

**COMMUNITY FOCUS:
DELAWARE VALLEY EMPLOYEES REACH OUT IN TOUGH TIMES
By Julia Bluemle and Maura Kelly Koehler**

During these tough economic times, positive energy thinking is still possible, as shown by employers and employees who are committed to making a difference. Two large Delaware Valley employers – SEPTA and Kennedy Health System – stepped up in 2010 and plan to continue in 2011.

During 2010, **SEPTA** employees who were asked to donate their time, talent, and personal resources to benefit the region responded enthusiastically and had fun doing it! On a Saturday morning in April, employee volunteers were organized at a dozen city locations to provide additional clean-up in the area where commuters are served in the “Philly Spring Clean-Up” campaign. SEPTA provided volunteers with gloves, brooms, vests, and water.

During one week in June, employee volunteers were dispatched to help spread the word about the Philabundance Food Drive to commuters at train stations throughout the region. Commuters and employees donated several tons of food, which SEPTA stored in its own facilities until the campaign was completed, and sent them to Philabundance for much-needed distribution.

On a Saturday in late September, employees coordinated the “Rail Rodeo – Family Fun Day” at the Fern Rock Maintenance Facility for employees, their families, and members of local rail organizations. Casual lunch fare, activities for children, and an employee entertainment singing talent contest known as “SEPTA Idol” highlighted the 4-hour event. Over 400 employees, their families, and “Rail Fans” attended and enjoyed the activity-filled Fun Day, and leftover food was donated to a Center City homeless shelter.

Although the week before Halloween is typically a time for stocking up on candy, “A Good Book is A Great Treat Campaign” was the theme at SEPTA train stations. Employee volunteers collected 45,000 new and gently-read books for different age groups from its customers and employees, and the books were distributed through the United Way and other charitable organizations to homeless shelters and community and day care centers.

Across the river in South Jersey, **Kennedy Health System** employees have a unique fund to assist co-workers through challenging times. Established in 2006, the Emergency Financial Assistance Fund (EFAF) is a resource for Kennedy employees who experience extreme financial hardship due to an unexpected emergency situation such as a fire, flood, catastrophic illness, or death in the family. Employees in need can apply confidentially for financial assistance of up to \$1,500. Applications are reviewed and awards determined by an anonymous employee committee.

Since its inception, the EFAF has helped close to 100 Kennedy employees with over \$80,000 in financial assistance for unforeseen situations such as mid-winter repair of a heating system, partial apartment payment for an employee whose family needed to relocate after a septic tank flooded their home, and a delinquent electric bill for a single parent employee who was out of work for two months on a leave of absence.

During these difficult economic times, support for this program is critical as employee requests for assistance increase. Funds are raised and donated in various ways. Employees can elect to contribute to the EFAF through a tax deductible payroll deduction in any denomination; the medical staff and other benefactors make generous donations throughout the year; and in lieu of an employee holiday party, Kennedy made significant contributions to the EFAF in 2009 and 2010.

Various fundraisers are also held. During this year’s benefits open enrollment, Thanksgiving baskets were raffled off and proceeds donated to the EFAF. Every Valentine’s Day, the “candy-gram” fundraiser allows employees to purchase a candy bar to thank a fellow co-worker and the purchase benefits the

employee fund. Additional fundraisers include raffles for local sporting event tickets and organized day trips to local attractions.

Kennedy's Emergency Financial Assistance Fund promotes a compassionate, generous environment where employees can truly contribute to each other in times of need.

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THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

By Sarika Shah

The Dodd-Frank Wall Street Reform and Consumer Protection Act is a federal statute signed into law by President Obama on July 21, 2010. A direct result of the financial crisis, the Act is primarily designed to help reform the US financial system, which has significant impact on public companies.

The Act was originally proposed in late 2009 by Senate Banking Committee Chair Chris Dodd and in the House by Representative Barney Frank, and is the most extensive financial regulation passed into law since the Great Depression.

The following summarizes sections of the Act that directly affect US public companies.

Say on Pay

“Say on Pay” is designed to improve board accountability and better align compensation with long term value creation for shareholders. The movement resulted from the perception by activist shareholders that executive compensation was/is excessive, specifically when executive compensation policies reward failure. Executive compensation rose sharply in the 1980's and increased continuously through the years. Say on Pay is a relatively new trend in the US, with AFLAC becoming the first US Corporation to voluntarily give shareholders an advisory vote on executive compensation in 2007. The UK became one of the first countries to enact Say on Pay legislation in 2002.

