



SPRING VIEW

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IN THIS ISSUE

PAGE 1

ALIGNING EMPLOYEE BENEFITS WITH WORKFORCE PLANNING

BY AMOR IBE & TERI WEBER

PAGE 2

SPRING'S VIEW

PAGE 3

IN THE NEWS

CALIFORNIA ALLOWS PRIVATE EMPLOYERS IN CALPERS

DOL FILINGS

REDOMICILING CAPTIVES AIDS BVI

SPRING SIGHTINGS

EMPLOYEE BENEFITS - CAPTIVES

BY JOHN CASSELL

PAGE 4

EVENTS

DMEC CONFERENCE

VCIA CONFERENCE

NRRA CONFERENCE

CICA FALL SEMINAR

CAPTIVE CORNER

COMING SOON

THE SPRING BRAIN TEASER

NEWSLETTER

August 2008

ALIGNING EMPLOYEE BENEFITS WITH WORKFORCE PLANNING

By Amor Ibe & Teri Weber
Spring Consulting Group, LLC

Benefit costs continue to rise at an alarming rate, causing employers to reduce or redesign benefits to meet their fiscal needs. However, restructuring or cutting benefits which employees have come to expect is difficult when competing over an ever-shrinking skilled labor pool. In the next ten years, the U.S. population over age 55 will increase by approximately 50%, while the population under 55 will only increase in the single digits. Additional complexities are surfacing with benefit plan designs varying for individual factors, including but not limited to, age, family status, health status, service tenure and work/life balance priorities.

Since workforce needs continuously evolve, employee benefit strategies must keep up with these changing needs in order to provide value to employees. Any employee benefit spending that is not valued by employees is wasted dollars/resources that could and should help leverage other attraction and retention tools.

The impending retirement of baby boomers will force employers to not only compete for the dramatically shrinking labor supply. This phenomenon will also place them in competition for recruiting the

best talent in a workforce with less experience, skill and appetite for corporate longevity. To maintain adequate long-term staffing, workforce strategies should include:

The first step is to assess the critical life events specific to your employee population.

- Leveraging the experience and knowledge base of mature workers, offsetting the lack of skill and experience among their younger counterparts;
- Retaining younger workers, ensuring that the company earns a return on the investment of recruiting these individuals and capitalizes on their immediate potential; and
- Increasing productivity levels among mid-career workers, our *sandwich generation*, helping them to balance personal responsibilities to their children and parents while still striving to achieve high career goals.

Across the entire workforce, employee benefits remain a top consideration in employment decisions, making benefits strategy crucial to successful workforce planning and long term staffing. Currently most employers focus only on a core set of employee needs without considering the full diversity of their employee population. It is critical that all attraction and retention tools, including but not limited to employee benefits,

(Continued on page 2)

SPRING'S VIEW

...GIVEN THE COST OF EMPLOYEE BENEFITS, IS TO VEBA OR NOT TO VEBA, THE QUESTION?

Voluntary Employees' Beneficiary Associations (VEBAs) are one of many vehicles that a prudent benefit and risk management professional should consider in order to potentially fund employee benefit plans in a tax efficient manner. Leveraged alongside a captive, VEBAs may be even more attractive for your plan. For example, GM recently terminated its union retiree benefits using a VEBA.

A VEBA is a tax-exempt employee benefits trust defined by IRC Section 501(c)(9). Employers use VEBAs to fund certain welfare plans for employees and can deduct some pre-funding. The benefit to employees is the protection of plan assets from the company or its creditors; which must be used for employee benefits covered by the trust.

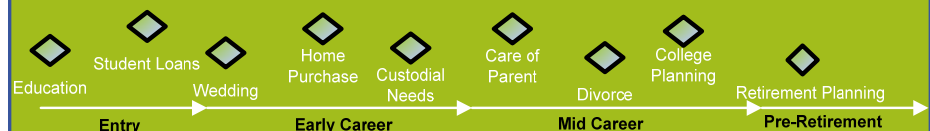
VEBAs are protected by strict IRS rules including non-discrimination and audit standards. Once established, the VEBA can serve as a way to accumulate money on a tax favored basis for plan participants and to purchase insurance contracts on their behalf. Funding the VEBA in conjunction with a captive allows even greater efficiencies and creates additional benefits: increased cost savings, improved cash flow, and underwriting flexibility, as well as better central coordination and data management.

If you have questions regarding VEBAs, please contact John Cassell at (617) 589-0930 x103.

