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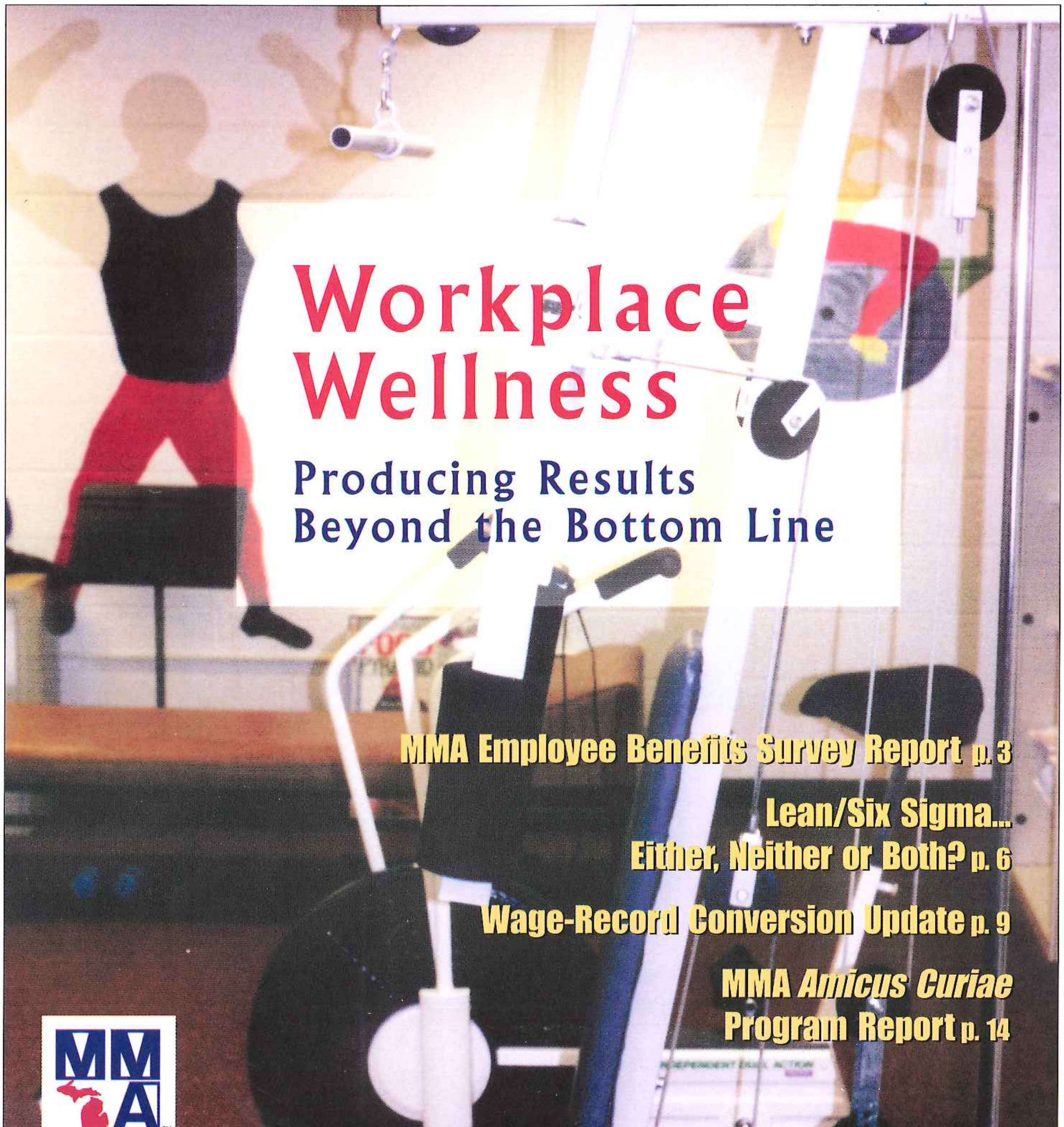


Workplace Wellness

Producing Results Beyond the Bottom Line

MMA

Employers Working to Find the Best Options

MMA Employee Benefits Survey Report

By Edmund B. Ura

The design of an effective employee benefits program requires accommodation of a number of factors, and the results of the 2000 *MMA Employee Benefits Survey Report* show that Michigan employers are doing their best to balance these factors to achieve the most effective mix of value for their money. More than 300 manufacturing and non-manufacturing MMA members participated in the survey, conducted early this summer, by completing a comprehensive questionnaire describing the details of their employee benefits programs. The report results provide a valuable snapshot of the programs Michigan employers make available to employees.