Some highlights of Say on Pay include:

- the SEC is authorized to require non-binding Say on Pay votes for all public companies;
- companies must include a proxy resolution on shareholder approval of executive compensation; and
- companies must also include a shareholder resolution to determine the frequency of executive compensation approval by shareholders, either every one, two, or three years.

Independence of Compensation Committees

Under the Dodd-Frank Act, companies can have only independent directors on their compensation committees. Committee members must meet independence standards similar to audit committee members under Sarbanes-Oxley, and the definition of “independence” will be issued by the national securities exchanges and associations. The following will be considered:

- the source of a director's compensation, including any consulting, advisory, or other compensatory fee paid by the company to the director; and
- whether the director is affiliated with the company, a subsidiary, or an affiliate of a subsidiary.

Clawbacks

Under the Act, public companies must disclose any policies on incentive-based compensation that are based on financial information required to be reported under securities laws. If the company is required to prepare an accounting restatement due to its material noncompliance with any such financial reporting requirement, the company has the right to recover the excess portion of any incentive-based compensation payments made during the three-year period preceding the restatement date to current or former executive officers (including stock options awarded as compensation) based on the erroneous data.

CD&A Pay Comparisons

Along with many other requirements passed into law are mandatory disclosures within the Compensation and Discussion Analysis (“CD&A”) section of the proxy. Along with Say on Pay, other disclosures include:

- pay vs. performance – the relationship between executive compensation actually paid and the financial performance of the company, taking into account any change in the value of shares of stock and dividends and any distributions (this disclosure may include a graphic);
- a comparison of the CEO’s pay to the median pay of all employees, disclosed in the form of a ratio;
- the median of the total annual compensation of all employees, except the CEO; and
- the CEO’s total annual compensation.

The Act’s executive compensation provisions will have significant impact on public companies, requiring heightened disclosures in the 2011 proxy season. As the season approaches, watch for interesting developments.

Sarika Shah is Senior Compensation Specialist at Sunoco.

LOOKING AHEAD: WILL YOUR EMPLOYEES STAY? By Christine Stanton

As the economy begins to stabilize, employers may be looking forward to better times. But how are employees preparing for this potential shift and what impact will it have on the future? Employers would be wise to prepare for the next wave...

- The **Corporate Executive Board's Corporate Leadership Council** conducted research that finds **less than one quarter of employees (23%)** exhibited a high level of "intent to stay," a leading measure of turnover, in the second quarter of 2010.
- A recent analysis by **Hewitt Associates** shows that **almost half of organizations around the world saw a significant drop in employee engagement levels at the end of the June 2010 quarter** — the largest decline Hewitt has observed since it began conducting employee engagement research 15 years ago.

The research clearly shows that employees are frustrated after a lengthy recessionary period and the response to this crisis by many employers (layoffs, freezing pay/benefits, doing more with less). It certainly seems that, with this financial downturn, some employers abandoned the concept of an **Employee Value Proposition (EVP)** and instead responded to the fear many employees feel in an unstable environment. While some might call this approach the **"You're Lucky to Have a Job"** proposition, where does this leave these employers when the economic picture brightens?

Right now, as high unemployment rates linger, the scales continue to be tipped on the side of employers. However, it seems clear that if employers invest time to rebuild their EVP *now*, they will likely see gains in employee performance and improved retention as the economy stabilizes. Let's take a step back and examine what an EVP includes.

What is an EVP?

Essentially, an EVP is the balance between what an employee receives from his or her employer in return for job performance. More simply, from an employee's perspective, **"What's in it for me to work here?"** Key components of an EVP might include:

- **Compensation:** Monetary rewards employees receive for their work and performance (base salary, incentives, equity).
- **Benefits:** Indirect compensation including health, retirement, life/disability insurance, and time off.
- **Affiliation:** The feeling of belonging to the organization.
- **Work content:** The satisfaction employees receive from their work.
- **Career:** Opportunities for development and advancement.

What Does EVP Mean in Your Organization?

- **Examine each component of an EVP and identify where you stand as an employer.** Think about what makes working for your organization unique and special. There is no "one-size-fits-all" approach. For example, many universities are able to offer lower pay levels in exchange for stronger career development opportunities (including free tuition).
- **Communicate your EVP to recruits and employees.** Help potential and existing employees understand the unique value of working for your organization.

