



SPRING VIEW

Vision. Insight. Results.

IN THIS ISSUE

PAGE 1

DIFFICULT CHOICES IN UNCERTAIN TIMES

By KAREN ENGLISH & AMOR IBE

PAGE 2

CAPTIVE CORNER

IN THE NEWS

PAGE 3

SPRING SIGHTINGS

MAKING VOLUNTARY THE BENEFITS SOLUTION OF CHOICE

By JOHN CASSELL

PAGE 4

EVENTS

NEEBC BENEFITS FAIR & TRADE SHOW
CANADIAN CAPTIVE CONFERENCE
DMEC 2009 ANNUAL CONFERENCE

THE SPRING BRAIN TEASER

Spring is pleased to announce that Steven Keshner, FSA, MAAA has joined our team as Chief Actuary. Prior to joining Spring, Steven was the SVP, CFO and Chief Actuary of Nippon Life Benefits and brings 25 years of experience in life and health insurance pricing, reserving and product development.

NEWSLETTER

May 2009

DIFFICULT CHOICES IN UNCERTAIN TIMES

By Karen English & Amor Ibe
Spring Consulting Group, LLC

Prior to the economic downturn, employers were already thinking about how they could do more with less in a compliant and proactive way. Employees were certainly getting the message that they needed to be healthier and more productive. Individuals had begun to realize that social contracts were changing and were taking steps to prepare for their own financial futures. Overall, all parties have come to realize that one size fits all benefits plans were a thing of the past.

Now that we are deep into the recession, and the unemployment rate has risen to 8.1 percent,¹ companies are examining their remaining workforce and looking for ways to generate sustainable benefit reductions while still bolstering employee engagement and productivity at all levels. While not an easy task, the tone of the workplace has changed - employees are willing to go the extra mile and would feel vulnerable if injury or illness prevented them from working.²

As employers find themselves in a variety of situations - some taking draconian measures and others remaining more deliberate - the timing is now for determining the right strategy to take forward into 2009 and beyond. Although we have all

become aware of targeted actions organizations are taking, such as decreasing or freezing benefits; increasing employee contributions; reducing work hours or enforcing furloughs or layoffs; the following strategies can be undertaken in relatively short order to ensure a bigger picture approach over the long term.

Examine alternative funding techniques to maintain benefit levels at lower costs. Considering there are four broad categories of funding approaches - fully insured, self insured, a hybrid combination and captive insurance arrangements - employers should conduct a feasibility study to determine which can be applied most effectively to their benefits plan and population. Depending on an organization's current program, frictional cost savings can be as high as 35% and benefit levels can remain intact. Implementation can occur off cycle and communications will clearly indicate what, if anything, is impacted.

Market your ancillary programs. The marketplace has differentiated ancillary lines and become more competitive. Services like will preparation, business travel EAP and wellness are often added to base coverages, but can also be purchased from specialty providers.

Methodically transition from a benefits provider to a benefits sponsor role for selected cover-

(Continued on page 2)

CAPTIVE CORNER

PENSIONS IN A CAPTIVE

Pensions are a large component of many companies' balance sheets. A traditional pension plan may promise to make payments for the lifetime of active employees. This means the benefit promised to a 20 year old employee today could easily turn into an obligation going 60 years into the future.

While the commitment is long term, the effect on cash and P&L costs is very much a short term issue. Both the large pension liabilities and supporting assets change yearly. Annual movements in these items can create disruptions in the accounting statements and require immediate cash contributions.

In the past, accounting and funding rules recognized the long term nature of pensions and attempted to smooth annual movements. With the passing of the Pension Protection Act of 2006 (PPA) and the adoption of the accounting standard FAS 158, the rules have moved towards an immediate recognition of every movement in the market. The drop in pension assets this year will have a direct impact on every sponsoring company's balance sheet and will require many employers to make cash contributions.

Pension liabilities can be transferred to a commercial or captive insurer to mitigate volatility—the insurer will effectively take over benefit payments. The commercial option is expensive and requires pension plan termination. The captive option eliminates commercial overhead and can be implemented with or without plan termination.

By terminating with a captive, an employer could expect to save 5% of the initial cost over the commercial option and retain an additional 20%

(Workplace Planning continued from page 1)

age preservation. Acknowledging that the voluntary benefits market is growing and many notable insurance companies have solutions, organizations should review their options for combining certain group and individual buy up plans; shifting to employee pay all through voluntary and worksite channels; and/or offering additional and valued benefits on a voluntary and bundled basis. Doing so continues benefits that are important to individuals and their families while reducing employer cost (as much as 95%) and upholding a degree of attraction and retention.

