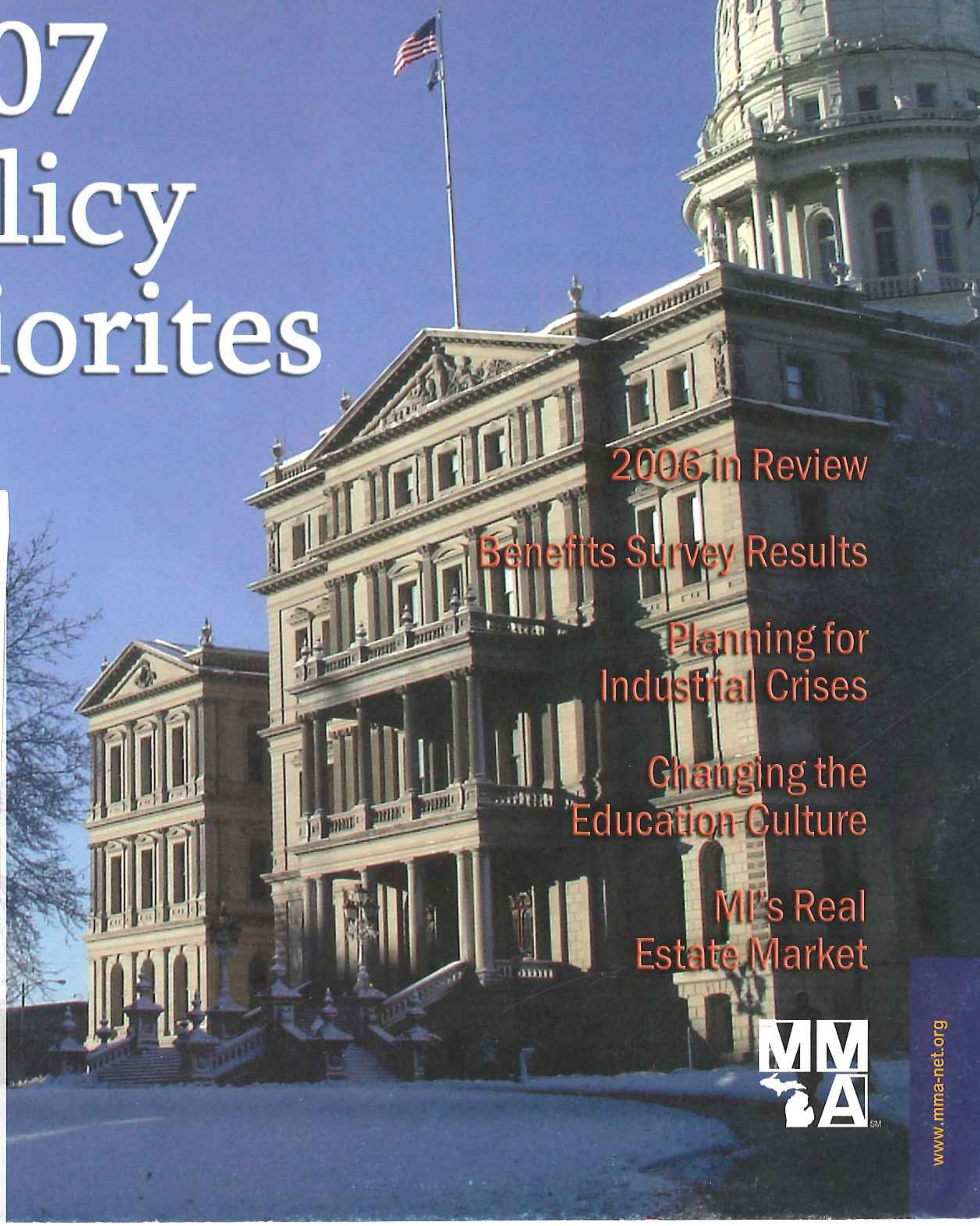
Michigan Manufacturing

Insight

January | February 2007
Vol. XX No. 1

2007 Policy Priorities



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More Changes to Health Insurance:

Cost Issues Continue to Dominate the Employee Benefit Picture

By Edmund B. Ura

Well over half of Michigan manufacturers made changes to their health insurance offerings in the past year, changing both the plan provisions themselves and requiring more employee contributions. And more changes are on the way.

