employees by rolling over their old 401(k) accounts into personal IRA accounts. This way employers can cut costs and still act as responsible fiduciaries by keeping those people invested. The service costs the employer and the adviser nothing because RolloverSystems profits from managing the IRAs that are opened by terminated employees.

“This economy, interestingly enough, has really kind of helped our business,” says Langenwalter.

### COMMUNICATIONS BOOST

Although employers are watching their bottom line costs, they are also focused on easing employee nerves about the economy. Hewitt has seen a slight uptick in loans and a slight uptick in withdrawals. Borland says employers aren't making those features less available. Instead, they're focused on communication, making sure employees fully understand the implications of those actions.

“We're not seeing employers focus messages specifically around the economy, but we are seeing them make sure they have appropriate financial modeling tools, [such as] communications that show if you take a withdrawal of \$5000, here's what it means to your retirement income,” says Borland.

Employers want to be sure employees are going through all of their options. Advisory services are one method of doing this. Forty-three percent of employers currently offer online third-party investment advisory services and another 47% plan to offer them in 2008. Thirty-four percent provide in-person third-party investment advisory services, and another 30% plan to offer the feature in 2008, says Hewitt. **EBA**

# Suits aimed at recovering subprime investment losses could shape adviser roles

BY CAROL I. BUCKMANN

Once the scope of the subprime mortgage crisis became clear, a number of pension and 401(k) plans with assets invested in subprime mortgage obligations filed lawsuits to recover their losses. They cite a provision of ERISA that holds fiduciaries liable for losses resulting from a breach of fiduciary responsibilities. Additional lawsuits have been filed against Bear Stearns, Countrywide and other plan sponsors whose 401(k) and employee stock ownership plans were invested in company stock. As of press time, there have been no decisions in these cases, but the arguments raised could lead to changes in fiduciary rules.

Several lawsuits have been filed against State Street Bank as manager of intermediate and government bond funds that held subprime mortgage obligations. One suit was filed by Prudential on behalf of some of its customers alleges that State Street caused losses of roughly \$80 million to 165 retirement plans for which Prudential is responsible, affecting 28,000 plan participants. Prudential indicated in a filing with the SEC that it had already reimbursed these losses.

Another suit was filed by the New York publishing company Unisystems, Inc.'s employee profit-sharing plan, seeking certification as a class action representing all ERISA plans that invested in State Street bond funds between January 2007 and October 2007. The Unisystems complaint requests that an independent fiduciary manage the bond funds.

These suits might be an attempt to preempt suits by participants against the plan sponsors for investing with State Street funds. They raise the same arguments that would be raised as defenses by the plan sponsor or primary adviser in

such challenges, namely that State Street violated its obligations under ERISA by imprudently (Prudential also alleges "incompetently") investing in these funds, by deviating from the conservative investment guidelines it was supposed to be following without disclosing that it was doing so, and by withholding information about the true state of the market until participants were unable to withdraw from the funds because the market had become illiquid.

State Street responded to the subprime suits filed against it by establishing a reserve of \$618 million, on a pretax basis, to address its legal exposure. However, according to a recent Bloomberg report, State Street's actual exposure approaches \$8 billion. Two facts relating to the State Street investments may help plaintiffs make their case.

First, the complaints describe the funds as collective trusts made available to plans through separate accounts. As an investment manager, State Street is automatically a fiduciary and will have liability if plaintiffs prevail. Second, because plaintiffs allege State Street marketed the bond funds as conservative investments, deviating from the investment guidelines it was supposed to be following, misrepresentation will be at issue.

The cases could be settled without a clear resolution of the legal issues. For example, most 401(k) plans are structured so that fiduciaries are not responsible for losses when participants control the investment of their accounts. Plaintiffs will claim that this rule should not apply because participants chose the State Street funds because they were not provided with information to help them make informed investment decisions.

In addition, class action certification

in the Unisystems suit requires a finding of commonality of claims. Recently, a federal appeals court in another case refused to certify a class action involving 401(k) accounts invested by participant election, partly because they had different investment histories. The same argument could be raised that each plan (and perhaps each plan account) that sought to be included in the Unisystems class has a separate investment history.

Another class of lawsuits has been filed against subprime mortgage lenders, including Countrywide and Bear Stearns, by participants whose plan accounts plummeted in value as a result of subprime losses. These suits are reminiscent of the Enron cases. Plaintiffs claim company stock was an imprudent investment and should have been removed.

However, the vast majority of decisions in this area held this not to be the case. The decisions say that, if the plan explicitly requires investment in company stock, fiduciaries are entitled to a presumption that the investment is prudent. This presumption is difficult to overcome, although plaintiffs could prevail if the decline of the company appears to be irreversible.

According to a complaint filed against Bear Stearns and others, defendants knew that Bear Stearns stock was overvalued and that there would be inevitable losses from overexposure to subprime mortgages when information about the market became public.

It will be interesting to see whether the Bear Stearns case leads to new clarifications of the responsibility to supervise fiduciaries and the duties of prudence and loyalty. **EBA**

*Carol I. Buckmann is an attorney in the New York office of Osler, Hoskin & Harcourt LLP.*

## Advisers dabbling in executive comp should be aware of “Golden coffins”

IT'S BEEN SAID that advisers must speak the language of human resources, not just employee benefits, in order to get the attention of the HR executive. But is there a shortcut to bending the CEO's ear?