- **Measure your EVP.** It's not enough to put words on paper – you'll need to do periodic reality checks with employees. Surveys can help identify challenges to your EVP, guide you on where you need to build strength, and allow you to track progress over time.

A clearly defined EVP can be a critical differentiator in attracting and retaining key talent. Employers who offer a compelling answer to “**What's in it for me to work here?**” will have a better chance of holding on to their “best and brightest” when the job market improves.

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LEGISLATIVE UPDATE

By Doug Eppler

A number of federal agencies have announced changes – and some proposed changes – that will keep employee benefit and compensation professionals on their toes.

Target Date Funds

The Department of Labor (DOL) proposed new rules requiring employers offering target date and similar retirement funds as an investment option in their 401(k) and other contribution plans to disclose more about those funds. According to *BusinessInsurance.com*, the DOL wants employers to reveal how the asset allocations of target date funds (named for their mix of equities and fixed-income investments targeted to reflect and employee's age) will change over time and when the funds will reach their most conservative investment positions. The proposed rules would also require graphical illustrations of how the funds' asset allocation will change over time and explanations of the relevance of retirement dates featured in the names of funds.

FLSA and FMLA Cases

The DOL recently partnered with the American Bar Association (ABA) to aid plaintiffs in Federal Labor Standards Act (FLSA) and Family and Medical Leave Act (FMLA) cases. In December 2010, the DOL began providing a toll-free number for an ABA-approved attorney referral system to workers whose claims the Wage and Hour Division chooses not to pursue. Because of this first-of-a-kind initiative, some law firms warned employers of the potential increase in both single-plaintiff and collective action litigation now that claimants who'd previously been left to their own resources when the DOL declined to bring a case are now being referred to private lawyers. One law firm's recent alert warned that the DOL may be including in their decline notices information regarding their initial determinations of violations and back wages – potent fuel for any plaintiff's legal fire.

GINA

Regulations regarding the Genetic Information Nondiscrimination Act of 2008 (GINA) took effect January 10, 2011. Title I of GINA prohibits genetic discrimination in health coverage, while Title II, among other things, prohibits the use of genetic information in employment decisions; requires that genetic information be maintained as a confidential medical record; and requires employers to post in the workplace an EEOC-prepared notice summarizing employee rights under GINA. Two interesting notes: 1) Among the things potentially affected by GINA are wellness programs that may involve the acquisition of genetic information, and 2) newly released regulations clarify that discrimination could result in sanctions against an employer under Title II even in cases where sanctions may also be imposed on a group health plan under Title I for the same actions. The bottom line? Make sure you're up on GINA. For more information, visit www.eeoc.gov/laws/statutes/gina.cfm.

Grandfathered Health Plans

Finally, the Department of the Treasury revised its previously issued regulations on health plans that are "grandfathered" from certain health care reform requirements. Specifically, the revisions state that a group health plan can switch insurers without losing grandfathered status as long as the new policy does not change the design of the health plan in a way that would otherwise cause the loss of grandfathered status. These new regulations, issued in November 2010, are not retroactive for any plans that lost status between March 23, 2010, and the issuance of the new regulations.

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FINANCIAL WELLNESS **By Phil Zimmerman, CFP®**

The recent economic downturn has crystallized a problem that has been building for years: many people haven't saved enough for retirement. Compounding the problem, fewer and fewer employers are able to offer defined benefit plans, matching contributions, and other benefits because of cost.

Concerned employers who want to help prepare employees for retirement while also considering their overall financial health are rethinking their benefit programs to include components such as targeted education programs, savings vehicles, and actionable advice tools. While these financial wellness-focused programs can range from basic to robust, all are designed with the same goal: to help employees develop their own holistic financial strategy so they are better prepared to manage both everyday expenses and long-term goals.

It's no longer enough for people to view their retirement plans in isolation; it's important to see them as one piece in the larger financial picture. Employers may want to consider offering employees a full spectrum of benefits solutions, which is important for employees' financial wellness as well as retaining the best talent.

Because people are more focused on their overall financial health, many are changing their attitudes about spending and saving. For example, a recent Merrill Lynch report of plans serviced by Bank of America showed that of the 401(k) participants who took action within their plan in 2009, 69% took a positive action to enroll in the plan, while 39% took a negative action to stop contributing to the plan.