These and other insights to the employee benefits landscape are among key findings from the 2006 Employee Benefits in Michigan Manufacturing™ survey, sponsored by the Michigan Manufacturers Association and conducted by Management Resource Center, Inc.

With 50 percent more participants than in 2005, this survey provides a wealth of information companies can use to measure the competitiveness of their benefits programs.

Survey participants reported comparable changes to the plan provision and premium cost sharing aspects of health insurance, with about 40 percent making changes to each. About a third of employers increased premium cost sharing for prescription drug programs, although few made changes to the plan provisions. Changing plan provisions was common across all size groups and regions but it was more likely that larger companies implemented, or added to, premium sharing.

Even before most companies have received their renewal costs for next year, more than 40 percent of Michigan manufacturers indicated that they planned on adding or increasing premium sharing in 2007. Well over half of larger companies ($50 million in revenue and up) plan on increases. While non-manufacturers made comparable changes to their plans in 2006, expectations for 2007 among these organizations is for many fewer changes than their manufacturing peers.

Michigan manufacturers have apparently drawn the line at the level of premium increases they can absorb. While early in this decade, premium costs were rapidly increasing, there has been little change to the actual amounts of premiums paid for individual, two-person and full-family coverage over the last two years. (See table below.) Given the well-documented increase in premium costs, it is clear that in order to maintain costs at an acceptable level, changes to the plan provisions themselves have been necessary.

Employees continue to pay about 15 percent of the cost of health insurance premiums for their own coverage. However, there has been an increase in the amount of cost sharing for full-family coverage. Employees are expected to pay about 17 percent of the cost of full-family coverage, an amount that increases with the size of the company, to about one-quarter of the cost (26%) at employers with more than $50 million in revenue. Employees of non-manufacturing firms continue to pay a slightly higher percentage of health insurance premiums.

Employees pay slightly more

While a large number of organizations indicated they had changed some aspect of their plans, there was little change in the "typical" plan reported by the participants. Most notable was a shift from a $15 to a $20 office visit cost in the typical Preferred Provider Organization (PPO) plan, and an increase in employee co-payments from 15 percent to 20 percent.

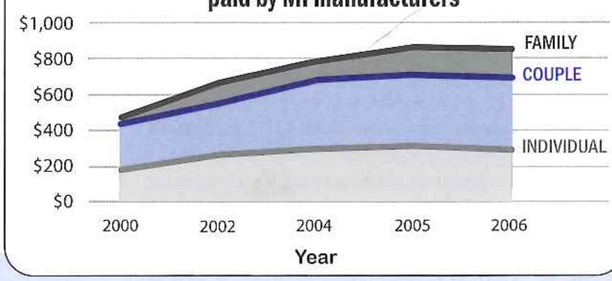
However, out of pocket maximums ("stop-loss") levels have remained constant, meaning that, while employees who utilize fewer medical services may pay more, those who frequently use services will pay about the same as in the past. Other plan provisions show a mix of changes, with some actually appearing to have improved, although this may be as much a result of the increase in survey participation.

Basic employee benefit packages maintained

All of these changes to health care are occurring in an environment in which most other benefit programs are being maintained or even improved. The typical manufacturing employee was paid for nine holidays in 2006, with larger employers paying for two more days than smaller employers.

Hourly and salaried employees will earn vacation time in a generally similar manner, with most eligible for one week ▶

Monthly health insurance premiums paid by MI manufacturers



Addressing State Nexus Issues

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registrants and later for all other companies with GAAP financial statements.

States are aggressively looking for non-filers. To avoid the surprise of a hefty tax assessment and to ensure you are aware of all tax exposures, particularly in light of the broad implications for FIN 48, you might consider having a state nexus study prepared. This may also provide you the information you need to decide to pursue a voluntary disclosure agreement in certain circumstances.

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Fall 'Special Edition' of Compensation in Michigan Manufacturing Survey Available

As reported earlier this year, misinformation concerning the Compensation in Michigan Survey program resulted in less than optimal participation. Once the misinformation was uncovered, participation in the survey was reopened during the late summer and fall 2006, resulting in an increase in the amount of data available for use by purchasers of the survey report.