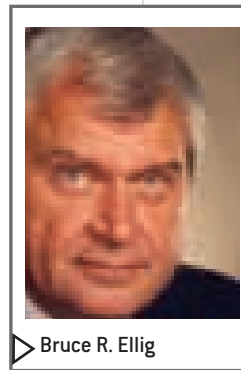
As employers struggle to contain benefit costs in a weak economy, executive benefits are generating more buzz. Advisers may shift their focus to new territory, as employers try to strike a balance between creating an enticing executive benefit package and pillaging the benefits budget.

*Employee Benefit Adviser's* Dan McKeever recently interviewed Bruce R. Ellig, an independent consultant and the author of *The Complete Guide to Executive Compensation*. An expert on HR strategies and executive compensation, Ellig served as a corporate VP of Pfizer from 1985 until his retirement from the company in 1996.

**You've said executive death benefits, or "golden coffin" packages, are drawing a lot of attention because they are not pay-for-performance. Does the current economic downturn contribute to that attention? Does it cast those lavish benefits in a more unflattering light?**

To the extent that there's a growing spread between how executives are paid vis-à-vis how other employees are being treated, it obviously brings attention to executive pay. In the old days, when employees had good-paying jobs and relatively good security as far as continuing those jobs, there really was very little attention to what executives were get-

ting. But when executives start getting, for example, additional pay as an incentive for terminating employees, needless to say, this does not bode very well with the workforce.



▶ Bruce R. Ellig

**What should HR professionals and advisers know about executive compensation?**

They should be very knowledgeable. The one area that the HR people are missing the boat on is they are not sufficiently knowledgeable on executive compensation. Now here's a real shocker: What area in HR do the top executives have the most interest in?

Executive compensation!

So if you can talk knowledgeably about executive comp, the SEC rules, 409A requirements and what is coming down on FASB, you're going to have people listening to you.



## Voluntary

**Why might an HR professional lack that expertise? And why might advisers want to become an expert and then help educate them in this area?**

The exception here is the top 100, 250 *Fortune* [companies] — they're very knowledgeable, the top people. But if you drift down further, I think in many cases individuals are so caught up in the transactional aspects of HR that they say, "I don't have time to do all that." Well, you've got to find time.

The second thing is, it's not the most interesting, stimulating area. But you have to know it ... If you talk about having a seat at the table, yes,

you've got to be a business partner, but everybody that has a seat at the table is a business partner. The question is what's your area or specialty that you bring to that table? The HR head should be a business partner and an employee champion. Part of that employee champion is [saying] to the CEO privately, "This may not go over well with our people when they see that you are going to get a death benefit of \$50 million, and we are in the midst of doing some downsizing. Maybe we ought to talk about that a little bit."

Now, that requires a little chutzpah. But ... you better have it!

**Will recent SEC proxy disclosure rules, which force companies to more clearly disclose executive compensation, help HR professionals who are interested in displaying that chutzpah?**

Absolutely. When you get to the management discussion and analysis section, that is a golden opportunity for the HR function to get in there and help draft it. SEC does not want attorneys writing it. The attorneys are great, but they're very difficult to understand. So, get it back in the common language and be specific, be direct, and people [will] say, "Yes, OK, I understand how we're getting there." **EBA**

## Funeral services fit in a grim economic climate

Funeral concierge services may sound dour, but they could serve as the proverbial silver lining for advisers who know how to frame the product correctly. With food prices, gas prices, foreclosures and general credit issues, employees have a lot to be worried about.

Marcy Foster, director of HR for Arlington County, Va. has added four financial advisers to her HR staff this year to help support the needs of employees and she also expanded the internal employee assistance staff.

"Everyone is stressed about the economy," says Foster.

Employers say products that offer financial and emotional assistance have an enormous value right now, that's why it may be time for funeral services — among others — to shine.

"Unlike a lot of things, death does not take a holiday," says Mark Duffey, CEO and president of Everest funeral planning services. "Especially in the economic times that we're facing now, people need all the help they can get."

With 24/7 call centers and online planning tools Duffey says they could be viewed as a highly-specialized EAP provider. Most of the time, being a "highly-specialized" and almost boutique product would be a disadvantage in a time when employers and employees have fewer expendable dollars. But a non-insurance voluntary trend is afoot to secure the place of such products next to voluntary mainstays.

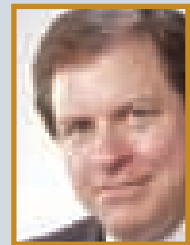
"There's a big move to package services together, so it's a one and one is three type offering, where some non-traditional types of services, like funeral advisory services, are combined with [traditional] benefits," says Duffey.

Recently his company combined their service with a group life product from ING. This move could help non-insurance services transcend the physical and digital limits of what employers can offer in their payroll deductions, as well.

Core voluntary products are often a broker's initial foray in the voluntary market. Then, during re-enrollments, the more unique services like legal insurance, pet insurance or funeral planning come in the second and third offerings.

"Most [clients] are looking for some permanent life or some short-term disability. They tend to opt for something that would be a definite need if something were to happen in their life," says David Sherman, regional director at EOI Service Company, a Santa Ana, Calif.-based benefits company.

As non-insurance voluntary products become integrated into more traditional voluntary offerings, more unique products will get a boost to the top of the list with voluntary staples.



# Tough economic climate presents opportunities for voluntary benefit sales

BY BRUCE SHUTAN

**D**espite a difficult economic and employment climate, voluntary benefits present brokers and advisers with a teachable moment for their employer clients.