(Workplace Planning continued from page 1)
are linked to the short and long-term workforce planning and staffing goals of an organization in order to meet the needs of employees, stakeholders and shareholders. The goal of *Workforce Benefit Planning* is to strategically map out the "life-stage" evolution process, determining key events—such as marriage and family planning—that current trends indicate an employee may experience within each phase. Benefit programs can then be targeted to fit specific needs at each life-stage. For example, we have illustrated how employee assistance programs (EAPs) may evolve in function as employees progress through the life cycle.

A similar blueprint can be developed for other types of benefit plans. Life insurance needs, for example, peak for mid-career workers and taper off as individuals approach retirement age given the reduction in personal liabilities (such as college financing and home mortgage payments). Increased awareness of the existence and need of critical illness and long term care plans is increasing demand for such coverage among mid-career workers and pre-retirees. Further, time-off and flexible work arrangements are increasing in importance as all workforce segments shift priorities in work/life balance.

WORKFORCE BENEFIT PLANNING is how Spring defines aligning employee benefits with workforce planning to meet employee, stakeholder and shareholder needs. Although each organization is unique, the initial assessment typically includes review of the benefit programs compared to the needs of the organization based on life events. For example, EAPs vary considerably and some are better equipped than others to meet the changing needs of your population. In upcoming issues, we will guide you through a needs analysis for each major workforce segment, and demonstrate in detail the process of workforce benefit planning.



Entry-level and early-career workers would find most value in student loan payoff assistance, wedding planning, counsel for a first-home purchase, and early family planning. Meanwhile, mid-career workers would be most concerned with aid in their children's college financing and elder care services for their aging parents. A company's program must allow for such customization to maximize its value.

An evolving workforce demands a flexible benefit program design which allows for customization and aligns with employees' changing needs. Employers will face increasing competitive pressure as U.S. demographic trends squeeze the supply of the labor force. To effectively utilize benefits in their attraction and retention goals, companies must shift focus from a core-needs outlook to a design driven approach which evolves along the "life-stage" process.

IN THE NEWS

CALIFORNIA LEGISLATION TO ALLOW PRIVATE EMPLOYERS TO PARTICIPATE IN CALPERS

The California Legislature is working on a bill to allow private sector workers without employer-based pensions, the option to open individual retirement saving accounts with the California Public Employees' Retirement System (CalPERS). If approved, California would become the first state to allow private employers employees' the option of using a publically funded pension retirement plan, which would consist of both defined contributions and defined benefits.

*ERIC Executive Report
April 14, 2008*

DOL BENEFITS IN CAPTIVE APPROACHES

As reported in Business Insurance, YKK Corporation of America and Cephalon Inc. received final approval from the DOL to fund employee benefits in a captive.

*Business Insurance
May/June 2008*

REDOMICILING CAPTIVES AID BVI'S GROWTH CLAIM

According to the British Virgin Islands captive industry, several captives have contacted them to re-domicile in the BVI, the world's 4th largest domicile.

*Captive Review
May 16, 2008*

EMPLOYEE BENEFITS — CAPTIVES

No Longer a Risky Business

By John Cassell
Spring Consulting Group, LLC

When some of my Spring colleagues worked on the first Department of Labor application to fund employee benefits in a captive, it was the year 2000 and the concept at the millennium seemed very radical.

SPRING SIGHTINGS

KARIN LANDRY ELECTED CICA SECRETARY/TREASURER

Karin Landry, managing partner of Spring Consulting Group, LLC, has been elected as Secretary/Treasurer for the Captive Insurance Companies Association (CICA).

*Risk and Insurance
March 28, 2008*

EARLY RETIREES

Health insurance for workers retiring early is a growing concern. John Cassell, senior partner of Spring Consulting Group, discusses whether or not employers will use the new pre-65 programs.

*Managed Healthcare Executive
May 1, 2008*

BENEFITS POWER BROKERS

Karen English, partner at Spring Consulting Group, LLC, was named as part of the Employee Benefits Disabil-

ity Power Brokers Team by Risk and Insurance Magazine.

*Risk and Insurance
June 2008*

FOR THE HEALTH OF IT

Many employers are instituting programs to increase employee health and wellness. Karen English, partner at Spring Consulting Group, LLC, discusses the disease management side of employee health.

*Rental Management
April 2008*

CAPTIVE GROUP OUTLINES BEST PRACTICES

CICA released best practices guidelines for captive insurance, which were determined by an advisory board consisting of captive regulators and owners during sessions moderated by Karin Landry.

*Business Insurance
March 17, 2008*

Eight years later, our most conservative clients have employee benefits captives on their agenda or have even implemented them. These days the question is not whether using a captive for benefits is a wise move, it is more what is the best plan for their organization over time.

The captive programs our clients implement create financial savings, minimize employee disruption and are acceptable at board level. This means we have to understand everything from financial consolidation into an overseas head office P&L to the appropriateness of a Caribbean captive domicile or the delicate balance of a union relationship—any of which may be critical factors.