Companies who purchased the regular version of the survey, published in the spring, have already received a copy of the updated report with the additional data. Copies of the expanded fall survey report are available now and data will be collected for the 2007 edition of the survey in February.

Order online at www.mma-net.org/hrservices/surveys.asp or call 734-454-2500.

Participants of the surveys receive the reports at 50 percent off the non-participant rates. MMA member participants save even more.

of vacation after the first year of employment and two weeks after the second year. Salaried employees typically earn three weeks of vacation after five years, while hourly employees most often have to wait for seven years.

One of the areas where company size plays the most dramatic role is in paid time away from work. As noted above, smaller companies tend to provide fewer paid holidays and also tend to require more years of service before vacations are provided. Small companies (those with less than $5 million in revenue) are much less likely to pay employees while on jury duty, with only about a third paying even part of an hourly employee's pay. On the other hand, all of the largest companies, and more than 80 percent of companies with $10 million or more in revenue ensure that hourly employees do not lose any income from their service on a jury.

These patterns continue for military service, where very few employers (less than 15%) pay even the difference between military pay and regular pay. Here, however, it is only the largest employers (more than $100 million in revenue) who provide compensation support to those serving short-term in the military.

When it comes to health and welfare benefits, smaller employers tend to be more generous. Part-time employees in small companies are more likely to receive benefits than in larger companies, and small companies are twice as likely to cover the full cost of family health insurance coverage.

On the other hand, employees of smaller companies are much less likely to have the broad range of choices that are available in larger companies. Less than 10 percent of small companies offer a "cafeteria-type" approach to benefits selection, while just under half (46%) of larger employers provide these options.

"Employee wellness" programs are on the rebound as well. Dropped from the survey in 2002 because fewer than 10 percent of employers offered these programs, many employers appear to be implementing them in the hopes of contributing to both a more healthy workforce and the potential reduction in health insurance costs.

Smoking cessation programs are offered by nearly a quarter of the survey participants and other popular programs include exercise options (20%, with 10% reporting they have an on-site exercise facility), health screenings (22%) and health risk appraisals (15%). More than 10 percent of employers offer weight loss programs of some type. While few employers (less than 5%) report measurable cost reductions, about 12 percent report an increase in employee morale.

Dental insurance coverage continues in force at most employers with similar provisions as in prior years. The typical plan has a $50 deductible, pays all of the cost for preventative care and a declining percentage as the complexity of services increases, with a total annual benefit of about $1,000 per person.

Short- and long-term disability coverage levels remain constant with more than 80 percent of employers providing the former, and about 60 percent the latter, although long-term disability coverage is much more prevalent for salaried employees (59%) than for hourly employees (44%). Life insurance is almost a universal benefit (98%), with salaried employees receiving slightly higher benefits.

There has been an apparent shift in the form of retirement programs being offered to both hourly and salaried employees. More and more manufacturing employers seem to be making fixed contributions to 401(k) and other vehicles, perhaps in part to ensure that plans meet "safe harbor" and "top-heavy" tests. While a similar number (about 85%) of employers report having a 401(k)-type plan in place, the percentage of manufacturers reporting a "defined contribution" plan increased from five percent to nearly 20 percent.

Tuition assistance is an area that illustrates one of the remaining differences between manufacturing and non-manufacturing employers. The gap between the general benefits programs has narrowed but there continues to be a sharp divide between the approaches taken for education.

While about two-thirds of manufacturing firms provide some kind of tuition assistance, these programs are much more restrictive than those provided to the vast majority (93%) of non-manufacturers. Manufacturing firms place more restrictions on the coursework that can be reimbursed (typically only job-related courses, even in a degree program) and provide only about half of the benefit — $2,000 per year versus $4,000 per year in non-manufacturing organizations.

Order your copy

Copies of the 2006 Employee Benefits in Michigan Manufacturing Survey Report are available through MRC. Order online at www.mma-net.org/hrservices/surveys.asp or call 734-454-2500. MMA members receive a 25 percent discount off all reports.

If you are interested in learning more about the programs provided to non-manufacturers, ask about the 2006 Employee Benefits in Michigan™ report, which includes information provided by more than 200 employers across the state. ■

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