Marty Traynor, vice president of Mutual of Omaha's Voluntary Benefit Solutions, believes plan sponsorship offers a revealing look into how employers respond to these conditions. While the knee-jerk reaction among many employers is that they need to hold off on adding such coverage until business improves, worksite marketers know in their hearts and minds that just the opposite is true.

"What better time to help save your people some money and offer alternative coverages to meet the need for greater financial security?" he asks, noting in the period immediately following a stormy economy employers might consider a higher level of employee voluntary or subsidized coverage.

Rising health care costs continue to drive interest in voluntary benefits. Consider, for example, how the average cost of health benefits was \$1.92 per employee per hour in the private sector as of March 2008 compared with \$1.41 in 2003, according to Elizabeth Halkos, vice president of sales and marketing for Purchasing Power, who says the more than 30% increase over the past five years was significant enough for corporate America to take notice.

Jaime Delgado, a spokesman for the voluntary benefits industry resource Voluntary.com, reports that in light of current economic condi-

tions, employers that are now thinking about having their employees shoulder more financial responsibility for their own benefits have expressed greater interest in these products.

"This, in turn, has placed pressure on brokers and advisers to provide insight on how this can be done with the least amount of disruption while offering voluntary benefit enhancements to ease the pain created by changes to the existing portfolios," he says. Voluntary.com's parent company also owns *Employee Benefit Adviser*.

## HOT-SELLING PRODUCTS

Employers that embrace these products can provide simple and easy access to a broad menu of employee benefit choices beyond subsidized core coverage. They also can deliver the advantage of group insurance underwriting and leverage consumer buying power without incurring any costs other than a minimal administrative fee associated with setting up payroll deduction.

Voluntary products help recruit and retain top talent, as well as garner corporate goodwill, by providing benefit bargains to satisfy the varied needs of an increasingly diverse labor



pool. Whereas Traynor says baby boomers often are interested in critical-illness or long-term care coverage, single-parent households might find greater value in life insurance to protect their children. Young people increasingly realize the importance of protecting their income stream in the event that they become disabled.

"By offering a portfolio of voluntary benefits, an employer can satisfy very different employee segments without saying one size fits all," Traynor says.

Mutual of Omaha has found that

while basic coverages such as term life and disability arguably might not be the sexiest products on the market, they still resonate most with plan participants.

Traynor says there's no beating their convenience and value compared with the individual market, while also providing meaningful financial protection. "Basic family protection is one of the number one things employees value," he says. But while term life is Mutual of Omaha's top seller in terms of absolute dollars, both short- and long-term disability policies are the carrier's fastest-growing lines.

Still, the market continues to expand beyond traditional boundaries. The difference between basic insurance coverage and the computers, electronics and home appliances Purchasing Power specializes in is that Halkos says these noninsurance products are a tangible reminder of the employer goodwill they generate.



Elizabeth Halkos

the relationship they have with their employer."

The objective of these products is that they enhance the lives of employees, help save time, benefit families or lead to workforce advancement. More than 60% of

purchases made by employees who Purchasing Power serves are computers, many of which are laptops given the increasing importance of mobility and dependents needing them for school. Other popular products include consumer electronics (roughly 30%) that

include popular gaming systems such as the Nintendo Wii, which resonate with employees who have children, as well as washers and dryers (the remaining 10%).

### DISTINGUISHING FACTORS

Halkos says brokers and advisers are looking to reinvigorate benefit offerings with new and exciting products

**By offering a portfolio of voluntary benefits, an employer can satisfy very different employee segments without saying one size fits all.**

Acknowledging that the emerging employee-purchasing program category competes with traditional products for what she calls "employee mindshare," she notes that her company is the sole player in the worksite market that serves this program niche, adding that voluntary benefits generally "help promote the message that a company cares about its workers. They actually get to take something home that's a reminder of

to help improve employee relationships. She notes that MetLife's 6th annual Employee Benefits Trend Study showed 44% of the 1,380 full-time employees polled were interested in being offered a wider array of voluntary benefits compared with 31% last year.

Producers are drawn to Purchasing Power's consistently high program participation rates. Part of that is driven by high customer satisfac-

#### Company:

Mutual of Omaha Insurance Company

#### Headquarters:

Mutual of Omaha Plaza  
Omaha, Neb. 68175

#### Contact Information:

Marty Traynor  
Vice President, Voluntary Benefits  
402-351-2839 {phone}  
402-351-6666 {fax}  
www.mutualofomaha.com

#### Products/Services:

Voluntary and employer-based benefits: term life, short-term disability long-term disability, dental, and AD&D

#### Scope of Business:

Voluntary benefits sales at Mutual of Omaha were about \$48.5 million in 2007 and 2008 is on track to exceed \$65 million. This significant growth is possible through the relationships we have built with partner employee benefit brokers and our dedication to cost-effective voluntary products, services and technology that will provide enduring value for their clients.

#### Approach:

For nearly 100 years, Mutual of Omaha has been a dependable provider and administrator of group benefit plans. Today, it has one of the most recognizable names in the insurance industry and is the company of choice for more than 16,500 employer clients nationwide. Mutual of Omaha offers a comprehensive portfolio of insurance products, which includes group and voluntary life, accidental death and dismemberment, disability and dental.

Mutual of Omaha has sales and service offices nationwide, ready to provide the expertise, leadership and solutions that encourage positive relationships between businesses and their employees. The sound financial strength and stability of Mutual of Omaha and its affiliate companies is evident in the industry ratings the organization has earned.

tion, with a more than 60% reorder rate from one year to the next, and another is that they're easy to administer.

