Employee Benefits Report

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The Pros and Cons of AD&D

Accidents can happen in an instant, but the consequences can last a lifetime. Accidental death and dismemberment (AD&D) insurance gives your employees added financial security in sudden and tragic circumstances.

AD&D insurance can be a valuable and low-cost addition to your current benefits package. But before offering AD&D coverage, it's important to understand what AD&D covers and what it doesn't.

Definition of "Death"

An AD&D policy will pay the policy's face amount, or death benefit, to the beneficiary if the insured accidentally dies or suffers dismemberment. "Accidental death" under the policy means a death caused by an unforeseen circumstance unrelated to the body. In other words, the death cannot be caused in any way by illness or the insured's physical condition.

As with most life and health policies, AD&D policies do not cover claims resulting from illegal or criminal activities. They also exclude death by "malfunction of the body," such as someone suffering a stroke or heart attack while driving. If the heart attack or stroke occurred before the accident and the accident resulted from that bodily malfunction, the policy would not pay. Many policies exclude coverage for death by suicide; others exclude coverage until the policy has been in effect for a certain time period, such as 24 months.

Many policies also impose a time limit on deaths caused by accident. In many cases, if an insured is involved in an accident that ultimately causes death, the policy will pay only if death occurs within 90 days of the accident. Most policies also stipulate that death must result directly from the injuries sustained in the accident. As an example of how this clause would apply, if an insured involved in an auto accident died from an infection contracted in the hospital, the policy would not pay.

Definition of "Dismemberment"

In addition to covering accidental death, AD&D policies pay if the insured suffers an accidental dismemberment. In most cases, the policy provides a scheduled benefit, or a specified portion of the death benefit, for dismemberment. For example, if the insured accidentally loses one arm or one leg, the policy might pay half of the death benefit. If the insured loses two or more limbs (any combination of arms and legs), then he or she might re-

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This Just In…

The new healthcare reform bill signed into law at the end of March will affect health insurance coverage for just about everybody, although many major reforms wouldn't take place until 2014, including:

- Requiring employers of 50 or more to provide coverage or pay fines.
- Requiring individuals to maintain "minimal essential health care coverage" or pay fines.
- Creation of health benefit exchanges, "a governmental agency or nonprofit entity… established by a state" that will facilitate purchase of "qualified health plans." These must be approved by the Secretary of Health and Human Services and include "the essential health benefits package."
- Prohibiting health plans from establishing lifetime or annual limits on the dollar value of benefits.
- Prohibiting plans from rescinding coverage except for fraud or intentional misrepresentation of material fact.
- Requiring plans that provide dependent child coverage to make coverage available for unmarried, adult children until age 26.

We will keep you informed of significant changes as they develop.

How Does Your Company's Retirement Plan Rate?

Understanding how your 401(k) compares with other employer's plans can help you improve your plan's performance, its value to employees, and its value as an employee recruiting and retention tool.

So how does your plan compare? To help answer this question, here are some common performance characteristics and features offered by many 401(k) plans.

The statistics were compiled from a variety of sources, including the Employee Benefit Research Institute, the Investment Company Institute, Hewitt Associates LLC, Profit Sharing/401(k) Council of America, Watson Wyatt's 401(k) Value Index, plansponsor.com, and 401khelpcenter.com.

401(k) Scorecard

Eligibility. How quickly do employers allow new employees to join their 401(k) plans?

Immediately (one month or less)	51.0 percent
3 months or 90 days	15.7 percent
6 months or 1000 hours	11.3 percent
1 year	16.7 percent
Other	5.3 percent

Employee Contribution Levels. Pretax participant deferrals average 5.4 percent of pay for non-highly compensated employees and 6.9 percent of pay for highly compensated employees.

Employer Contributions. Employer contributions average 3.0 percent of payroll. However, companies use a number of formulas to determine their contributions. In plans permitting participant contributions, the most common formula is a fixed employer match only, where the employer matches employees' own contributions according to a formula. You'll find this in 29.5 percent of plans, including plans with safe harbor matches. For plans with fixed matches, 32.2 percent of plans match $.50 per $1.00 up to the first 6 percent of pay; 9.8 percent of plans make a dollar-for-dollar match up to the first four percent of pay; and 8.5 percent make a dollar-for-dollar match up to the first three percent of pay.