Integrate benefits for cost and process efficiency and increased workforce productivity. Benefits programs that are currently purchased separately can be integrated and bundled for a variety of benefits including disability, group health, workers' compensation, absence management, and health management initiatives. Providers and systems can be consolidated, processes can be streamlined and employee experience improved to positively impact productivity. Companies should undertake an analysis of existing benefit pro-

over time.

Employers wishing to maintain their pension plans can transfer pension assets to a captive, which is then responsible for benefit payments delivered in an annuity stream. This eliminates the volatility in the pension plan, while preserving benefit security. Additionally, the more favorable funding and accounting rules surrounding captives allow easier management of these long term liabilities.

grams for specific opportunities and cost savings ranging from 10% to 15% of direct program costs,³ disability days reduction of 10% to 35%,⁴ and return to work rate improvement by at least 6%.⁵

Revise time off policies to better reflect desired employee behavior and economic realities. Employee time off is one of the most coveted benefits by employees but also the most expensive for employers. In fact, anywhere from 4% to 10% of an employer's workforce is not at work on any given day.⁶ In a time where jobs are being eliminated, employee engagement and employer productivity pressures are up, organizations should evaluate their time off policies against industry best practices and specifically the types of employee behaviors they want to encourage.

¹"U.S. Unemployment Rate Jumps to 8.1 Percent," NPR, March 6, 2009.

²"Work is More Than Paycheck, Benefits to Most Americans", SHRM, March 31, 2009.

³Spring Consulting Group, LLC. "Integrated Disability/Absence/Health Management Employer Survey." Survey. Boston: Spring Consulting Group, 2007/2008.

⁴Industry norms and Integrated Benefits Institute Research, 2004.

⁵CIGNA Health care industry experience, 2006.

⁶U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey, 2005.

IN THE NEWS

DISABILITY INSURANCE AWARENESS MONTH

In May 2009, the LIFE Foundation is coordinating Disability Insurance Awareness Month. Every year insurance companies across the nation plan events to help build awareness.

COBRA COVERAGE EXPANSION

The new ARRA stimulus law will provide several changes to COBRA continuation coverage rules including a 65% subsidy of premiums for up to 9 months and allowing workers who rejected COBRA coverage to reconsider.

SHRM.org

February 17, 2009

SPRING SIGHTINGS

GETTING TO KNOW THE NEW FEDERAL LEAVE LAWS

New Family Medical Leave Act regulations were effective January 16, 2009. Teri Weber is quoted in an article discussing the updates and suggests leveraging the changes to:

- Re-train supervisors and managers,
- Educate employees,
- Update all correspondence, and
- Audit all policies and procedures to ensure they are compliant.

California Executive
December 9, 2008

COKE UPCAPS CAPTIVE PLAN

A discussion of Coca Cola's plans to expand their captive to fund employee benefits. Karin Landry is quoted on the growing corporate interest in funding employee benefits in a captive.

Insurance News
December 8, 2008

THE AGE OF RISK

How is risk management being affected by the current economic crisis? Dave Spence is quoted discussing enterprise risk management (ERM).

Business Finance
January 9, 2009

THERE CAN BE FREEDOM IN CAPTIVITY

The captive best practices survey conducted by Spring Consulting Group, LLC shows that more than half of the participants are or have considered funding employee benefits in a captive. How can a company benefit from expanding their captive? What other best practices are companies using?

Employee Benefit News
March 1, 2009

EMPLOYEE BENEFITS CAPTIVE

Captive Review editorial, by John Cassell, discusses the growth in employee benefit captives. There are many reasons why companies are turning to this solution in the current economic climate. With this growth continue?

Captive Review
March 2009

MAKING VOLUNTARY THE BENEFITS SOLUTION OF CHOICE

By John Cassell
Spring Consulting Group, LLC

Life has become extremely complex for employees and their families in the new millennium. They are required to make multiple health and wealth decisions to provide adequate protection for their loved ones often with little or no guidance.

The defined contribution focus in health and retirement has made matters worse with many employees not appreciating the full consequences of investment decisions or health savings account (HSA) rules. In the current economic environment, employers are converting their group benefit plans to voluntary plans and employees are abandoning coverage because of financial pressures. Families with little spare cash still need protection against catastrophic illness and layoffs. The advice they are given is often general and insensitive to people's changing life needs.

Having eliminated some benefits or moved them to voluntary status, employers are unlikely to want to reinstate group coverage in the future. Progressive carriers are recognizing that this new environment provides a unique opportunity to serve the needs of the working population. In helping our employer clients create the best benefits coverage for their struggling workforce, we recommend evaluating carriers with a new set of criteria:

- Does the carrier have dedicated voluntary insurance capabilities or do they simply maintain their voluntary offerings as an extension of their group business?
- Have they developed products and services that specifically meet the emerging needs of the voluntary market?

