

# Trends in Employee Benefits for the Financial Services Sector

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**McLAGAN**  
P A R T N E R S

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# Compensation Levels & Retirement Program Design

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# Introduction

- Presenters
  - Patrick Connell, Head of Corporate and Consumer Banking Consulting, McLagan Partners
  - Mitch Davis, VP, Aon Consulting
  - Nancy Tartaro, SVP, Aon Consulting
- About McLagan Partners/Aon Consulting
  - Aon Consulting Worldwide is composed of human capital, risk services and management consulting. We support organizations of all sizes with distinctive consulting and outsourcing solutions that fit with their broader financial and business goals.
  - McLagan Partners is a wholly owned Aon Consulting subsidiary focusing exclusively on benchmarking within the financial services industry
    - Offices worldwide: 117
    - Countries: 23, with the ability to deliver solutions through other Aon Corporation offices in over 80 additional countries
    - Employees: 6,800
    - Customers: 10,000+

# Introduction

- McLagan Partners Benefit Survey Participant Profile
  - Data from 46 companies across the nation spanning 12 industry sectors
  - Survey totals are presented in five company size breakouts for comparison
    - Under 200 employees: 43%
    - 200 – 749 employees: 24%
    - 750 - 1,999 employees: 13%
    - 2,000 – 5,000 employees: 20%
  - Industries
    - Investment Management: 52%
    - Government Sponsored Entity: 20%
    - Financial Guaranty: 15%
    - Banks and Securities Firms: 13%
  - Ownership
    - Public: 37%
    - Private: 48%
    - Non-Profit: 11%
    - Government: 4%

# Cost of Benefits

- Cost of Benefits in 2006
  - As a percentage of base payroll: 40.5%
  - Average cost of benefits per employee: \$36,259
    - With a reported base salary of \$90,717 per full-time employee
  - Of those companies that were able to break down costs as a percentage of payroll by specific plan type:
    - Health and welfare plans: 8.8%
    - Government-mandated plans comprises: 8.6%
    - Retirement plans comprises: 9.4%
    - Paid time off: 10.3%
    - Other benefits: 1.2%

# Health and Welfare Plans

- Medical Plan Types
  - 83%: Preferred Provider Organization (PPO)
  - 43%: Health Maintenance Organization (HMO)
  - 28%: Point of Service (POS)
  - 15%: Defined Contribution/Consumer-Directed Health Plan
  - 4%: Indemnity
- Domestic Partner Coverage
  - Offered by 63% of companies
    - Of these companies, 70% offer coverage to both same-sex and opposite-sex partners
    - Of these companies, 86% offer coverage to children of domestic partners
- Health Promotion
  - 30% have a formal Disease/Management or Health Promotion Program administered by an outside vendor
  - 9% offer employees a discount on medical premiums for participating in a Healthy Benefits program

# Health and Welfare Plans

- Employee Medical Contribution Costs

- Percent of employers mandating employee contributions under each plan:

- No PPO: 100%
- With PPO: 80%
- POS: 100%
- HMO: 65%
- EPO: 100%

- Average monthly contributions required from employees:

	Average Percentage	Average Dollar Amount
<b>No PPO</b>	20%	\$81
<b>With PPO</b>	19%	\$69
<b>POS</b>	18%	\$64
<b>HMO</b>	14%	\$43
<b>EPO</b>	523	\$47

# Health and Welfare Plans

- Prescription Drug Costs

- Average Employee Prescription Drug Copay Amounts:

- Two-Tier Prescription Drug Card**

- Brand Name Drugs: \$18
      - Generic Drugs: \$9

- Two-Tier Prescription Mail Order**

- Brand Name Drugs: \$35
      - Generic Drugs: \$15

- Three-Tier Prescription Drug Card**

- Non-preferred brand name drugs: \$35
      - Preferred brand name drugs: \$21
      - Generic drugs: \$12

- Three-Tier Prescription Mail Order**

- Non-preferred brand name drugs: \$65
      - Preferred brand name drugs: \$41
      - Generic drugs: \$22

- Dental Plan Types

- 78%: Indemnity with PPO
  - 20%: Indemnity without PPO
  - 24%: Pre-paid

# Flexible Benefits

- All of the participating companies with flexible benefits programs offer premium conversion plans
- Flexible Accounts
  - 96% of companies offer Health Care Reimbursement Accounts (HCRA)
  - 96% of companies offer Dependent Care Reimbursement Accounts (DCRA)
  - 7% of companies have implemented full flexible benefit or cafeteria plans
- Average Employee Participation
  - DCRA: 12% of employees
  - HCRA: 44% of employees
- Contributions
  - 95% of reporting companies with a HCRA have set a limit on the maximum amount an employee can contribute
    - Average dollar limit is \$5,281
  - The average contribution of companies that contribute to HCRA is \$317

