

# BENEFIT

## Plan Trends



A monthly update focusing on Retirement and Executive Viewpoints

Volume 53, Number 10

## Employers Plan Modest Compensation Increases In 2011

As employers become increasingly concerned about retaining top talent, most are reporting plans to raise salaries modestly in 2011, while continuing to allocate the largest bonuses and base pay increases to key employees and the strongest performers, according to the results of an annual survey on compensation trends by HR consultancy Mercer.

The survey of more than 1,100 mid-size and large companies across the United States showed that more than 98% of companies intend to grant base pay increases in 2011. Of these organizations, the average increase is expected to be 2.9% in 2011. According to researchers, this figure is up slightly from the actual average pay increase of 2.7% in 2010, but is still down from the 2009 average of 3.2%. In addition, just

2% are anticipating across-the-board salary freezes next year, compared to 13% in 2010 and 31% in 2009.

Researchers observed that, while salary increases for 2011 are expected

to be even across most employee groups, more organizations are taking a segmented approach to salary increase allocations, reserving the biggest raises for high-performing talent. The survey found that the highest-performing employees, who are estimated to comprise 14% of the workforce, received average base pay increases of 4.3% in 2010. By contrast, average performers (35% of the workforce) received average raises of 2.6%, and the weakest performers (7% of the workforce) were awarded pay increases of just 0.5%.

“It looks like salary raises are back and for good reason,” said Catherine Hartmann, a principal with Mercer’s rewards consulting business. “The risk of losing key employees is top of mind as the economy recovers and certain labor markets improve.”

### Also In This Issue

- COBRA Enrollment Continues Despite End Of Subsidy
- Health Plan Sponsors Are Committed To Covering Preventive Services
- Retirement Preparedness Varies Significantly

**Furr & Associates**  
Insurance and Investment Services

5575-C Garden Village Way  
Suite 102  
Greensboro, NC 27410

(336) 852-4554  
(336) 698-3180 *fax*  
(877) 273-7755

[www.furrandassociates.com](http://www.furrandassociates.com)

Securities and investment Advisory Services offered through Woodbury Financial Services, Inc. Member FINRA/SIPC, and Registered Investment Advisor, PO Box 64284, St. Paul, MN 55164 (800) 800-2000



*Results indicated that 21% of employees who were terminated in June 2010 enrolled in COBRA coverage, even though the subsidy expired at the end of May.*

The survey further showed that variations in compensation increases can be seen among industry sectors, with employers in high-performing industries planning to grant 2011 increases that are well above the overall average of 2.9%. Respondents in the oil and gas industry reported plans for average increases of 3.5%, while those in the business/professional services industry said they anticipate average increases of 3.2%. However, employers from sectors that are under pressure in the current economy said average increases at their organizations will likely be lower than the norm, with respondents in the real estate sector reporting average increases of 2.5% and those in education anticipating average increases of 2.6%.

“Despite budgetary constraints among all sectors, more stable growth industries are planning to provide raises for select employees,” Hartmann said. “In general, increasing pay will continue to be a challenging priority for employers until improved economic conditions are evident and the economic outlook significantly improves.”

While short-term incentive payouts for 2010 were slightly higher than projections made at the end of 2009, average payouts as a percentage of base pay for all employee groups remained stable. According to the latest poll, average year-end bonuses for 2010 amounted to 35% of base compensation for executives, 15% of base pay for management, 10% of base pay for professionals, and 5% of base compensation for clerical, technical, service, and other rank-and-file workers.

## COBRA Enrollment Continues Despite End Of Subsidy

Many workers who have lost their jobs are choosing to maintain their employer-provided health care coverage by enrolling in COBRA, despite the high

price of this coverage since the Federal subsidy for COBRA benefits ended on June 1, according to an analysis by human resources consultancy Hewitt Associates.

Researchers analyzed COBRA enrollment rates for workers who were voluntarily or involuntarily terminated from their jobs since 2004 at 200 large U.S. companies representing 8 million employees. Results indicated that 21% of employees who were terminated—both voluntarily and involuntarily—in June 2010 enrolled in COBRA coverage, even though the subsidy expired at the end of May. Researchers noted that this percentage is almost twice as high as the average enrollment rate prior to the subsidy (12%), but it is slightly lower than the rate while the subsidy was still available (25%).

The analysis further showed that, of the subset of workers analyzed who were involuntarily terminated, and were therefore eligible for the COBRA subsidy, the average monthly enrollment rate during the period when the subsidy was available was 38%, with enrollments peaking in June 2009 at 46%. However, for May 2010, the last month that the subsidy was available, the COBRA enrollment rate for involuntarily terminated workers had tapered off to 31%.

According to the study, the average worker currently pays \$8,800 a year for coverage under COBRA, a Federal law that allows terminated employees to continue to participate in their former employer’s health care plan by paying 100% of the premium, as well as an additional 2% to cover administrative costs. Under the American Recovery and Reinvestment Act of 2009 (ARRA), a subsidy lasting for up to 15 months was made available to eligible workers who were involuntarily terminated between September 1, 2008 and May 31, 2010. With the government subsidy, workers were responsible for paying only 35% of the COBRA premium, or an average of around \$3,000 a year.

“With the unemployment rate close to 10%, more Americans have to turn to COBRA as a way to access health insurance, especially for workers who are

involuntarily terminated and either don't have a new job right away, or don't have a job with an employer-provided health plan," said Karen Frost, Hewitt's health and welfare outsourcing leader.

"However," Frost added, "enrollment rates will likely decline over time, as workers can't—or aren't willing to—afford the high premiums associated with COBRA coverage." Frost also predicted that workers who enrolled in June anticipating the subsidy would be extended may subsequently drop coverage now that it is clear they will not be able to offset the high cost of COBRA.