"What this means is that they're able to offer to their clients products that are of a high quality, value and impact, while also serving to distinguish their services in a competitive market," she says, noting how brokers and advisers are often astonished by the 5% to 10% year-over-year level of participation in this program.

Seeking to distinguish itself from competitors in the eyes of brokers and advisers, Mutual of Omaha offers what it calls a "Preferred Choice" program that incorporates into group short-term disability coverage traditional elements from competing individual-market policy lines such as portability, resulting in a blended package that's unique in the marketplace.

In addition, premiums have been set up in a way that doesn't require employers to administer as many rate changes and keeps their costs minimal, while offering plan participants discounts of 25% to 50% compared with individual policies.

On the life insurance side, the carrier provides a terminal-illness benefit rider that allows policyholders to accelerate their death benefits and improve their quality of life. Traynor

believes attempts to create such multiple-peril benefit packages will continue to be made in the worksite market. Distribution is centered on having sales professionals in Mutual of Omaha's group offices act as trusted advisers for their brokers beyond answering questions about product or price information.



▶ Marty Traynor

Looking ahead, Traynor is excited about the possibility of one day developing for the worksite market the same type of model that Amazon.com has so successfully used to make recommendations based on purchasing history or similarly appropriate metrics for benefits purchasers.

## GAS PRICES

When amortized with the help of payroll deduction, the price of voluntary benefits

is much cheaper than, say, gasoline. The trouble is that few people think twice about filling up their tank versus shoring up their financial future or earmarking limited dollars for big-ticket purchases. A communication and educational challenge awaits brokers

and advisers who seek to turn around this perverse cost equation for their clients.

Since Purchasing Power customers have an entire year to pay off their bills through the ease and convenience of payroll deduction, they needn't worry about incurring any additional ongoing expenses beyond that period as they

Whether it's the price of gas or the cost of a hamburger, there will always be price comparisons and people will need to decide how to spend their money most effectively.



## PURCHASING POWER

### Headquarters:

695 Pylant Street  
Atlanta, Ga. 30306

### Contact Information:

Elizabeth Halkos  
Vice President, Sales and Marketing  
sales@purchasingpower.com  
www.PurchasingPower.com

### Products/Services:

Purchasing Power is an employee benefit that helps individuals buy computers, electronics and home appliances through the ease of payroll deduction.

### Scope of Business:

Purchasing Power is the fastest growing market leader in helping employees purchase computers and other products through payroll deduction or alternatively, a cash discount program. Our clients include *Fortune* 500 companies and large government agencies

### Approach:

Purchasing Power is the easy solution for employers seeking a simple to administer program that will enhance their benefits package. Through the use of payroll deduction or a cash discount program, employees have a convenient and economical way to purchase high-quality, name-brand computers, electronics and home appliances.

would buying gas every few days or weeks.

Adds Traynor: "Whether it's the price of gas or the cost of a hamburger, there will always be price comparisons and people will need to decide how to spend their money most effectively. Our challenge as employee benefit professionals is to make that case and educate the employer as to why voluntary benefits are an economically great value for their people."

*Bruce Shutan is freelance writer based in Los Angeles, Calif.*

NOT FOR DISTRIBUTION



# NOT FOR DISTRIBUTION

## ON GROUP HEALTH...

Those of us who have been in health care for a long time understand how difficult it is to move the paradigm.

Well, we've finally, I believe, gotten to the point where we can move it because we've [reached] the end user.

## EMPLOYEE BENEFIT ADVISER OF THE YEAR

While his peers consider retirement, **JOHN KAHLE** is redoubling his efforts to transform the way employers look at group health benefits. *By Robert L. Whiddon*

# GO BIG OR GO HOME

**A**t an age when many of his peers are either preparing for or thoroughly enjoying retirement, John Kahle is just beginning what looks like his third, final and most audacious act.

Kahle is an active guy. A recent inductee to his alma mater's athletic hall of fame for his years as a power forward, he's also an avid tennis player. He's big on health, on fitness, on wellness.

He knows the value of it personally and he's committed to make sure his clients understand the value of it professionally. While his current to-do list may be short, it's also bold. Kahle is confident that with the help of his colleagues at Intercare Insurance Solutions they can transform group health insurance which, he concedes, is a mature and slow-moving industry.

That is just one of the many reasons why Kahle, chief wellness officer for Intercare, was selected from the hundreds of nominations submitted to be *EBA's* 2008 Employee Benefit Adviser of the Year.

Kahle's a key member of the Intercare team that has propelled the firm from its spot as the 19th largest broker in the San Diego region to the third position in just two years. Fifty percent-plus annual revenue growth is what's behind that leap.

He's been around and around the insurance business and at this point in his career he's settled himself at the foot of one of the industry's toughest obstacles — transforming the way employers look at health care. Kahle's trying to get his clients to understand that the cost of good health benefits is less like keeping the lights on at work and more like R&D. Sure the lights have to be on, but R&D is where the next iPod comes from. Investing in workers is how you go Google.

Yes, Kahle's out on the philosophical promontory, but he's also an expert on more traditional terrain. For him it's all connected.

Helping self-insured clients become data-minded often means inching them towards self-funding. Better data opens up a world of opportunities for focused health improvement efforts and targeted value-based benefits offerings.

He helps employers understand the importance of good data by also surveying employees, using health risk appraisals to separate fact from fiction for employer and employee alike.

An HRA program with one client revealed that while 94% of participants self-reported their overall health as "good" or "excellent." The assessment showed just 28% actually were.



