

BENEFIT

Plan Trends



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More Young Adults Insured Under New Law

Some 2.5 million adults under age 26 who would have otherwise lost their health care coverage have remained insured through their parents' plan due to changes in the dependent care health plan requirements under the Affordable Care Act (ACA), according to a report released by the National Center for Health Statistics at the Centers for Disease Control and Prevention (CDC) on December 14, 2011.

Under the Patient Protection and Affordable Care Act of 2010 (PPACA), all health plans and insurance providers that offer coverage to the dependents of enrollees must extend the coverage until the child reaches age 26, even if the adult child no longer lives with the parent,

is not a dependent on a parent's tax return, and is no longer a student. This expansion of eligibility went into effect for plan or

policy years beginning on or after September 23, 2010.

Based on an analysis of June 2011 data from the National Health Interview Survey (NHIS), the study found that, since September 2010, the percentage of adults ages 19–25 covered by a private health insurance plan has increased significantly; approximately 2.5 million more people in this age group have insurance coverage than the number who would have been insured without the law.

From September 2010 to June 2011, the percentage of adults ages 19–25 with health insurance coverage rose from 64% to 73% because students who would have lost their coverage after high school or college graduation were able to remain on

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their parents' plan. Over the same period, the percentage of adults ages 26–35 with insurance coverage remained stable at 72%, as an increase in coverage was seen only among those adults affected by the dependent care provision. Researchers also noted that health care access for young adults was entirely due to an increase in private coverage (from 49% to 58%), with no change in Medicaid coverage reported.

Modest Salary Increases For Executives In 2012

According to the annual survey conducted from August to October 2011 by compensation consultancy, Pearl Meyer & Partners, while companies are awarding moderate salary increases to executives in 2012, they are also adjusting their incentive-based compensation programs in response to pressures to provide a better alignment between executive pay and performance.

The report included 190 companies, ranging from Fortune 500 to emerging high-growth companies. Of those companies surveyed, 57% were publicly traded; 29% were closely or privately held; and the rest were not-for-profits. The poll showed that relatively modest growth in base salaries for executives is expected in 2012. More than half (59%) said they expect a 2% to 4% salary increase, and 10% said they anticipate a salary freeze or decrease next year. Researchers observed that this marks a continued break from the annual 4% pay growth of most of the past two decades.

When asked about annual performance targets for their 2012 incentive programs, 42% said they expect to set the performance bar higher next year. This continues a three-year trend, with 49% and 41% of respondents in the previous two surveys reporting plans to raise performance targets.

In addition, around one in five of the companies expect to change their performance measures for 2012, generally to incorporate a metric that is more closely tied to creation of shareholder value. The findings also suggested that long-term incentive (LTI) programs tend to be structured very differently depending on the company's size and industry. For example, stock options remain very popular among smaller companies and in certain sectors, with stock options accounting for 42% of all LTIs among organizations with less than \$100 million in revenue, and for more than 50% of value among life sciences companies. By contrast, stock options made up only 15% of LTI value among companies with more than \$10 billion in revenue. Meanwhile, performance shares were shown to account for 34% of LTI value at the largest organizations, but only 6% among companies with revenues of less than \$100 million.

Typically, companies that outperformed their peers in revenue growth, profitability, and shareholder return expect to provide higher base salary increases, bonus payouts, and LTI awards in 2012, with two-thirds of strong performers predicting an increase of 3% or more in 2012 executive base salaries; 55% expecting bonuses to exceed internal targets for 2011 performance; and 31% anticipating making larger LTI awards in fiscal 2012. Only one-quarter of poor performers reported plans to raise base salaries above 3% or an "above target" bonus payout, while only 18% said LTI award values would rise.

The findings further revealed a continued decline in the level of cash severance provided to executives for "without cause" terminations with 9% anticipating a reduction in contractual provisions in 2012, compared to 12% in 2011 and 10% in 2010. A similar decline was reported in using full "gross-up" payments that cover executives' taxes triggered by "parachute" severance following a change-in-control, with only 18% of companies expecting to provide full gross-ups in 2012, compared to 35% in 2009.

When asked about main goals for their compensation programs in 2012, companies ranked the need to validate alignment of relative pay and performance as their top priority, followed by preparation for new SEC disclosure and governance requirements.

Workers Of All Income Levels Benefit From 401(k) Plans

While economists often assume that low-income employees benefit less than high-income employees from 401(k) plans, a 2011 study published by the Urban Institute has concluded that additional employer contributions to 401(k) plans affect wages much less for low-income than for high-income workers, and that rank-and-file employees may benefit from 401(k) plans more than previous research has shown.