Employee Ranking of Financial Concerns

- Managing retirement plan investments: 52%
- Paying off credit cards and other debt: 41%
- Meeting current household expenses: 35%
- Preparing for retirement in 10+ years: 33%

Further exploration suggests that this focus extends beyond retirement. Another Bank of America Merrill Lynch report revealed that the top four financial concerns of employees are evenly split between everyday expenses and retirement. While people want to save for retirement, many are realizing they can't save adequately if they can't fund their everyday expenses first. The problem is that so much of the financial guidance out there is a patchwork of money-saving ideas, stock market tips, and other "recommendations," which are often conflicting, biased, and/or confusing.

The Employer's Role in Financial Wellness

Investing for retirement has moved toward a model where the employer provides *guidance* but the employee takes *responsibility* for investment choices. Many employees may not fully understand the degree to which they are in charge of their own financial futures, and even those who do may not know how to invest their money properly. According to Kevin Crain, managing director of institutional client relationships at Bank of America Merrill Lynch, "The fact that so many employees fail to take full advantage of their retirement benefits is a good indicator that they could use some help." On the most basic level, employers can help by providing access to the necessary vehicles for saving money. However, to truly make a difference in employee financial wellness, employers should examine a much broader spectrum of benefit offerings and educational opportunities. The advantages of offering strong benefits, such as a retirement plan or financial wellness program, are not just one-sided. Many employers see them as useful in maintaining productivity, as well as recruiting and retention. A 2009 Deloitte Consulting survey revealed that "more than three quarters (79%) of employers are still fairly confident that their 401(k) plan is effective for recruiting talent, and 68% say it helps with retention." (Source: Deloitte Consulting LLP, 401(k) Benchmarking Survey, 2009 Edition.)

Employers who are considering offering solutions to improve holistic financial wellness should first evaluate their company's existing benefits. Some employers will find it useful to work with service providers who can help them redefine their benefit solutions and offer the tools and advice their employees want. Here are three areas on which to concentrate:

Rethinking plan design

Start by assessing your current retirement plan design – is it working for your employees so they can get the most out of what you offer? Try to ensure that your employees use the benefit plans available to them, whether they be defined contribution, equity awards, or nonqualified programs. To maximize effectiveness, employers should try to tailor benefit solutions to meet the needs of the business as well as the needs of the employee. Some plan sponsors are finding better participant response by offering 401(k) program enrollment and health plan annual enrollment at the same time. Others offer auto-invest or auto-increase programs. Those working with a service provider often find that participants appreciate the flexibility of open architecture with an array of investment options so they can customize their investment menu according to their personal financial goals.

Financial Wellness solutions

Many types of offerings can fit into the category of financial wellness solutions. For example, an easy-to-use online site that helps employees gain an integrated view of personal financial information can help them avoid making financial decisions in isolation. Some plan sponsors offer products that provide employees with banking, savings, and credit solutions, preferably at some sort of corporate discount, such as an @work program. Another option is providing discounts on an insurance policy, mortgage, or college tuition plan. An important factor in helping employees succeed is to not only provide the solutions, but to also provide the proper education to help ensure that employees are aware of their benefits and know how to use them. For example, a company with an aging workforce may consider a targeted communication program to help older employees make decisions about retirement income. Because most companies' employee base consists of individuals at varying life stages, each with different levels of income, assets and goals, educational programs must be flexible enough to accommodate a range of simple to complex needs.

You need to know your audience. In addition to listening carefully to your employees, you can also use more formal data-gathering methods. Bank of America Merrill Lynch recently released the Financial Wellness Monitor™, a tool to help plan sponsors determine how participants are using their 401(k) plan. This report measures whether employees are using the savings plans, diversifying adequately, taking advantage of the company match, and several other factors. By understanding employee saving behaviors, employers are in a better position to develop targeted communications and education programs.

Delivering holistic advice

Consider rolling out an advice tool to help employees make investment decisions. At Bank of America Merrill Lynch, we believe financial advice is a foundational component to a more effective retirement plan, which is why we provide it as part of our 401(k) services to plan sponsors and employees at no additional charge. An advice tool is different from the educational programs many employers run because employees can get specific advice based on individual needs. These are often online-based and administered by a third party. Employers need to recognize the difference between education and advice. It's a significant change from the way financial benefits have worked in the past. With education, you give people general information to help them make informed decisions. With advice, you can give them actionable ideas for their particular situation. Employers should consider offering both.