### ON COMPETITION...

We are in a mature business. You are always taking business from someone. There is very little new business that you start with and it grows. You generally are taking it from someone or somebody is trying to take it from you. We all have to have a better value proposition or a better mousetrap or whatever the case may be.

On the flipside, 1% self-reported an overall health status as "poor" or "needing improvement." The HRA showed that 56% of respondents met the criteria for poor health. Three percent self-reported a serious health problem while the HRA showed 16% had one.

### DATA'S DERIVATIVE

"The issue, really, is how do we leverage the relationship from the employer to the employee to lower health care costs and have better health care consumers," according to Kahle. Data is a means to an end. "To the extent that we can gather information, we can help the employer to make an informed decision of what they should be doing. That's what the employers want. They want a strategy. They don't want another rate: 'Here it is. So I'm good for another year.'"

Kahle's one of a growing number of advisers trading up the value chain — for themselves and their clients. Neither satisfied nor suited to traditional transactional brokering, Kahle says it's Intercare's goal to gather as much data as possible, transform it into information and then knead it into knowledge. From knowledge will come action, he says.

With a clearer picture of workforce health, employers can go about the business of improving the aggregate health status and reap the rewards that come with such effort. That requires communication and lots of it. Kahle and Intercare are among the very best, most progressive and most diligent in the industry when it comes to education — podcasts, Web



**ON COMPENSATION...**  
We say to any of our prospects that it will not cost you any more money to do business with us than it does with your current broker and whatever that means. The current broker is getting X percent, that's what we'll take as well ... Since I've been in the business, I can't remember when anyone said, 'You charge too much. I'm not willing to pay it.'

seminars, newsletters, employee sites, surveys, e-mail blasts, snail mailings and focus groups are all employed.

If an employee, a spouse or HR still has a question then the company's dedicated million-dollar call center fields it.

## A VALUABLE QUEST

Considering value is central to Kahle at the moment.

"We understand the cost, but the cost and the value are two different things. And we don't do a very good job of informing both the employer as well as the employee on what the value of a benefit is," Kahle says.

This perspective has Kahle zigging when many of his peers are zagging on an issue like HSAs.

"My gut feeling is that if, in fact, an employee has a \$2000 deductible and that applies also to the prescription drug side — which always is a shock to them — that the value that is being delivered by that product is not as high as the value that is being delivered by a much lower deductible," he says.

Instead of employers pricing sensitive populations out of drugs they need by raising co-pays, he says they should move in the other direction. Don't take the \$20 co-pay to \$30, take it to \$10. The last thing an employer wants is a patient skipping needed meds to save a few sawbucks, he says.

"What happens is they become claims waiting to happen," according to Kahle. He says most, not all, of his clients get it. It's the other side of the industry that's doesn't.

"Most employers that we talk to understand that if we're going to take away some of the barriers to access, that is we're going to lower some of the co-pays ... for certain disease states, that's going to cost more initially. They all get that," he says. "The point is will it save us more in the long run? The

problem we have is not the client. The problem we have is finding the product within the insurance industry."

The carrier community's reliance on an annual renewal cycle also contributes to the problem, according to Kahle.

"If we wanted to change the industry significantly all we'd have to do is go to two-year rates or three-year rates. Why we can't figure that out in our business is beyond me. I understand about actuarial and trends and all that kind of stuff that we all know, but why can't we be smart enough to figure out a two- or three-year rate?"

The rate carousel is doubly debilitating for the industry because it drives employers to focus on costs more than value and it pushes the universe of advisers to do the same.

"We treat our business as a commodity because the insurance industry gives us commodity pricing. We go to the employer and say, 'Okay, you can move from carrier A to carrier B for 8% less.' Then carrier B who has it for two years is upset when carrier C comes in."

Business churns from one broker to the next and insurance carriers pay as much attention to the novice adviser as they do to the masters. The latter aspect of the industry is what drove Kahle to merge his own firm — SFG Benefit Insurance Services — with Intercare in October 2006. To really have a shot at totally transforming the business he knew size was as important as skill.

"The thing that speaks to carriers is volume. You have to have volume. You can be a high quality agent and you and do a great job but if you don't have volume you don't get their ear," Kahle says. **EBA**

---

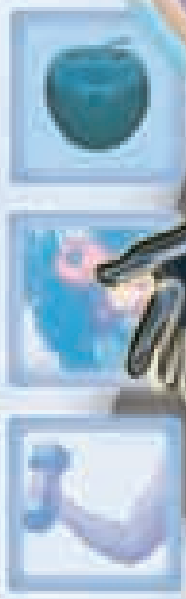
## PODCAST

Listen to the rest of our conversation with Intercare's John Kahle online at *EBA's Raw Bar*. Visit [eba.podhoster.com](http://eba.podhoster.com).

NOT FOR DISTRIBUTION



*Weighing wellness*



## Wellness directors and advisers show how walking the walk pays off.

BY LYDELL G. BRIDGEFORD

Top-down buy in is consistently listed as a key component of wellness program success by health and productivity experts. Advocating healthy decisions is a culture change and a challenge. So, anytime an adviser or employer can work shoulder-to-shoulder with employees engaged in wellness programs, they have a better opportunity to inspire, influence and steer behavior.

Bill Germanakos (pictured on page 38) was able to do this because his personal journey to health was well publicized at work — and nationally. Last year, Germanakos, a medical sales representative for Quest Diagnostics, won top prize on “The Biggest Loser.” He lost 164 pounds — 49.1% of his body weight — in 34 weeks, dramatically improving his health. In April, Quest Diagnostics appointed Germanakos, who had previously led a sales team selling new technologies, as its director of employer wellness initiatives.