The study entitled, “Do Low-Income Workers Benefit from 401(k) Plans?” by Eric Toder and Karen E. Smith pointed out that economists frequently assume that employees “pay for” employer-provided benefits, such as contributions to retirement plans, in the form of reduced wages. Because low-income employees receive little tax benefit from saving in qualified retirement plans, and may prefer immediate consumption to saving for retirement, “they may not be willing to accept a one-dollar reduction in their wages in return for an additional dollar contributed to their 401(k) plan, while high-income workers may be willing to give up more than a dollar in wages to get the tax benefit,” Toder and Smith observed.

The authors also found that it has often been difficult to estimate the hypothesized negative relationship between employer-provided benefits and wages because researchers have been unable to fully identify the differences in employee performance that may cause some workers to receive more cash wages and benefits than others. A sample from the

Survey of Income and Program Participation (SIPP), matched with the Social Security Administration’s Detailed Earnings Records (DER) was used to estimate the relationship between employer contributions to salary reduction plans and wages for newly hired employees. This data file supplemented demographic data with data on a worker’s earnings history to provide a better adjustment for quality of performance.

The results showed that employees who are offered retirement and health insurance coverage also receive higher wages than those without offers of benefits, adjusting for worker characteristics, prior earnings histories, and coverage by a union contract. This suggests a form of labor market segmentation with some jobs providing both higher wages and benefits, and others lower wages and no benefits.

The study also found evidence that additional employer contributions to 401(k) plans reduce wages much less for low-income than for high-income workers. For any given level of employee contributions among male workers, an additional dollar of employer DC contributions replaces 90 cents of wages for high-income workers, but only 29 cents for workers with low family income. While among female workers, an additional dollar of employer DC contributions replaces 99 cents of wages for those with high family income, but only 11 cents for low-income workers.

According to the authors, this means that employer 401(k) contributions increase the total pre-tax compensation of low-income relative to high-income workers, offsetting in part the relatively larger tax benefits that these contributions provide to high-income employees.

“These results imply that both low- and high-income workers benefit from employer DC contributions,” Toder and Smith said. “High-income workers benefit because they can save more in a tax-advantaged form. Even though their total compensation is unchanged, the increased access to tax-free benefits provides them with more value than an equal



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amount of wages. Low-income workers benefit because their total compensation rises. The tax provisions may not benefit them much, or at all, directly, but they gain indirectly from the increase in total compensation.”

Employers Use Social Media Tools For Workforce Communication

Companies around the world are embracing social media tools as a means of connecting with employees and keeping their workforce informed, with more than two-thirds of employers planning to step up their use of social media tools over the next year, according to a study released by human resources consultancy, Towers Watson.

Published on November 17, 2011, the results were based on a survey that asked 604 businesses worldwide about their communication and change management strategies. The findings showed that nearly two-thirds (64%) of respondents claim to be more knowledgeable about using social media tools than they were a year ago, and that 69% intend to increase their use of these tools over the next 12 months.

Currently, however, only 28% of employers surveyed said they believe social media tools are cost effective at their organization, and just 15% reported having measurement tools in place. When asked to identify which social media tools they think are most cost effective, 63% cited investing in social networks and 58% said leadership journals or blogs.

The study also rated companies according to the effectiveness of their

communication and change management practices, and indicated that doing both well is associated with stronger financial performance. For example, companies that excel in both areas were 2.5 times as likely to outperform their peers as companies that are not highly effective in either area.

Of those companies rated as highly effective communicators, more than half (56%) measure the communication function's contribution to meeting strategic business goals, and 62% use their measurement findings to plan future initiatives or make business decisions. By contrast, less than one-quarter of the companies ranked as low-performing communicators report adopting these initiatives. Results also showed that, across all the companies surveyed, only 37% are measuring the organization's progress against their change goals, with highly-effective change management companies being six times as likely to perform this type of evaluation.

When compared with lesser effective change management companies, the study found that companies that are highly effective at change management are nearly five times as likely to create an integrated communication and change management strategy, and are more than eight times as likely to continue to exhibit new behaviors and use new skills after changes are made.

“Companies are staring at a clear opportunity to use new media to increase engagement with employees,” said Kathryn Yates, global leader of communication consulting at Towers Watson. “Social media and networking clearly open an opportunity for dialogue, rapidly integrate employees into the company culture and create a sense of community. Companies that are reluctant to try social media may end up limiting their ability to attract, retain, and motivate certain key groups of employees.”



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