Plan sponsors may use multiple channels to reach participants: local meetings, phone, one-on-one sessions, e-mail, and print communications. Employees may want recommendations about how much to

contribute, how to choose investment solutions, and how much to save for retirement. What's more, employees should feel confident they are receiving fact-based insights rather than random opinions. Many people simply don't know where to begin. That's where their employer can really help – by making sure their plan offers an advice tool or service to participants.

Case Study: Rethinking plan design with employees top-of-mind

New Hampshire-based Goss International is a leading manufacturer of web offset presses and print finishing systems whose history dates back to 1885. Because of the global migration to digital media in recent years, Goss has felt the effects and has downsized its staff significantly. “All you have to do is look at the number of newspapers that have gone out of business to know that our industry has been significantly hit by the change in technology,” says Amber Barbere, Goss's senior manager of Benefits and Compensation. Even through tough times, however, Goss continues to consider employees' financial well-being a high priority. “Financial planning is an expertise that many people don't understand. When you are focusing upon paying your mortgage this month, it's hard to think where you'll be in 15 years. We have a major responsibility to help our employees prepare by working with a good financial institution that provides proper tools and education.”

With this in mind, Goss worked with Mark Shapiro, a Bank of America Merrill Lynch relationship manager, to review their 401(k) plan design. They were disheartened because not only were they failing their nondiscrimination testing, but many employees were not taking advantage of the benefits available. “We needed to find a creative approach that would benefit our employees but also help us close the gap on our noncompliance testing,” says Barbere. In 2006, Goss decided to establish auto-enrollment for all new employees, hoping to increase participation, and Barbere and the benefits committee were pleased to find that over 18 months, the participation rose from 66% to 73%. That year, Goss also rolled out Advice Access, a service that provides actionable advice on participants' savings and investment decisions.

One early positive result of the rollout was improved diversification as the average investment holdings per participant increased from 4 to 4.76 in the same time period. Barbere stressed the importance of strong two-way communications with employees, explaining that the main reason for introducing a Roth 401(k) option was that participants asked for it. “Goss employees in general are sophisticated, and they ask a lot of the right questions,” said Shapiro. “They wanted opportunities to be able to contribute in different ways.”

In 2008, although Goss had made significant changes already, participation was still not as high as they had hoped and the benefits committee decided to go one step further. “We decided that by enrolling all our existing employees as well as auto-enrolling new employees, we could not only close the nondiscrimination gap, but also help reinvigorate their retirement savings,” says Barbere.

According to Barbere, feedback has been positive. Only 28 employees have opted out since auto-enroll was established. By the end of 2008, participation spiked to 90% and about 25% of employees were taking advantage of Advice Access, now established as the plan's qualified default investment alternative. According to Shapiro, about 20% of employees who use Advice Access also take advantage of it for a more holistic view of their finances. “They might include their spouse's data, such as their 401(k), pension, banking, and brokerage accounts, helping provide a more robust financial picture for the participants and families.”

The use of Advice Access is proving beneficial from an employee financial wellness standpoint as well. Bank of America Merrill Lynch's Financial Wellness Monitor™ rates Goss's participants who are enrolled in Advice Access with an above-average score of 8.2. As with many companies, the 2009 economic downturn resulted in employee layoffs and unpaid furloughs, and Goss's plan participation decreased, settling in the mid-80% range. However, as the economy continues to strengthen, Barbere was pleased to provide employees with an improved fund lineup and lower overall fees in 2010. She explains that Goss's theme for open enrollment is offering people choice in both health plans and financial wellness.

“We’re excited to offer our employees options,” says Barbere. By providing an exciting fund line up, Advice Access, and a Roth 401(k), we’ve given our participants the options they need to prepare and save in ways that work for them. Even though we can’t offer pension plans and a 401(k) match the way we did in the past, we can still assist people in preparing for their financial future.”

This case study is not intended to serve as advice, since any strategy is dependent upon your plan’s individual facts and circumstances. Results will vary.

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(Michael Fitzgerald, President)

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Pfizer

(Anna Diecidue, Senior Compensation Partner)

Founded in 1849, Pfizer is a global pharmaceutical company dedicated to research and providing safe, effective, and affordable medicines and related health care services. They were recently recognized as 20th of the Top 100 Global Green Companies by Newsweek, and received top campaign honors from PRWeek for providing free medicines to newly unemployed Americans.

iFractal

(Frank Roche, Partner)

iFractal is a communications consultant that specializes in HR communications and HR software in the areas of salary/benefits, recruitment, performance management, mergers/acquisitions, incentive plans and more. They have been bringing their clients "authentic HR communications" since 1993.