“It seems like a natural fit for me to join the company’s health and wellness management team,” he says.

### Leading by example

Germanakos clearly has the New Jersey-based company following in his healthy footsteps. Quest Diagnostics was named a Gold Award winner among the 2008 Best Employers for Healthy Lifestyles — making a case for the strength of a message sent by HR execs and advisers who practice what they preach.

The company’s HealthyQuest employee wellness program, has resulted in more than 70% of participants achieving an assessment rating that indicates a low risk

of developing major health problems, compared to 60% when the program began.

Programs include physical fitness, weight, and stress management resources, tobacco cessation counseling and efforts to improve the healthful quality of food choices at onsite cafeterias and vending machines. The company is beginning to see a positive ROI from the programs and employees appreciate the changes in their lifestyle, says Fred R. Williams, director of health benefits management at Quest Diagnostics.

A large part of the program’s success can be attributed to Germanakos.

“[It was] a no-brainer to have him join our team. He is a wonderful example of what can happen when you are faced with many high-risk health factors, and you are able to put mind over matter to make changes in your lifestyle,” Williams says.

Having Germanakos share his wellness story encourages others to share their own, which gives wellness participants confidence that they can make a change as dramatic as his, whether it’s quitting smoking or losing weight, notes Williams, adding that improving health is a metric that the company tracks.

### Unexpected payoff

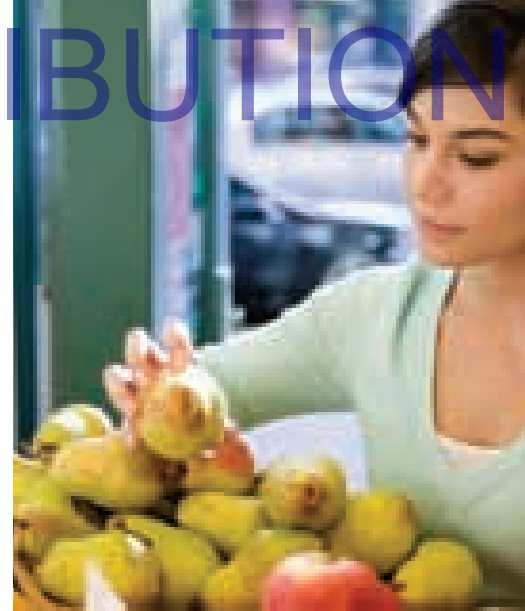
Thom Mangan, president of the benefits division of Hub International, Northeast, has found that making his personal commitment to health and wellness public has helped make the wellness conversation with clients more meaningful. While he’s whittling down his waistline, he’s helping to broaden his firm’s bottom line.

Mangan, whose goal is to lose 30 pounds, has been steadfast in his wellness approach. He is waking up more than an hour earlier to workout. He's also ordering salmon, rather than steak, and often skipping the cocktails when he's out and about with clients and prospects.

---

"I'm going through it. I know it can be done. And it's not easy," says Mangan.

But all his hard work could be paying off as numbers other than his blood pressure could improve, too. He points out that it's easy to be sheepish about focusing on wellness with cli-



I don't know if participating in wellness is critical to your success in business, but I do know it helps if you are practicing what you preach.

ents and prospects, when the broker is anything but the picture of health. Now, Mangan has the opportunity to frame his wellness services differently and push clients a little more forcefully than he has in the past.

Neil Simons, president of Rockville, Md.-based Independent Benefit Services also thinks wellness is a crucial element to lowering premiums and developing a happier, more productive workforce. He attributes his advisory firm's success with implementing wellness programs for clients to IBS' internal wellness advocacy.

"I don't know if [participating in wellness] is critical to your success in business, but I do know it helps if you are practicing what you preach. That's one of the reasons we went to consumer-driven health care four years ago, because we wanted to be the guinea pigs and see how it works. So, as wellness has developed we've tried to develop more internally what we're

## Achieving and maintaining behavior change

Motivating participants is a major challenge facing worksite wellness. But maintaining the healthy behaviors participants learn to embrace through the plan is even more difficult. Here are some tips for overcoming obstacles that could cause employees to fall back on bad behaviors once the honeymoon is over:

### Meet people where they are.

The smoking cessation strategy for a 50-year-old who smokes three packs of cigarettes a day should differ significantly from the treatment plan for a 21-year-old who consumes just three cigarettes every other day.

### Personalize the experience.

Employers need to actively involve workers in determining what will work best for their own situation. Lifestyle coaching programs can be an effective way to help people cre-

ate an individualized strategy, as coaches can assess each individual's specific needs, develop a customized action plan, solve problems and prevent setbacks. They also can help identify the emotional triggers of unhealthy habits.

### Measure success.

Someone who loses 12 pounds with an eight-week weight loss program may appear successful, but does he or she have the skills needed for long-term weight management? Participants need to feel motivated to continue making progress, which may include having increased confidence, experiencing psychological mood changes and finding the right support network.

*Matthew M. Clark is a clinical psychologist with the Department of Psychiatry and Psychology at Mayo Clinic in Rochester, Minn., and a medical director for Mayo Clinic*



doing with it," says Simons.

Although Simons doesn't believe there's a one-size-fits-all approach to wellness programs, his company implements many of the best practices they have passed on to clients. The employees take health risk assessments, work with a health coach and even participate in competitions.

"We have a fitness guru on retainer that we bring in to talk to our clients. And he comes in to our office every Monday and takes everybody's blood pressure every week. He claims that's the most important number in your life. And he keeps everybody moving and thinking about fitness," says Simons.

