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Benefits Beacon

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Financial Education Boosts 401(k) Participation

Since the stock market declines earlier this decade, 401(k) plan participation rates have declined, or remained flat. According to PlanSponsor, an online and print resource on pension and retirement issues, participation rates averaged 74.3% in 2004, up from 2003 but not back to 2002 levels. Figures from the Profit Sharing/401(k) Council (PSCA) report an average 401(k) plan participation rate of 76.4%.

By either measure, about a quarter of employees eligible to participate in a 401(k) plan decline to do so. Nonparticipating employees may be focused on stretching a paycheck to cover bills; they may be struggling with fears of job insecurity; they may be feeling jitters over the security of investing, unsure of market stability and concerned about media coverage of mutual fund scandals. Essentially, nonparticipating employees may be too wrapped up in today's concerns to be able to seriously think about investing for their future retirement.

Even among employees who participate, the level of contribution tends to lag behind the maximum that could be made. According to the PSCA, in 2003, pretax contributions averaged 5.2% of pay for lower-paid employees and 6.4% of pay for higher-paid employees. In that year,

federal law permitted pretax contributions of up to \$12,000 (\$14,000 for 2005, and an additional \$4,000 in catch-up contributions for employees age 50 and older).

The availability of a matching contribution usually is considered the most effective way



to increase 401(k) plan participation rates; the match rate (whether the match applies to

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The Bostonian Group is pleased to share with you our newsletter. This publication is designed to provide you with helpful information pertaining to employee benefits, retirement, compensation and human resources.

We hope that you will find this newsletter informative. Please feel free to send comments or questions to info@bosgroup.com.

Department of Labor: Employee Classification

Ever since the mid-1990s, when Microsoft Corporation was forced to pay nearly \$100M because of employee misclassifications, companies have paid more attention to employee classifications. Classification is an important matter to the worker, employer and government.

As businesses hire individuals they need to be certain that they identify what type of employee they are. Employee classifications have immediate tax implications and also determine if an individual can receive

company benefits. The Department of Labor continues to fine firms for not maintaining current documentation on employees and former employees are more inclined now to litigate than they were in the past.

The Bostonian Group can work with companies to ensure that they remain in compliance with regards to employee classification. If you would like to learn more about employee classification, contact us today at www.BostonianGroup.com or call 617.587.2300.

Prescription Drugs Are Largest Slice of Out-of-Pocket Spending Pie

For the average person with medical expenses, nearly half of their out-of-pocket costs go towards paying for prescription drugs, according to an analysis of health care spending by the Kaiser Family Foundation. This is true for people with both very high and very low overall health care spending, and even for spending levels in-between. For the average non-elderly person with private health insurance (as compared to all health care spenders), prescription drugs account for 35% of total out-of-pocket spending.

Overall, according to the analysis, about 20% of health care costs are paid out-of-pocket by individuals. However, the average person who has health care expenses pays about 35% out of pocket. The difference between the two figures, the analysis explains, stems from the fact that health care spending is not evenly distributed across the population. A small percentage of people account for most health care spending, and for these high spenders the out-of-pocket share represents a lower-than-average portion of overall health care spending (probably because they are more likely to have reached the out-of-pocket maximums under their plans, while those with few expenses still are making payments toward the deductible). The following figures illustrate this point:

Health Care Spending of Non-elderly Persons with Private Insurance

Percentile of Health Care Spending	Average OOP Payments	Average Share Paid OOP
Top 1%	\$ 2,467	6%
2%-5%	\$ 2,017	15%
5%-10%	\$ 1,574	22%
10%-20%	\$ 1,208	29%
Lowest 80%	\$ 261	37%

As noted above, prescription drugs account for the largest portion of the average individual's total out-of-pocket spending for health care. Total out-of-pocket spending breaks down as follows:

Distribution of Overall OOP Health Care Spending

Type of Expense	Average Person with HC Expenses	Non-elderly with Private Insurance
Rx	43%	35%
Office-Based	26%	31%
Dental	17%	20%
Vision	7%	8%
ER	2%	2%
Outpatient	2%	2%
Hospital	1%	1%

The study also examined different types of health care expenses, and analyzed, for each expense, what share was paid out-of-pocket:

Average % Paid OOP For Various Health Care Expenses

Type of Expense	Average Person with HC Expenses	Non-elderly with Private Insurance
Vision	74%	76%
Rx	54%	51%
Dental	41%	37%
Office-Based	26%	28%
Home Care	17%	21%
ER	14%	14%
Outpatient	11%	13%
Hospital	5%	4%

Survey data such as this can be useful for employers when considering making changes to the out-of-pocket payments required under the health plan, such as co-payments, co-insurance and deductibles.

Fighting Obesity in the Workplace

With every passing year, Americans are getting heavier. A more sedentary lifestyle, large serving portions, frequent fast-food and restaurant outings and high-fat food choices are taking a growing toll on individuals' health and, as a result, on employers' health care bills and overall bottom line.

Government figures estimate that nearly two-thirds of U.S. adults are overweight, and that close to half of these—or about one-third of all adults—are obese. Generally, an individual with a body mass index (BMI) of 25-30 is considered overweight; for an individual who is 5'9", this would be a weight of 169-202 pounds. At a BMI of 30 or higher (203 pounds or more), this individual would be considered obese.