# Retirement Plans

- The table below shows the percentage of companies by company size that provide pension/defined benefit and 401(k) retirement plans:

	<b>Pension/Defined Benefit</b>	<b>401(k)</b>
Overall	41%	98%
Under 200	50%	95%
200 - 279	55%	100%
750 - 1,999	0%	100%
2,000 - 5,000	33%	100%

- 28% of companies offer one type of retirement plan
- 72% of companies offer two or more types of retirement plans

# Retirement Plans

- 401(k) Employee Participation
  - The average percentage of employees that participate is 88%
    - Of highly compensated employees, 94% participate
    - Of non-highly compensated employees, 82% participate
  - 52% of companies offered eligibility upon hire
  - 62% of companies offered 16 or more investment fund options
- 401(k) Employer Contribution
  - 87% of companies contribute on behalf of employees
    - 62% base their contribution on amount of employee contribution
    - 51% match employee contributions at 50% or more
    - 22% vary the match percentage based on the employee contributions
  - Contributions
    - Of companies reporting a maximum dollar 401(k) match, 89% contribute \$5000+
    - 57% contribute to the plan each pay period
    - 20% contribute on an annual basis
    - 46% offer 100% immediate vesting for company contributions

# Pension Protection Act of 2006 – Key Points

- Defined Benefit Plans
  - New Funding Requirements
    - Single Funding Method Target Liability
      - Beginning 2008 100% Target – Optional phase-in to 2011 for well funded plans
      - No service or pay projections
      - Interest/Discount rates based on average High Quality Bond Yield Curve
      - Generally, must use specified mortality table
      - Assets – smoothing still permitted, but stricter requirements
    - Required Contributions
      - Minimum: Target Normal Cost plus 7yr Shortfall Amortization
      - Maximum: Target Normal Cost plus Shortfall plus 50% Cushion
  - Other restrictions for poorly funded plans
    - No improvements and partial lump sum restrictions if less than 80% funded
    - Automatic freeze of benefit accruals and no lump sums if less than 60% funded
    - Limits on funding NQDC Plans if “at risk”, bankrupt, etc.
    - PBGC 4010 filing if less than 80% funded

# Pension Protection Act of 2006 – Key Points

- Defined Benefit Plans (cont.)
  - Plan Provisions
    - Minimum lump sums also based on
      - Modified bond yield curve and new mortality table
      - Phased in 2008-2012
    - Plans with 50% QJSA must offer 75% survivor annuity option
    - Phased-retirement
      - In-service distributions beginning at age 62 (or Normal Retirement, if earlier) permitted
  - Additional Notifications
    - Benefit statements to employees every three years
    - Additional information reported on IRS Form 5500
    - New expansive participant funding notice replaces Summary Annual Report
      - Previously required only if <90% funded and paid variable PBGC premium

# Pension Protection Act of 2006 – Key Points

- Defined Contribution Plans
  - Automatic Enrollment Safe Harbor for 401(k) Plans
    - No testing required if default conditions satisfied
    - Incremental minimum default rates of 3-6%
    - Employer contribution for NHCEs of
      - (i) 3% non-elective or (ii) match at 100% up to 1% plus 50% up to 6% (3.5% total)
    - Full vesting required within 2 years
  - Investment Advice
    - Prohibited Transaction Exemption
    - Related party could give investment advice to plan participants
      - Must use a product-neutral computer model
      - Model must be reviewed by third party
  - Employer Stock
    - Diversification of employer stock must be allowed
    - Exception allowed for stand-alone ESOPs
  - Quarterly statements to participants required for most DC Plans
  - Faster vesting (3 years) on Profit Sharing contributions

# Pension Protection Act of 2006 – Key Points

- Miscellaneous Provisions
  - PBGC premiums increased
    - \$30 per participant
    - Variable premium
      - due if <100% funded
      - eliminate “Full Funding Limit” exemption
  - Many EGGTRA provisions made permanent, including
    - Annual CPI increases in IRS contribution and benefit limits
    - Age 50 & over catch-up contribution provisions
    - Repeal of “same desk” rules
    - Roth 401(k)/403(b) Plans
  - COLI “Best Practice” requirements for tax advantages
  - Rollovers
    - Non-spouse beneficiary rollovers to IRAs permitted
    - Roth IRA rollovers permitted
  - Hybrid Plan designs, like cash balance, made viable