Today's challenge is to maximize the value of each "benefit" ensuring that the options provided are the most valuable to employees, and come at the right cost. There is a temptation to try to package and sell the cost of benefits to employees. The problem with this approach is simple. Every benefit has a "value" to every employee, which is solely dependent on the characteristics of the employee, their needs and how they perceive the benefit to be of value to them — and, unfortunately, has little to no relation to the cost of the benefit to the employer.

In reviewing this article, and the results of the *MMA Employee Benefits Survey Report*, consider that your employees, as well as potential employees, will assume that some types of benefits have risen to the level of entitlements. When you provide what everyone else provides you have gained no competitive advantage. Where you *will* find a competitive advantage is in the creative use of your benefits in light of the needs and perceptions of your employees.

Health Insurance — Still the Number One Priority

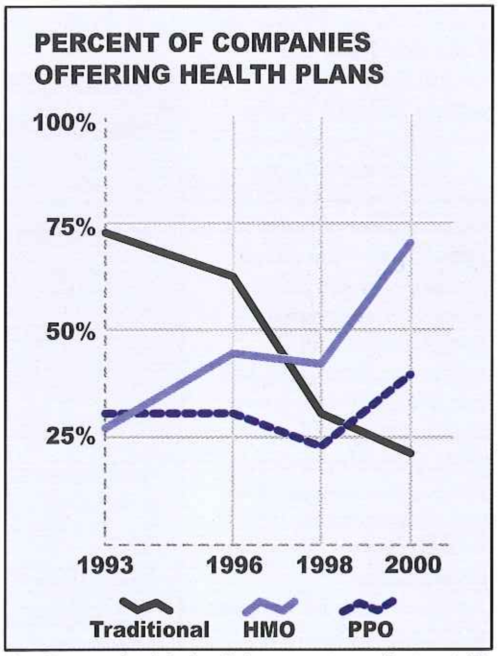
Health insurance coverage is simply not "traditional" any more, although it remains the most visible and important benefit program from the perspective of employees. While the percentage of firms offering some type of medical insurance has remained constant over the last decade, the method by which coverage is provided has changed dramatically, particularly since 1996.

An often-reported "statistic" that crowds media reports on employment conditions — particularly in election years — is that many employees aren't provided medical coverage through their employers. While the results of this survey cannot be extended to the entire Michigan workforce, the message from the manufacturing community is clear. More than 90 percent of full-time employees in companies taking part in the 2000 survey participate in some type of health insurance plan that, in most cases, at least for the employees themselves, is paid for entirely by the employer.

The report finds that only 7.5 percent of employees aren't currently covered by their employers plans, most commonly because they are covered by a spouse's plan, are new employees who have not yet qualified for coverage or they choose (as in roughly one quarter of surveyed companies) to "opt out" of medical coverage in exchange for compensation.

The "traditional" point-of-service insurance plan, with its copays and individual and family deductibles, regardless of the service provider, has gone from the most to the least common form of medical coverage. Preferred Provider Organization (PPO) programs have become the method of choice, followed by Health Maintenance Organizations (HMOs), as illustrated by the graph below.

The switch from traditional coverage to PPOs is often made to maintain benefit levels while taking advantage of lower premiums that these types of programs offer. The basic design of PPOs has also changed over the course of the last two years, becoming much more a blend of the "favorite" features of traditional coverage and HMOs. While in 1998 the typical PPO program was distinguished from a traditional plan simply by different co-pay percentages for in-network and out-of-network providers, the typical 2000 plan looks ▶



Note: Because of mutiple plan offerings, percentages will not equal 100.

much like an HMO for in-network providers (with no traditional deductibles and co-pays, but an HMO-like office visit charge such as $10) and a traditional plan for out-of-network providers.

