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Workers Remain Confident About Retirement, But Are They Ready?

Today's workers will experience a retirement different in many ways from the post-work years of past generations. While most Americans realize this, many are not adjusting their planning strategies, according to the *2007 Retirement Confidence Survey (RCS)*, sponsored by the nonpartisan Employee Benefits Research Institute (EBRI) and survey research firm Matthew Greenwald & Associates.

Jack VanDerhei, a Temple University professor, EBRI fellow, and coauthor of the *RCS*, said, "This year, we found that a substantial number of workers realize that the shift from traditional pensions to 401(k) plans affects them personally. Unfortunately, only 24% of those affected indicate that they will save more on their own, and only 8% indicate that they will save more in the employer's plan as a result of these changes. EBRI research

suggests that the vast majority of employees are likely to need some type of additional savings if they hope to end up with the same amount

of retirement savings they would have expected prior to the change."

Nearly half of the workers surveyed (45%) are less confident about the money they can expect from a traditional pension—18% are much less confident, and 27% are a little less confident. While 16% reported their confidence has increased, 28% said their confidence remains unchanged. Of those workers who have experienced a reduction in employer benefits in the past two years (17%), only 32% reported they are saving more to account for the loss.

Furthermore, some workers appear overly optimistic about their future benefits. Only 41% of workers reported that they or their spouse has a defined benefit plan, but 62% expect to receive income from this type of traditional pension. Fewer companies offer defined benefits today than in the past, and this declining trend is expected to continue.

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A majority of workers are currently saving for retirement (60%), but less than half (43%) have tried to calculate their accumulation needs for retirement. While 66% of workers reported having saved money, at some point, for retirement, this percentage is down from 70% in 2006.

To help boost retirement savings, Congress passed the Pension Protection Act of 2006, which permits employers sponsoring retirement plans to offer investment advice to employees. While 19% of workers would be very likely to take advantage of investment advice if it were available at a modest cost, 35% would be somewhat likely, and 43% would be unlikely to use the service (21% not too likely and 22% not at all likely).

When it comes to making decisions about how to save and invest for retirement, workers use a variety of sources: 73% use written material from an employer, 64% have consulted a financial professional, 61% reference retirement plan benefit statements, 52% research on the Internet, and 49% read newspapers or magazines. Americans spent an average of 19 hours planning for retirement last year.

The RCS also looked at Americans' expectations of health care costs in retirement. Provided Medicare benefits remain at current levels, EBRI estimates that couples who live to the average life expectancy will need approximately \$300,000 to cover health costs in retirement; couples living to age 95 may need as much as \$550,000. Workers tend to underestimate the amount they and their spouse will need: 32% estimate less than \$100,000 will be enough, and 52% estimate less than \$250,000 will be enough.

Matthew Greenwald, president of Matthew Greenwald & Associates, cautioned that rising health care costs will be a significant financial burden for future retirees. He said, "It seems clear that workers do not understand how much Medicare, Medigap policies, and prescription drugs will cost them in retirement. Most are not accumulating enough money to even cover the insurance and health care costs they are likely to face in retirement."

Improved Health Care Efficiency And Price Transparency Are Priorities For Consumers

Health care providers and consumers of medical services agree that greater transparency and improvements in IT systems are needed to make health care delivery more efficient, according to a survey of 1,000 patients and 200 hospital and insurance executives commissioned by the PNC Financial Services Group.

Nearly one-third of every dollar patients spend on health care goes to pay for administration associated with health care claims and billing accounts, the responses of hospital and insurance executives revealed. At the same time, however, 76% of the consumers surveyed said they believe health care administration should account for 10% or less of total health care costs. Moreover, a large majority of consumer respondents told researchers they would be "highly upset" if administrative costs were as high as 30%.

The responses of the hospital administrators surveyed showed that, on average, for every five claims submitted, one is delayed or denied; 96% of claims must be submitted more than once. Executives at hospitals that do not use electronic billing or claims submission processes reported resubmitting claims an average of 11 times or more, or nearly four times as often as administrators at hospitals that use electronic processes. Meanwhile, the insurance executives surveyed said they go back to hospitals an average of two times to get all the information they need to pay a claim.

Of the consumers surveyed, nearly one-quarter reported having a legitimate claim denied by their own health insurer, and one in five of this group said they ultimately paid the denied claim themselves.

Nearly three-quarters of hospital administrators, two-thirds of insurance company executives, and three-quarters of the consumers surveyed agreed that making the claims, billing, and payment processes more efficient throughout the health care system would help to slow the rapid growth in health care costs.

Paula Fryland, executive vice president and manager of PNC's national health care group, said, "While it is possible that consumers do not fully appreciate the cost and complexity of health care administration, hospital and health plan executives identified significant inefficiencies in the business office, describing a medical claims, billing, and payment process that is error prone, redundant, and costly."