# Paid Time Off

- Paid Sabbaticals
  - Offered by 9% of companies to exempt employees
  - The most common length of leave is over 6 weeks
- Blanket Personal-Time-Off Policies
  - Offered by 20% of companies, combining sick leave and vacation
  - Of the plans reported, 89% give hours based on years-of-service schedule
    - 75% of these companies provide at least 121 hours of PTO at one year of service
    - 63% of these companies provide 160 hours or over for one year of service
- Floating Holidays
  - Offered by 57% of companies
- Salary Continuation/Short-Term Disability
  - Offered by 87% of companies
- Volunteer Work
  - Time off during normal working hours is allowed by 40% of companies
    - 65% of these companies allow time off with pay
    - 4% of these companies allow time off without pay

# Relocation Practices

- New Hires
  - Relocation policy offered by 89% of companies
    - 46% have formal policy
    - 54% have informal policy
- Transferring Employees
  - Relocation policy offered by 79% of companies
    - 45% have formal policy
    - 55% have informal policy
- Practices
  - Lump-sum relocation assistance reported by 70%
    - Payment often varies by salary, grade level or position
  - Assistance on sale of home reported by 49%
  - Assistance on purchase of home reported by 34%
  - Reimbursement for lending institution points reported by 11%
  - Purchase of employee's home at fair market value reported by 9%

# Severance

- Severance Pay
  - Provided by 98% of companies
    - Only 37% of the companies have a formal severance policy
  - 33% of reporting companies also provide insurance after termination
  - Pay determined by length of employment for 40% of companies
    - 64% of these companies give two weeks pay after one year of service
    - 36% of these companies give four to eight weeks pay after one year of service
  - The table below shows the average weeks of severance pay granted based on length of service for exempt and non-exempt employees:

	<b>Weeks for Exempt</b>	<b>Weeks for Non-Exempt</b>
1 year of service	3.3	3.0
3 years of service	6.4	5.8
5 years of service	11.0	9.9
10 years of service	21.2	19.1
15 years of service	32.0	29.3

# Disaster Planning

- Company Disaster Plan
  - Currently in place at 98% of companies
    - 2% are considering adding one in the next 12 months
- Tools for Employee Communication
  - 87% of companies have an emergency 800 number/hotline
  - 56% of companies use a website
  - 71% of companies have “in case of emergency” alternative locations
  - 69% of companies have temporary offices
- Global Relief Efforts
  - 78% of companies allow employees to contribute to relief efforts at work
  - The most popular efforts include:
    - Employee charitable donations
    - Company match for charitable donations
    - Company-sponsored blood drives
    - Food, clothing and supply donations

# Leading Edge Programs

- All 46 participating companies offer some type of leading edge benefit(s)
  - The table below shows some of the most popular programs and the percentage of companies offering each:

Popular Programs	Percentage of Companies
On-site massage	15%
Car/vanpool program	17%
Personal travel planning	20%
Group homeowner's insurance	20%
Back-up child care	26%
Adoption assistance	33%
Long-term care insurance	48%
Lactation rooms	59%
Pre-tax parking/transit assistance	67%

# Other Benefits

- Educational Assistance
  - Offered by 91% of companies
    - Typically limited to job-related courses (86%)
  - A cap is placed on tuition reimbursement by 55% of companies
    - Of these companies, 87% pay \$5,000+
    - The average maximum dollar amount is \$5,598
  - Reimbursement for any career-related program offered by 60%
- Membership Dues for Professional Organizations
  - Covered by 96% of companies
- Company Health Club Membership
  - Offered by 37% of companies
- Legal Services
  - Offered by 17% of companies

# Other Benefits

- Web-based Employee Benefit Features
  - Used by 78% of reporting companies
  - The most popular benefit features in use include:
    - Benefit communication: 86%
    - Publishing of employee benefit summaries: 78%
    - 401(k) enrollment/change: 75%
    - Access to benefit forms: 78%
    - Employee open enrollment: 72%
- Cost Cutting Measures
  - Have been implemented by 59% of the companies
  - The most popular cost-cutting measures taken over the past year include:
    - Increased employee medical/dental premiums: 78%
    - Increased prescription copay: 33%
    - Increased office visit copay: 22%
    - Increased medical plan deductibles: 26%
    - Increased out-of-pocket maximums: 19%

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