---

## Health Plan Sponsors Are Committed To Covering Preventive Services

---

The majority of U.S. employers that sponsor health care plans offer employees a broad range of preventive care services, according to a study released by the Midwest Business Group on Health (MBGH).

The study was based on a survey that asked MBGH members about the preventive care initiatives at their organizations, including vaccinations, screenings, and health education programs. The report's authors noted that, under the recently enacted health care reform bill, health insurance plans will be required to provide preventive care without cost-sharing, which could have implications for employer-sponsored health care plans and health care expenses in general.

Nearly all the employers (97%) agreed that they have a responsibility to offer preventive care services, such as screenings and vaccines, to their health plan participants. In addition, nearly half (48%) have set the benefit cap on the use of preventive services at relatively high levels of more than \$1,000.

When asked why they offer preventive care services, the top three reasons cited by respondents were to reduce medical

disability costs and prevent illness (94%), to keep employees healthy (84%), and to keep employees productive (59%). When asked to identify the main barriers to employee use of preventive benefits, the leading responses were a lack of understanding of the value of preventive services (88%), a lack of motivation to stay healthy (56%), and difficulty taking time during the work day (47%).

The study's authors emphasized that preventing illness before it starts is key to keeping employees healthy and reducing health care costs for employers. They recommended that employers encourage employees to take advantage of preventive services by focusing more on education and communication, removing barriers to access, and better aligning incentives to motivate employees to take an active role in maintaining their health.

---

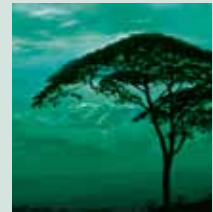
## Retirement Preparedness Varies Significantly

---

As life spans increase and health and long-term care costs continue to rise, a significant number of U.S. workers, including those in higher income groups, are at risk of falling short of funds a decade or two into retirement, according to a study by the Employee Benefit Research Institute (EBRI).

The findings are based on an analysis using the EBRI Retirement Readiness Rating model, which was developed in 2003 to assess national retirement income prospects. The 2010 analysis was based upon information from a database of 24 million 401(k) participants, and it accounts for changes in retirement plans related to increased adoption of automatic enrollment, auto escalation of contributions, and diversified default investments, as well as shifts in market performance and employee behavior.

The study estimated how long retirement savings will cover the expenses of different age and income groups. A household is considered at risk of running short




---

*Nearly all the employers (97%) agreed that they have a responsibility to offer preventive care services, such as screenings and vaccines, to their health plan participants.*

---

of money if the individual's or family's aggregate resources in retirement are not sufficient to meet their aggregate minimum retirement expenditures, defined as basic living expenses, health insurance and out-of-pocket medical expenses, and any expenses from nursing homes and home health care not covered by Medicare or Medicaid.

The simulation indicated that nearly one-half of the oldest cohort (47.2%), called the early baby boomers (ages 56–62), are currently “at risk” of not having sufficient retirement resources to cover their aggregate minimum retirement expenditures. The percentage at risk drops to 43.7% for the late boomers (ages 46–55) but then increases slightly to 44.5% for Generation Xers (ages 36–45). Further, 70.3% of households in the lowest one-third of pre-retirement income are at risk, as are 41.6% of middle-income households and 23.3% of high-income households.

The authors noted, however, that these numbers are far more optimistic than those simulated for the same groups seven years earlier. In 2003, 59.2% of early boomers were simulated to be at risk, as were 54.7% of late boomers and 57.4% of Generation Xers. When analyzed by pre-retirement income, 79.5% of households in the lowest one-third income category were simulated to be at risk in 2003, as were 57.3% for the middle-income group and 39.6% of the highest-income group.

The 2010 study also examined how the different early boomer income groups are likely to fare one or two decades into retirement, assuming the retirement age is 65. The analysis predicted that, after 10 years of retirement, 41% of early boomer households in the quartile with the lowest pre-retirement income will run short of funds, compared with 23% in the lower-middle quartile, 13% in the upper-middle quartile, and less than 5% in the highest-income quartile. After 20

years, 57% of early boomer households in the lowest quartile are projected to run short of funds, compared with 44% in the lower-middle quartile, 29% in the upper-middle quartile, and 13% in the highest-income quartile.

The analysis further showed that, when the results are classified by future eligibility in a defined contribution plan, the differences in the at-risk percentages are quite large. The study found, for example, that Generation Xers with no future years of eligibility have an at-risk level of 60%, compared with only 20% for those with 20 or more years of future eligibility.

The study also examined the issue of how much more workers would have to save to cover their financial needs in retirement. To address this question, the analysis modeled how much more money each household would have to contribute to retirement accounts from 2010 until age 65 to achieve adequate retirement income 50%, 70%, and 90% of the time. The findings indicated that both the upper-middle and highest-income quartiles for all three age cohorts appear to be on track for adequate retirement income in 7 out of 10 simulated retirement paths. However, when the probability of success is increased to 9 out of 10 simulated retirement paths, only the highest-income quartiles appear to be on course.

“As the private-sector retirement plan system evolves from a largely paternalistic one to a system in which workers must make their own decisions, policy-makers need to understand what percentage of the population is likely to fail to achieve retirement security under current conditions,” said Jack VanDerhei, principal author of the study. “Even more important is to identify which of those households still have time to modify their behavior to achieve retirement security, and how they need to proceed.”



*The simulation indicated that nearly one-half of the oldest cohort (47.2%), called the early baby boomers (ages 56–62), are currently “at risk” of not having sufficient retirement resources to cover their aggregate minimum retirement expenditures.*