In recent years, obesity has increased dramatically. According to the Centers for Disease Control and Prevention (CDC), in 1991, four of the states participating in the CDC's Behavioral Risk Factor Surveillance System reported that 15-19% of their population was obese, and no states reported an obesity prevalence rate of 20% or more. By 2004, these figures had exploded: seven states reported obesity prevalence rates of 15-19%, 33 states reported rates of 20-24%, and nine reported that more than 25% of their population was obese (Hawaii was the only state not reporting data).

Being overweight or obese can greatly increase one's risk of developing numerous serious and chronic health conditions. These include hypertension, high cholesterol, diabetes, heart disease, stroke, gallbladder disease, arthritis, respiratory problems, sleep apnea and some types of cancer. Those extra pounds of weight and unnecessary fat deposits take a heavy toll on the human body and, consequently, result in the consumption of more health care resources. The

CDC reports figures that place overweight- and obesity-related health care expenses as high as \$92 billion, or more than 9% of total U.S. health care spending. In its publication "Prevention Makes Common 'Cents,'" the U.S. Department of Health and Human Services reports research that obesity may account for as much as a 36% increase in inpatient and ambulatory care costs—a greater increase than that associated with aging 20 years, smoking or drinking to excess.

In addition to direct health care costs, indirect costs—to employers and to the economy as a whole—result from overweight and obesity. These include lower

productivity, increased absenteeism, extended time off work and premature death. Clearly, helping employees who battle weight issues makes good business sense for employers.

An employer doesn't need to go through the expense of installing a fitness center in order to contribute to employees' weight-loss efforts. Even seemingly small initiatives can make a difference. Here are a few of the steps businesses can try—

- Since overweight and obesity are linked to inactivity, try to get employees moving more at work. Encourage use of stairways by making them a more pleasant way than elevators to get around the building. Consider bright paints, interesting wall hangings, posters with announcements or newspaper/magazine clippings, and piped-in music. Organize a lunchtime walking club or dance classes. Provide incentives that encourage use of public transportation, such as an employee pre-tax transportation account.
- Since overweight and obesity are linked to poor eating habits, help employees make healthier food choices from cafeteria and vending machine selections. The National Business Group on Health has a toolkit (Promoting Healthy Weight Through Healthy Dining at Work, available at www.businessgrouphealth.org/healthy/diningtoolkit.cfm) that includes cafeteria and vending machine assessment guides, brochures to distribute to employees, and guidelines for requests for proposals and contract negotiations with food service vendors.
- Make weight management programs, such as Weight Watchers, available to employees onsite.
- Provide employees with information on and/or incentives to use local gyms and health clubs.
- Organize company sports teams.
- Build awareness on overweight/obesity issues and fitness through lunchtime speakers or, on an individual basis, through screenings and health risk assessments.
- Work with your health plan vendor to make sure that employees know about, and are encouraged to take advantage of, any available wellness programs, disease management programs and employee assistance programs. Make the availability of such offerings a "must" the next time you put your health plan coverage out to bid.

The obesity- and fitness-related challenges individuals, businesses and the nation as a whole face can seem overwhelming. Taking a few small steps can be a start on the road toward a healthier work force.



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25%, 50%, or 100% of the employee contribution) and match threshold (the percentage of pay or dollar amount up to which the match is made) usually are considered important factors in encouraging higher employee contribution amounts. However, research from Watson Wyatt Worldwide suggests that financial education can be just as effective in raising both participation rates and contribution amounts, and can sometimes be even more effective.

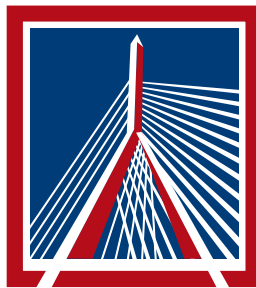
The study examined financial communication programs and rated them based on the scope of plan information, educational materials and projection/modeling tools; the frequency at which communications materials were provided; and whether financial education materials were available online. The study found that a plan with a very basic financial education program could expect a participation rate of 62%. By upgrading the financial education program to average, participation would be expected to rise to 67%. Offering access to retirement income projections would add another 2 percentage points, to 69%. Combining financial education and retirement income projections and delivering them online resulted in an expected participation rate of 74%. Finally, a financial education program significantly

more comprehensive than average could raise participation rates to 84%.

As to contribution amount, the study found that a typical worker at a firm with a below average financial education program could be expected to contribute 5.5% of pay to the plan. Improving the financial education program to average would boost this rate to 6.9% of pay, and improving it to above average could raise it further, to 8.2%

Written communications and company meetings have long been part of 401(k) communications programs, but the growth in Internet access has created an explosion in the variety and usefulness of financial education materials. According to the research, the greatest boost in participation and contribution rates came from the use of Web-based tools. These permit employees to access account information, modeling tools, and financial education materials when they want to, and to use them at their own pace. Fortunately for employers, 401(k) plan service providers are offering increasingly more comprehensive Web-based tools as part of their 401(k) packages. Frequent reminders to employees that such tools are available can enhance the value of the 401(k) program, along with employees' long-term financial security.

Our clients come in many shapes and sizes. • As a result, so do our solutions.



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