The comparisons of employee usage of the various plans adds further weight to the argument that the traditional health insurance plan is a thing of the past. About a third fewer employers offered traditional health insurance in 2000, and close to 50 percent of employees left traditional plans for the newer options. Utilization of PPOs increased by more than 50 percent, and HMOs more than 20 percent. The net result? About 60 percent of employees now receive their health insurance through a PPO, 25 percent from an HMO and only 15 percent from traditional insurance plans.

Despite changes in plan types and providers, the cost for health coverage has continued to increase far in excess of other business costs. Across the board, employers are paying about 20 percent more in monthly premiums in 2000 than was reported in 1998. The reported median monthly premium for employee coverage in 2000 is $197; couple and full family coverage was reported as $417 and $489, respectively. HMO premiums increased at a very similar rate over the last two years, and are only slightly lower than traditional or PPO premiums, at $183, $421 and $464 per month for employee, couple and full family coverage, respectively.

Other health insurance programs have become more popular as well. There were sharp increases in the prevalence of "non-medical" health insurance coverages during the last two years. Dental coverage is now provided by more than 80 percent of employers, compared to just 60 percent in 1998 — a 33 percent increase in popularity.

More than 85 percent of the survey participants reported that they had a stand-alone prescription drug program — commonly known as a "drug card" — a thirty percent increase in this type of plan. The phenomenon may be somewhat deceiving, however, as it doesn't necessarily indicate an increase in this type of coverage. It may simply be that employers are taking the prescription drug component out of their regular plan and providing it separately. The common features of these plans include generally lower deductibles for generic over brand name drugs and, in some cases, a "mail-order" option that allows employees to purchase a three months supply of drugs with only one deductible.

Broadening Tuition Assistance to Build from Within

Employers face the same issues as major league professional sports teams ... a shortage of talent combined with a competitive "free agent" market. Like a professional team with a salary cap, employers can decide to shop in the open market or develop from within. While the number of companies providing some type of tuition assistance has not changed dramatically, the scope of programs has broadened far beyond what has been common in past years.

The typical tuition program in prior years limited the benefits to job-related courses and often had financial limitations that kept employees to one or two classes a year. While this may have been enough to teach employees the "practical" aspects of jobs, it did not prepare employees, particularly production and clerical employees, with the broad education needed to perform at a professional level.

The typical program described in the 2000 survey includes degree-related, as well as job-related, coursework. And in many, if not most programs, there is no limit on the amount of tuition that is reimbursed. The conclusion to be drawn is that employers recognize that training existing employees is often a better investment than hiring outside talent. Additionally, it's a further indication that employers are interested in rewarding employees who develop themselves and make themselves more valuable to the company.

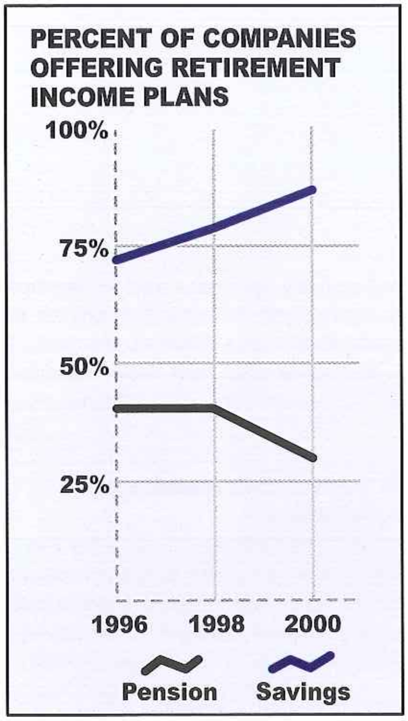
Retirement Planning Trends

Perhaps nowhere else is the change in employee benefits more apparent than in the approach to providing retirement income. While the modifications in medical coverage noted earlier are more a matter of allocating resources and maximizing benefits that can be provided, when it comes to retirement, employers seem to be choosing to put their investment in those who invest in themselves. The retirement savings plan (typically a 401(k) plan), an interesting "perk" ten years ago, appears to have become the standard method of providing for retirement.