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(Susan Koch, VP, Remuneration & Global Rewards)

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(Maya Johnson, Director, HR Operations)

Living Branches, located in Souderton, Lansdale and Hatfield, PA, is a not-for-profit system of retirement living communities dedicated to providing quality, life-enriching services. They offer independent living, personal care, and nursing care services.

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(Deb Conly, Human Resources Manager)

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(Maria Brooks, Benefits Manager)

Modell's Sporting Goods is the nation's oldest, family-owned and operated retailer of sporting goods, sporting apparel, menswear, and athletic footwear. Modell's Sporting Goods, Henry Modell & Company, Inc., and its affiliates operate over 140 stores throughout the northeastern United States.

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**CREATIVE VOLUNTARY BENEFITS:
FOCUS ON CREATIVE NO-COST OR LOW-COST PLANS OR BENEFITS THAT ADD VALUE
By Julia Bluemle**

Body and Mind: Starting 2011 with the concept of life wellness

Energetic and talented office employees, who also happen to be certified fitness instructors or fitness instructors-in-training, hold free 1-hour exercise classes twice a week for cardiovascular fitness and weight training through SEPTA's Wellness Program. The "Lunch Crunch" exercise program, introduced in March 2010, is held at the 1234 Market Street location for all employees who register and complete a fitness questionnaire. Step Aerobics and Latin Fusion are particularly popular.

Other Wellness Programs coordinated by Medical Staff employees, such as blood pressure screenings and health and wellness fairs, are offered throughout the year at over a dozen SEPTA locations. Bus drivers, train operators, maintenance workers, management, and office staff can all participate in these valuable programs.

Peace of Mind: Financial planning and combining employee programs

SEPTA employees deciding to retire are offered extensive information about their individual retirement benefits and the government 457(b) Deferred Compensation Plan through monthly group retirement sessions at the SEPTA headquarters building. The company employs over 9,000 individuals in the region, and approximately 2% retire per year.

The Employee Services Department Staff began reaching out to future pensioners in 2010 by encouraging them to review their pension benefits five years prior to retirement. The average employee age is currently 48. About 20% of employees are eligible to retire early, or with full retirement benefits. This campaign is intended to educate employees in over a dozen SEPTA locations about their pension plans, the 457(b) plan, and other sources of retirement income, such as Social Security.

Through its HR Connect program and the efforts of headquarters staff, combining programs such as physical wellness education, screening, and retirement planning at least monthly, and during employee shift changes, benefits a large number of employees working both traditional and non-traditional hours at most SEPTA work locations.

Healthcare: Low or no cost to employer/employee

All SEPTA employees can currently purchase disability income, accident indemnity, cancer indemnity, critical care, and life insurance at low group rates. The AFLAC plan is offered using payroll deductions and on a pre-tax basis. It pays cash benefits to employees as a result of illness or injury and is completely employee-paid, with no cost to SEPTA. It is not affected by other insurance plans employees already have or are offered, and thousands of employees already utilize this benefit.

The following insurance plans are AFLAC's current offerings that can be customized to your organization's needs. Not all plans are available in all states, and some can only be offered through payroll deduction:

- Accident
- Cancer/Specified Disease
- Dental
- Hospital Confinement Indemnity
- Hospital Confinement Sickness Indemnity
- Hospital Intensive Care
- Juvenile Life
- Life
- Lump Sum Cancer

- Lump Sum Critical Illness
- Specified Health Event
- Short Term Disability
- Vision

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CONNECTING VOLUNTARY BENEFITS TO YOUR TOTAL BENEFITS STRATEGY

By Peter R. McClung

Voluntary benefits offered through a plan sponsor are traditionally an extension of your existing benefits offerings, such as buy-up options of life and disability coverage. Today's voluntary marketplace offers programs that can extend your benefit platform into new areas or help you achieve increased movement towards your existing consumer-based plan strategy. From hospital indemnity plans supporting the consumerism plan movement to pet insurance, today's voluntary programs offer more selection and options to create a benefits marketplace through your existing employee program.