Added to this, new solutions are continually emerging from changes in captive legislation and the Department of Labor's familiarity with these transactions. When some of

our clients recently asked if they could fund their retiree medical or pensions in a captive, our ongoing research and broad expertise enabled us to develop solutions with real financial and structural advantages.

We are excited to be working on developing some really unique captive based health plans that give big company benefits and savings to groups of smaller organizations. This is good news if you are running an association, RRG or self-insured employer group because finding a better health insurance solution for your members can solve a major financial problem.

Our sense is that employee benefits in captives is reaching the next stage of its evolution and the only risk you face is that your CEO will ask you about it in the coming months.

COMING SOON

Enterprise Risk Management (ERM) is a structured approach to identify and assess risks that threaten achievement of strategic objectives or represent opportunities to exploit for competitive advantage. ERM allows for optimal

allocation of capital and human resources. All companies face a wide range of risks in the normal course of business. But all risks are not created equal. ERM helps managers focus on risks that have the biggest influence on their organization and the greatest opportunity to add shareholder value.

EVENTS

DMEC ANNUAL CONFERENCE

As one of DMEC's new platinum sponsors, Spring will have a booth at this year's DMEC conference on August 10-12, 2008. Visit Spring's booth to discuss disability, absence management and health solutions with Karen English and Teri Weber.

VCIA ANNUAL CONFERENCE

Come see Spring's booth at the 2008 VCIA Conference in Burlington, VT August 12-14, 2008. Visit the session "The New Landscape for RRGs" to hear Karin Landry speak about NAIC governance standards.

NRRA ANNUAL CONFERENCE

This year Spring Consulting Group will be a silver sponsor at the NRRA 2008 Annual Conference on September 22-24, 2008 in Washington, DC. Come see Spring's display table. Visit Karin Landry's presentation entitled "New Product Developments for RRGs."

CICA FALL SEMINAR 2008

On September 25, 2008, CICA will hold their annual fall seminar in Washington, DC. Karin Landry also will be the moderator on sessions on non-profit association captives and Solvency II.

A captive can be used as a risk management financing tool to strategically and formally determine the company's "risk appetite" - the level of hazard risk the company is willing to assume. Once the hazard risk analysis is complete, the ERM framework can be used to identify and assess other enterprise-wide risks, including, but not limited to, the financial, strategic and operational risks of the business. ERM is an area where Risk Managers and Employee Benefits Managers can together address the hazard and/or insurable risks, which can often be managed and financed. Adopting a captives as a means to finance your company's ERM solutions can serve as an important first step for your organization to start breaking down its risk silos and developing a holistic strategy tailored to your organizational needs.

CAPTIVE CORNER



Question:

My company participates in a cell captive structure that insures property & casualty programs. We are now considering placing some of our employee benefits programs into this cell. What are the advantages and disadvantages of doing this? Or would it be better to keep them separate captives?

Answer:

Under Revenue Ruling 2008-8, the IRS indicated that each cell of a cell captive had to satisfy the tests of risk shifting and risk distribution separately in order to have the coverages funded in the cell qualify as insurance. In order to meet these tests, employers often look at certain benefits to qualify as 3rd party risk (see Rev. Ruling 92-93). If your existing cell meets these tests, you could choose to go down either path. If it does not meet these tests, it would likely be preferable to combine the programs in one cell.

If you have a question about how captive(s) could be used to improve the financial performance of your organization, email karin.landry@springgroup.com or call (617) 589-0930.

AND FINALLY... THE SPRING BRAIN TEASER

Can you match these Enterprise Risks? (answer below)



- | | |
|---------------------------|--|
| A. Hazard/Insurable Risks | 1. Supply chain, IT, Key managers, Product Quality |
| B. Financial Risks | 2. Natural disasters, injuries, deaths, product liability |
| C. Operational Risks | 3. Market demand, R&D, competitive strategies, reputation, customer need |
| D. Strategic Risks | 4. Tax and interest rate changes, credit default, FX |

Answers: A2, B4, C1, D3

Spring Consulting Group, LLC is a full service consulting firm formed in March 2004 through a management buyout of the U.S. Insurance and Financial Services strategy consulting practice of Watson Wyatt, LLP. Spring provides a full range of strategic consulting services to employers as well as institutions in the insurance and financial services industry. This includes general health and welfare benefits; multinational benefits; captive consulting and actuarial capabilities, with a special focus in the areas of alternative funding and integration (i.e. health, disability, workers' compensation, FML, time off management). Please contact us at (617) 589-0930 or visit us on the web at www.springgroup.com.