In the first comprehensive MMA benefits survey conducted in 1993, roughly 30 percent of employers provided some type of "traditional" pension; either an ERISA qualified defined benefit or a defined contribution plan. An additional 25 percent had some type of profit sharing

MEDIAN MONTHLY PREMIUMS

	1998	2000	% Change
Traditional/PPO			
Individual	$167	$197	18
Couple	$350	$417	19
Full Family	$402	$489	22
HMO			
Individual	$155	$183	18
Couple	$348	$421	21
Full Family	$398	$464	17



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plan (deferred compensation). What drew these two types together is that they both were entirely "employer-provided." Savings plans (again, predominantly 401(k)-type plans) were provided by about half of employers.

Traditional pension plans have declined over the last four years among Michigan manufacturers, while at the same time, the presence of 401(k) plans has increased dramatically. Nearly 90 percent of the firms participating in the 2000 survey maintain a 401(k) plan; the second consecutive 10 percent increase in the prevalence of this type of retirement arrangement.

Plan with Employees in Mind

Planning for employees' retirement can be an expensive venture, whether it's in the form of health benefits or retirement income. It is also, particularly among younger workers, a benefit that is often not appreciated nearly as much as the employer would expect, or as would justify the cost. The first and most important consideration is that the benefits or policies be reasonable and effective from the point of view of the company, its owners and its customers. Once a program or policy fits within this consideration (which often requires creative thinking on the part of management considering change), it needs to be reviewed in terms of how it will be introduced to employees. Providing an effective and attractive benefit program requires employers to look at themselves as the producer of a product and to make sure that the product looks attractive to the purchaser.

Reviewing both media reports and a number of surveys illustrates the simple fact that the "best employers" are not necessarily those that offer the highest pay. Often they are the most flexible and responsive to the needs of employees. Being responsive requires that employers understand the characteristics of their existing or potential employees, the attractiveness of various types of benefits to different groups of employees and the intrinsic "value" of a benefit as well as its financial cost.

The key to understanding these points is hard data — either the actual perceptions of employees, or reasonable research describing the characteristics of employees. A common mistake in benefit plan design is creating a plan based on the perceived importance of the benefits *to the designer*. Any proposed plan design should be reviewed by people with the same characteristics as the employees that will be affected. And this method shouldn't be perceived as "caving in" to employees. Rather, it is more akin to checking the tolerances of materials before using them to manufacture your product.

The *MMA Employee Benefits Survey Report* provides employers with a baseline of employees' expectations based on the environment employers set through their actions. The survey report tells us that the typical employee will expect:

- 8 or 9 holidays;
- a vacation program that provides one or two weeks after a year of service, and four weeks by the time the employee has attained 15 to 20 years of service;
- a health insurance program requiring, at most, a small contribution for employee coverage and about one-fourth of the cost of full family coverage;
- dental and prescription drug coverage;
- life insurance; and
- a retirement savings plan.

Past the baseline, employers should look at other types of benefit programs, and the value they may offer. Other common, but not universal, benefits include, paid time for jury duty and funerals/bereavement, paid time for military service, sick and personal days, additional vacation or holiday arrangements such as summer closings or Christmas breaks, physical exams and other "wellness" programs, short- and/or long-term disability, tuition assistance, recreational/social activities, financial services and conveniences, and food services and facilities benefits.

These types of programs are provided less frequently, and for a reason — they do not have universal appeal, or are not perceived as applying to everyone. Whether they are appropriate for a given employer depends on whether it's practical, effective and cost effective — and perhaps most importantly — whether it will provide a reasonable return on the employers' investment.

The 2000 *MMA Employee Benefits Survey Report* is part of the Human Resource InfoSeries,™ conducted by Management Resource Center, Inc., in partnership with MMA Service Corporation.

The fourth edition of this survey contains nearly 200 pages of detailed statistics on the benefit practices of over 300 Michigan manufacturers and service providers. Data is provided on all participants, as well as in eight geographic regions, three industry types and seven size groups (measured by company revenues).

For more information on the survey, or to obtain a copy, contact Management Resource Center, Inc., at 248-362-6745.

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