Hospital Indemnity Plans

A strategy to offer a Consumer Directed Health Plan (CDHP) can be complex. When offered along with other plans, employee concerns about high deductibles can limit the adoption rate of the new plan in the early years. Even when the financial modeling tools you provide to employees give them the clear choice to elect a CDHP, many decline because they fear "what could happen" in the deductible period. How would they come up with the cash? At the end of open enrollment, you may find that your consumer directed health plan didn't achieve the enrollment you had hoped for. Offering a Hospital Indemnity Plan can mitigate the perceived risk, giving your employees a bridge to elect the consumer directed option.

A hospital indemnity plan typically has two components: a cash lump sum payment for an overnight hospital stay ranging from \$1,000 to \$2,000 and a secondary per-day payment (e.g. \$100) for each day in the hospital. For employees whose FSA reimbursements along with a Health Reimbursement Account (HRA) are not as beneficial due to their lower tax rates, the cash provided by a hospital indemnity plan allays the fear of paying the deductible in an emergency. For employees in a Health Savings Account (HSA), the cash payment can ease the employee into the selection by providing a means to mitigate the program's risk.

Would the Hospital Indemnity Plan mitigate the "consumerism" effect of the plan in total? Studies released by the large insurers have shown that employees enrolled in CDHP plans do change their behavior. The Hospital Indemnity Plan does provide a level of comfort for those that fear the potential of a hospitalization, but many of the "consumerism" effects of enrollment in a CDHP are not affected, such as savings on non-essential physician visits, prescription drug utilization, and outpatient procedures, since the Hospital Indemnity Plan is focused purely on overnight hospital stays.

The Hospital Indemnity plan can also assist with a full population transition to CDHP by providing a benefit for those who are expecting a baby or have already scheduled overnight hospital stays. The real benefit is in providing a plan that helps individuals target their fear of what could potentially happen in a CDHP plan by mitigating a portion of their perceived risk. One plan sponsor recently increased their CDHP adoption by 24% after offering a Hospital Indemnity Plan, and has continued to grow the plan each year so that it could become a sole offering.

Pet Insurance

60% of employee households have pets, and veterinary expenses are rising twice as fast as consumer spending. As you work on your wellness strategy, including encouraging employees to exercise and walk more, pets are an integral part of many employees' wellness and exercise plans.

Employees are interested in products that provide financial protection and peace of mind if a pet requires expensive veterinary care. Many carriers will bill employees directly, thereby lowering the hassle factor for you as the plan sponsor. Providing pet insurance is a way to extend your wellness strategy and provide a benefit that employees appreciate and value.

Peter R. McClung is VP, Client Management, National Accounts Aetna.

IS IMPLEMENTING A WELLNESS PROGRAM ONE OF YOUR NEW YEAR'S RESOLUTIONS?

By Chris Marren

Wellness Programs. Those words can elicit a wide variety of responses when you ask individuals to define them. For some, it means access to voluntary insurer or administrator-provided programs such as Weight Management, Stress Management, or Tobacco Cessation. Others look to the help of third-party organizations to provide a wider array of screening and testing services combined with resources and ongoing support. Still other employers have developed internally-based programs combined with initial screenings, established benchmarks, and financial or other incentives such as differing contribution levels based on BMI score, smoker status or other criteria.

The benefits of wellness have been noted many times previously and it is difficult to argue that wellness – in whatever form – has become a predominant topic for employers who have struggled with rising health costs over the years.

The need for Wellness

The table below outlines risk factors. On the average, for every 100 employees:

- 44 suffer from stress
- 38 are overweight by 20% or more
- 31 are heavy drinkers
- 30 or more have high cholesterol
- 26 have high blood pressure
- 25 have cardiovascular disease
- 25 have cardiovascular disease
- 24 don't get adequate exercise
- 21 smoke
- 20 don't wear seat belts regularly
- 12 are asthmatic
- 6 are diabetic

Source: U.S. Department of Health and Human Services, 2007.