When asked to estimate what level of savings could be achieved through improved processes, around one-third of hospital and insurance executives said their organizations would likely save at least \$1 million a year. Much of this savings, hospital executives said, could be reinvested in patient care.

In addition, the insurance executives surveyed pointed to several benefits associated with automated processes, including improved customer satisfaction and a significant reduction in claims processing time.

Survey respondents were also asked whether they believe wider use of consumer-directed high deductible health plans could make the health care system more efficient. Nearly three-quarters (72%) of hospital executives said they expect high deductible plans to add another layer of complexity to administrative processes. However, 58% of consumers said that knowing what hospitals or doctors charge for treatment and what insurers are paying for services would influence where they seek care. When asked if they think insurance companies should make public their reimbursement rates for medical services, 83% of consumers, 77% of hospital executives, and 60% of insurance executives agreed that they should.

"Health care consumerism is an emerging trend that transfers more decisions regarding health care choices, as well as responsibility for payments, back to the patient," said Fryland. Both the hospital

and insurance executives surveyed agree, Fryland noted, that the demand for transparency will lead to a new focus on administrative overhead costs that could help root out inefficiencies.

Couples' Financial Priorities Shift With Age And Income

When talking about money, older and wealthier couples tend to discuss strategies for managing their assets during retirement, while younger and less affluent couples talk more about how they are spending or saving their current income, according to a survey conducted by Harris Interactive for the Wall Street Journal Online.

The survey of 2,585 adults found that the types of financial issues couples discuss vary by age and income. The findings showed that couples age 55 or older are more likely to talk to each other about investments and asset management, while respondents between the ages of 18 and 34 are more likely to discuss spending habits, savings, debt, budgets, and financial responsibilities.

Generally, couples at all income levels were found to be equally likely to talk about issues such as savings goals, spending habits, debt, and setting a household budget. The survey did, however, uncover some differences in the types of financial issues discussed by upper- and lower-income couples.

Among respondents with annual incomes of \$75,000 or more, 59% reported talking with a spouse or partner about retirement goals, 53% discuss current investments or investment goals, and 48% talk about the couple's net assets. But among respondents with incomes below \$35,000, just 16% told researchers they talk with a spouse or partner about retirement goals, 21% discuss current investments or investment goals, and 22% talk about the couple's net assets.

When asked what proportion of the disagreements they have with their signifi-



Respondents between the ages of 18 and 34 are more likely to discuss spending habits, savings, debt, budgets, and financial responsibilities.

cant other centers around household or personal finances, 40% of respondents between the ages of 18 and 34 said half or more, compared with just 14% of respondents age 55 or older. And, while 72% of retired respondents said they do not fight about money, 60% of full-time or self-employed respondents admitted to engaging in money-related arguments with a spouse or partner.

Younger Workers Lack Awareness Of Tax-Advantaged Savings Opportunities

Employees between the ages of 18 and 24 are less likely than older workers to participate in tax-advantaged retirement and health savings plans, but they are more likely than their older colleagues to fault their employers for failing to educate them about taxes, according to a survey conducted by online tax preparation service CCH CompleteTax.

Researchers questioned 1,290 adult taxpayers about their savings habits and participation in employer-sponsored savings plans. While 56% of all survey respondents reported participating in a 401(k) or other defined contribution plan, just 28% of workers in the 18–24 age group said they have joined their employer's retirement plan.

When asked about their 401(k) contribution levels for 2006, 14% of all survey respondents said they had contributed the maximum amount permitted, and 23% said they contributed at least the amount needed to take full advantage of the employer match. By comparison, just 4%

of younger workers reported making the maximum allowable contribution to their 401(k) plan in 2006, and just 16% said they contributed enough to get the full employer match.

Results further showed that 10% of employees between the ages of 18 and 24 participated in a medical flexible spending account (FSA) in 2006, compared with 21% of all workers. The survey also found that 11% of younger employees are uncertain whether their employer offers a medical FSA.

While around one-third of all survey respondents said they contributed to a traditional or Roth IRA in 2006, just 19% of workers between the ages of 18 and 24 reported funding an IRA last year. In fact, 57% of respondents in this group told researchers they do not know if they qualify for a tax-advantaged IRA.

When asked if they believe their employer is providing them with adequate information about retirement planning and other issues related to benefits, 23% of all employees surveyed said their company is doing an excellent or very good job of keeping them informed. But among younger respondents, just 15% gave their organization high marks for providing benefit information, and 19% said their employer is doing a terrible job of educating employees about benefits.

Tax Analyst for CCH CompleteTax David Bergstein, CPA, observed that younger workers may need to take more initiative to become more tax-savvy consumers. However, he added, employers also need to consider if they are doing enough to communicate effectively with younger employees. "If young workers are not hearing the message, no matter how good it is, they don't have the information they need to make informed choices."



Just 4% of younger workers reported making the maximum allowable contribution to their 401(k) plan in 2006, and just 16% said they contributed enough to get the full employer match.