This year the firm launched an eight-week internal fitness challenge. Independent Benefit Services broke the budget on the prizes because so many people made significant differences in their health. With 35 employees they had 100% participation.

When advisers and employers share in employees' wellness journey there is also the opportunity to share additional tips and tactics on how to accomplish health goals.

"I am making public appear-

ances and letting people know what I have accomplished," Germanakos says. "I am trying to spread the word and educate people about health and wellness ... If I was able to do it, then they can do the same. By no means was it easy, but it's a worthwhile endeavor."

Even before going on "The Biggest Loser," Germanakos had participated in some of the health and wellness programs offered by Quest Diagnostics.

"I had a good understanding of what my biometrics levels were before I arrived at the show's training facility, but I need a little bit more motivation. That is why I signed up for the show," he says.

The hard work has more than paid off — personally and professionally — not only for Germanakos, but also for the Quest colleagues he now leads and inspires. **EBA**

*EBA Managing Editor Molly Bernhart contributed to this story.*

### [ MORE (OR LESS) OF MANGAN ... ]

Make sure to check out EBA's Raw Bar for our audio updates with Mangan, the face of our first annual broker fitness challenge. Listen in as he talks about his wellness journey — physical, psychological and professional. Visit [eba.podhoster.com](http://eba.podhoster.com) and search for Mangan.

NOT FOR DISTRIBUTION



Advisers seek out new opportunities as FSAs evolve. Written by Molly Bernhart. Illustration by Johnathon Rosen

As consumer-driven health has become mainstream, benefit advisers and HR executives have become well acquainted with account-based plans. The FSA, HRA and HSA comprise what many experts see as a consumer-driven spectrum moving from more employer control (FSA), to more individual control by the employee (HSA).

HSAs tend to hog the spotlight, as the newest and most revolutionary of the three plans. What's more, FSAs may be losing some adviser interest. In this year's *Employee Benefit Adviser Broker Survey*, only 14% of respondents said they had the most success selling FSAs — putting the accounts even with HRAs and below HSAs, with 24%.

Fear not. FSAs are still useful products for employers and card technology advances have given them a makeover of sorts. For advisers willing to take the FSA in a new direction there are many areas to explore.

#### [ YOU ARE HERE ]

According to Habib G. Habib, CEO and president of Champaign, Ill.-based Benefit Planning Consultants, the FSA market remains healthy and is sustained by rising health care expenses. FSAs will remain a valuable employee benefit because they allow workers to use their pre-tax dollars to ameliorate the impact of rising deductibles, co-pays and other group insurance costs.

The average employee can save 20% to 25% in employment taxes, Habib says. Employers also benefit from payroll tax savings.

“Employers have to match the 7.65% FICA deduction with their own 7.65% and send a total of 15.30% to the

# A NEW DIRECTION

## ROOM FOR IMPROVEMENT

(Graph at right: Y axis shows rate of employee participation by percentage. For example, 7% of employers have less than 5% of employees participating.)

While employers embrace flexible spending accounts, workers still are cautious about enrolling in them, according to the IFEBP.

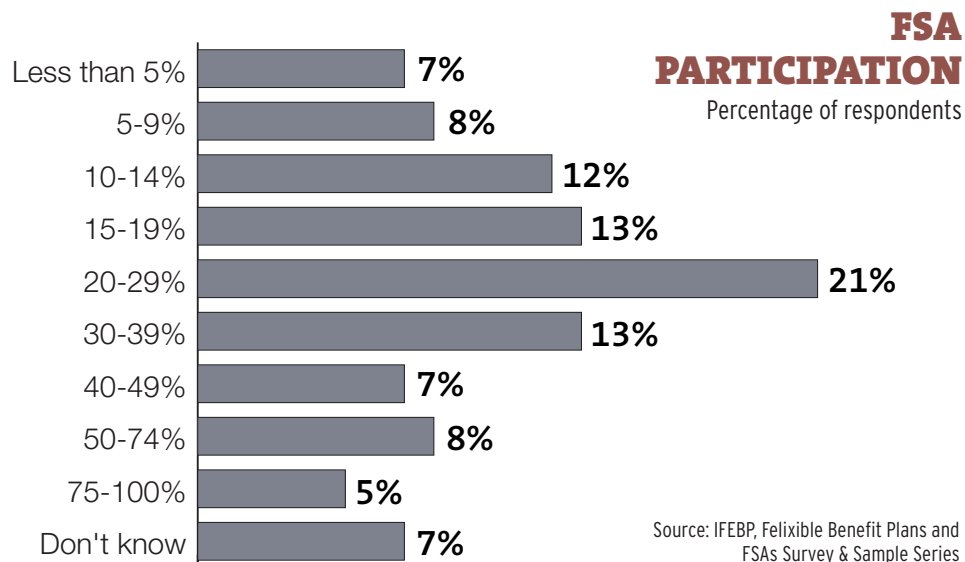
For instance, 90% of employers with a Section 125 plan provide an FSA; however, 73% report that only 39% or less of their workers use health care FSAs.

"Although health care FSAs are a way for employees to have some control and save on taxes, employee participation rates are still relatively low," says Pat Krajnak, director of reference and research services at the foundation, which studies the benefits and compensation industry. "Employees don't clearly understand the advantages of participating in a health care FSA," she adds.

Of the 326 foundation members surveyed about 73% that offer health care FSAs indicate 39% or less of eligible employees participate in the program.