- Can they offer bundled products that provide adequate support for all types of employees including single new recruits as well as pre- and post-65 retirees?
- Do they price bundled products to reflect the value of a multi-product relationship?
- Can they handle a wide range of risks facing typical employees from health and disability, savings and financial planning to auto and homeowner's needs?

As employers move away from their role as wholesalers of benefit options, employees will need to become better direct consumers. Employees of the future will need to view benefit offerings from the perspective of a retail shopper, reviewing the full range of access, price points and service providers in the search for the combination yielding the right fit for their individual situation.

This concept is supported by many in the benefit community, and the changing landscape in Washington, DC seems to suggest that creating a business to consumer relationship for employee benefits will replace the previous business to business structure without difficulty.

"Signing up for the (Obama/Biden) health plan will be easy. You will be able to do it on your tax return, on the internet, on forms you can get from your employer, in churches, libraries, motor vehicle bureaus and all sorts of places"¹

Insurers need to see *beyond* the worksite to sophisticated web tools, blogs, chat rooms, PDA access and seamless 24/7 call centers that can sell, service and bundle products.

Insurers gather a great deal of information about individual employees through various systems that do not interact with each other. Employers are looking for insurers that can combine health risk assessments with claims and pharmacy information and financial data to create a total risk

(Continued on page 4)

(Continued from How to Save Money on Benefits)

profile for each employee. This can be used as a basis for targeted interventions to improve an individual's health and wealth risk status.

Low risk employees benefit from cheaper coverage and guaranteed issue underwriting when buying new products. Carriers are creating incentive programs to retain better risks, the "Platinum" risk club of the future.

Our clients are very aware of the fact that the expectations of their new recruits are very different from their pre-retirees. They are increasingly

segmenting their workforce to focus appropriate resources for each stage of an employee's career and life situation.

Voluntary carriers of the future will need the flexibility to bundle products for different employee life stages with the ability to respond to what are often sudden changes in circumstances. The young married couple may not expect triplets, their partner's layoff or the responsibility of a suddenly widowed parent. They will need immediate support to help them through these difficult times.

Our clients are starting to expect this type of sophisticated interface to

maintain employee productivity and retention. Their employees will see little need to break the relationship with such a responsive carrier even into retirement.

The new voluntary market is only just starting to emerge. We see the movement towards flexible dynamic health and wealth solutions. These solutions are undoubtedly more valuable to both employers and their employees than the disjointed rigid programs they may be experiencing at present.

¹ "Background Questions and Answers on Health Care Plan." Barack Obama. February 2009. <http://www.barackobama.com/pdf/obama08_health_careFAQ.pdf>

EVENTS (MAY)

NEEBC ANNUAL BENEFITS FAIR AND TRADE SHOW

Meet with members of the Spring team at the Westin Waterfront Hotel in Boston on May 14, 2009. Stop by our booth for a chance to win a prize.

CANADIAN CAPTIVE CONFERENCE

Karin Landry will discuss best practices in corporate governance during the Canadian Captive Conference May 27-28, 2009 in Toronto, Canada. The session will also discuss Spring Consulting Group's Best Practices Survey results.

DMEC 2009 ANNUAL CONFERENCE

Come hear Karen English speak about Using Captives to Fund Disability and the Tools of the Trade: Employers Guide to Integration (DMEC's newest publication) during the DMEC conference July 19-22, 2009 in Portland, OR. Also stop by our booth to meet Karen English and Teri Weber.

AND FINALLY... THE SPRING BRAIN TEASER

True or False

1. The Family Medical Leave Act (FMLA) allows for 12 weeks of leave within a 12 month period for all absence reasons.
2. The new regulations, effective January 16, 2009, have made employer notification requirements (i.e., timing) more aggressive.
3. Beginning January 16, 2009, eligible employees will have a minimum of seven days to cure a deficiency within their medical certification before their FMLA case will be denied.



- Answers:
1. False—While the FMLA was originally designed to provide up to 12 weeks of leave for eligible employees, the covered service member family leave allows for 26 weeks of FMLA leave to care for a spouse, son, daughter, parent, or next of kin who has a serious injury or illness in the line of active duty.
 2. False—The updated regulations have extended the time period for employer to provide notices from 2 business days to 5 business days; however, the information required within those notices is more stringent.
 3. True—The final regulations allow seven days for employees to cure a deficiency in the certification information received. They also require employers to notify employees in writing if the employer determines that a medical certification is incomplete or insufficient and state what additional information is necessary.

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 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 (e.g., health, disability, workers' compensation, FML, time off management). Please contact us at (617) 589-0930 or visit us on the web: www.springgroup.com.