In a July 2010 Issue Brief, *the Center for Healthcare Research & Transformation* (a partnership between the University of Michigan and Blue Cross Blue Shield of Michigan), focused on 2008 utilization and spending among the Blue Cross and Blue Shield of Michigan (BCBSM) non-Medicare adult population for seven chronic conditions:

- Coronary Artery Disease
- Congestive Heart Failure
- Diabetes
- Chronic Obstructive Lung Disease
- Asthma
- Mental Disorders (excluding Dementia)
- Osteoarthritis

These conditions were selected for analysis because they are among the most common and most costly conditions in the U.S. *and* in Michigan. In addition, many of these conditions are at least partially preventable. The table below emphasizes the difference in the cost associated with the specific condition vs. the total annual healthcare spending for individuals with those conditions:

Chronic Condition	Condition Specific Amount	Total Amount
Congestive Heart Failure	\$9,263	\$41,058
Coronary Artery Disease	\$4,623	\$16,882
Osteoarthritis	\$2,819	\$13,466
Chronic Obstructive Lung Disease	\$1,637	\$12,619
Mental Disorders (excluding Dementia)	\$2,828	\$11,101
Diabetes	\$2,091	\$10,491
Asthma	\$1,797	\$10,467
No Selected Chronic Conditions	—	\$2,788

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As the data above indicates, there can be significant indirect and/or additional cost associated with the existence of even one of these specific, at least partially preventable conditions.

More recently, a strong endorsement for the benefits of wellness and preventive care is shown in the Patient Protection and Affordable Care Act's requirement that preventive services be covered at 100%, with no employee cost sharing.

The final provisions of PPACA (September 2010) require health plans to cover the preventive care services outlined in Bright Futures: Guidelines for Health Supervision of Infants, Children, and Adolescents. Bright Futures is a national health promotion initiative dedicated to the principle that every child deserves to be healthy. Focused at the American Academy of Pediatrics and a collaborative of other federal and state-funded projects, the parties agreed on certain evidence-based guidelines, making them the de facto standard for all pediatricians, primary care doctors, and other physicians treating children.

Bright Futures has outlined a specific number of visits required for various screenings, such as those for mental health issues and obesity. Healthare.gov estimates the effect of the preventive services rule to increase health insurance premiums, on average, approximately 1.5 %. (*Self-Funding Magazine.com – December 2010*)

Getting Started

Once it has been determined that a wellness program will be introduced, a workplace wellness evaluation will help determine the current environment, answering questions such as:

- Is there currently a smoke-free work environment?
- Are employees provided with healthy eating choices, either in vending machines or the employee cafeteria?
- Are employees offered incentives to join and utilize a fitness facility?
- Is an EAP offered to help with workplace or personal issues?

Once the current workplace environment wellness level has been determined, the next step is to zero in on the current issues that are important to employees. Surveys distributed to a sampling or the entire population can drill down on topics of interest (smoking cessation, weight management, etc.).

Personal Health Profiles or Health Risk Assessments can identify (in the aggregate) current or potential risk factors in a given population, helping employers further zero in on topics for a campaign. Insurers, administrators, and third party wellness vendors offer varying levels of online tools for employees to complete the profile, and then report back to the employer at a summary level the prevalence of various population-specific risk factors.

It's also important to ask questions such as:

- How do employees prefer to receive communications regarding programs and workshops (e-mail, newsletter, employee meetings)?
- When would be the best time to hold meetings/information sessions/onsite services (before, during, after work hours)?

Keys to Success

The Wellness Councils of America (WELCOA) has identified certain keys to successful programs.

These include:

- capturing senior level support
- creating cohesive wellness teams
- collecting data to drive a results-oriented wellness initiative
- crafting an annual operating plan
- creating a supportive health promoting environment
- choosing appropriate interventions
- carefully evaluating program outcomes

What's the Return on Investment?

Results may vary. According to WELCOA, returns on investment differ based on the type of program offered:

- Quality of WorkLife (**QWL**) Wellness or "Wellness for Fun and Pleasure,"
- Traditional or Conventional (**ToC**) Wellness or "the Safe Approach," and
- Health and Productivity Management (**HPM**) Style Wellness or "Serious Wellness."

QWL wellness programs focus primarily on improving the morale of employees, and are intended to add quality to worklife and improve camaraderie and relationships between employer and employees. The ROI for this type of program is quite low, with an estimated **cost/benefit ratio from zero to 1:1.5**.

ToC wellness programs offer a wide range of worksite-based, voluntary wellness activities with many different options. About 50% of eligible participants use one or more program activities, with a moderate ROI and a **cost/benefit ratio of 1:1.5 to 1:3.5**.

HPM wellness programs focus primarily on the proactive offering of a more highly structured and substantial set of interventions than either of the other models. With the goal of health improvement and health risk reduction for all participants, the ROI is higher and the **cost/benefit ratio is 1:3.6 to 1:7.0**.

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