Twenty-one percent of respondents indicated 20% to 29% of eligible employees participate in the health care FSA.

Thirteen percent indicated a participation level of 15% to 19%, and another 13% indicated a participation level of 30% to 39%.



government. By lowering the taxable wages through pre-tax FSA deductions, employers reduce their FICA costs," says Habeeb.

With all these qualities, Dale Alexander, president of Woodstock, Ga.-based Alexander & Company and *EBA's* 2007 Employee Benefit Adviser of the year, admits his frustration that FSAs aren't even more popular.

"As hard as we preach that it's a great tax advantaged benefits tool, we just don't have the success rates that we should. And I think accountants and tax professionals are telling [employees] to do these things, but employees just aren't pulling the trigger on them," says Alexander, who has seen no uptick in FSA use in the past year.

He has heard more talk about FSAs, however. His clients have been discussing how FSAs fit into the medical plan landscape, by combining them with HSAs and HRAs but there has been little action thus far.

Bill Houze, president of LaGrange, Ga.-based employee benefit firm, Houze & Associates has also heard more FSA chatter, and for him it's gone hand-in-hand with employer action. He says bank cards are solely responsible for the renewed interest.

"When we add the bank cards, within the next year you double the participation," says Houze. "The providers and retailers are having to use bar code technology so the claims can be adjudicated on the spot,

which increases the efficiency and increases the employee acceptance."

Currently there are about 27,000 merchant locations where an FSA card can be used and experts expect that another 12,000 retailers will come on board when pharmacies are forced to comply with IRS rules on January 1, 2009. The IRS rulings and the formation of inventory information approval system technology has fundamentally changed the consumer experience and could lead to greater FSA interest from employees as more retailers (for a complete list log on to sig-is.org) come on line.

"It's much simpler for the consumer to use their FSAs. They don't have to save their receipts and send them in," says Kevin Blank, executive VP of Avon, Conn.-based Evolution Benefits, a provider of electronic benefit payment services. "Also, the consumer doesn't have to pay twice anymore — once coming out of their paycheck and another time at the cash register — and then seek reimbursement."

Blank says companies that use an FSA card routinely see a 15% to 30% increase in FSA participation.

### [ ALTERNATE ROUTES ]

Card technology isn't the only way FSAs are evolving. Advisers are using FSAs in new ways to get the attention of employers. They

# NOT FOR DISTRIBUTION

are increasingly being bundled with HRAs. This allows the employer to help supplement the HRA and the plans can typically be stacked on the same card.

Coupling a limited HRA with an FSA means an employer can put in a \$1,000 deductible and only allows items under the deductible to be covered. So, the employer isn't paying for aspirin and Advil, they are only paying for things that will increase their out of pocket exposure on the health insurance plan, says Scott Mardis, regional sales manager for AmeriFlex and president of the Greater Philadelphia association of Health Underwriters. Then the FSA allows employees to save money on a pre-taxed basis to pay for things like the dentist, dependent day care and over the counter items.

Blank says his company is seeing more seeding of FSAs, a way to encourage employees to enroll. Houze says sometimes the best way to teach an old FSA some new tricks isn't by dressing it up at all, but by marketing differently. His firm does a lot of bid work, so they use FSAs as an add-on so that employers select his company to administer their other benefits.

"It's a value-added service to our clients that puts us head and shoulders above our competition. This helps us retain and obtain clients," says Houze.

Blank suggests marketing FSAs year-round, not just during enrollment. Advisers, he suggests, might want to tie a marketing campaign to tax time. Reminding workers of FSA relief when they are feeling squeezed by Uncle Sam could prove effective.



Habib HABEEB

## [ FSA POTHOLE ]

Debit card technology is helping advisers overcome one FSA objection — receipts — but there are still a few things advisers need to lookout for. The number one problem employees have with the benefit is still the "use it or lose it" rule.

"People are inherently afraid of

"It's much simpler for the consumer to use their FSAs. They don't have to save their receipts and send them in."



Kevin BLANK

budgeting. They're inherently afraid of putting \$500 or \$1000 into an FSA because they think they may not use it," says Blank.

It's up to the adviser to communicate to employees that they are already spending \$500 a year on health expenses, no matter how healthy they are. They're spending it on over the counter medicine to relieve swelling from their workouts or ice packs, says Blank.

A common FSA pitfall is that the employer demands repayment of any "overspent" funds.

In order to get that message across advisers have to make sure employers and employees are setting the right expectations about what's covered, what's not covered and how to best take advantage of it.

"Don't over-sell the benefits of FSAs," says Habib. "Encourage employees to be conservative if they have never been a participant before. Provide a comprehensive list of eligible expenses."

Similarly, everything should be

spelled out in the employee's plan document to comply to the latest laws and mandate with a corresponding SPD.

Habib says another common FSA pitfall is that employers try to mitigate their risk by requiring repayment of any "overspent" funds. This is a violation of the shared risk principal.

An example of an employee risk is the "use it or lose it" rule. A common employer risk is the "overspent accounts" of terminated participants. Neither side can reduce their risk, says Habib.

In the end, success with FSAs is dependent upon communication and providing the right tools. Whenever possible Houze e-mails reminders about how much money they still need to spend in their accounts and how much

time they have to do so.

"We give [employees] a worksheet online, on our Web site. And we have them map out what they're going to spend this year," says Houze. "We also give them the vehicles to spend that money by linking to sites like drugstore.com. We keep them updated, especially in the last quarter, about what their balance is."

Such strategies yield positive results, "[W]e have very, very few forfeitures," Habib says. **EBA**



