Catch-Up Contribution. Most (98.0 percent) plans permit participants age 50 and older to make additional catch-up contributions. Thirty-one percent of these plans match catch-up contributions.

Employee Participation Rate. 77.7 percent of eligible employees have balances in their 401(k) plans.

Investment Committee. More than one-quarter (28 percent) of plan sponsors have no investment committee. Investment committees help keep your plan on track by setting an investment policy, monitoring investment options to ensure they fit this policy, deciding which funds to include or eliminate from the menu, and evaluating employee education needs and resources.

Investment Policy Statement. Eight in ten plans (83 percent) have a written investment policy statement. Putting a statement in writing can clarify the plan's goals to the investment committee and plan participants alike.

Self-Directed Brokerage Accounts. Fifteen percent of plans offer self-directed brokerage accounts.

Company Stock as Match. Among plans that offer employer stock as an investment option, 23 percent invest the employer's matching contribution exclusively in company stock. Two-thirds (67 percent) of these plans allow employees to diversify or transfer employer matching contributions at any time.

Default Investment for Auto-Enrollment. Plans with auto-enrollment use these types of funds as the default investment option:

Target Date/Lifecycle Fund	33.3 percent
Balanced Fund	15.6 percent
Managed Account	4.3 percent
Stable Value Fund	20 percent
Money Market Fund	9.5 percent
Other	17.3 percent

Loans. Fifty-one percent of 401(k) plans, accounting for 85 percent of all participants, allow plan participants to take out loans against their fund balances. Larger plans are more likely to allow loans — 93 percent of plans with more than 10,000 participants include a loan provision, compared with 27 percent of plans with 10 or fewer participants.

Reasons plans permit loans:

Home Purchase	95 percent
Education Expenses	92 percent
Medical Expenses	86 percent
Financial Hardship	65 percent
Home Improvement	43 percent
Automobile Purchase	16 percent
Other	08 percent

Hardship Withdrawals. Most 401(k) plans offer hardship withdrawals (89.4 percent). The most common reasons for permitting hardship withdrawals include medical expenses (96.7 percent), home purchase (96.4 percent), and education expenses (92.9 percent).

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Automatic Enrollment. 23.6 percent of plans automatically enroll employees. This happens most frequently among employers with more than 5,000 employees (41.3 percent). Among plans that use automatic enrollment, 62.1 percent auto-enroll eligible new employees only, while 37.9 percent auto-enroll all eligible employees.

Internet Access. The most common online services available to participants are:

Account Balance Lookup	91.2 percent
Investment Changes	90.5 percent
Plan Inquiries	80.9 percent
Contribution Changes	64 percent

Roth Contributions. 22.4 percent of plans offer designated Roth contributions. Unlike pre-tax elective contributions, Roth elective contributions are currently includible in gross income. If a 401(k) plan allows designated Roth contributions, it must also offer pre-tax elective contributions.

Investment Advice. Four out of ten employers offer outside investment advisory services to employees. This can include advice, guidance and/or managed accounts. It is most prevalent in companies with 50-199 employees (56.6 percent) and least prevalent in companies with 1,000-4,999 employees (32.0 percent). The most common types of advice offered are one-on-one counseling (62.9 percent), Internet providers (45.5 percent) and telephone hotlines (29.1 percent).

Who pays for the advice service? In 38.5 percent of plans, the plan (all participants) pays for advice service, and in 41.4 percent of the cases, only employees who use the service pay.

What Next?

How does your plan measure up against these benchmarks? If your benefits lag behind other employers in your industry or geographic area, you might have problems attracting and retaining valuable employees. We can help you evaluate your plan—please call us for more information.

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ceive the entire face value (death benefit) under the policy. After this, the insurer would likely terminate the policy because it would have paid out the entire face value.

Many AD&D policies also cover sudden loss of vision or hearing. The same principles apply: if one eye is lost, the insured receives half of the death benefit; if both eyes are lost, then the insured will receive the policy's entire face value.

Some AD&D policies provide coverage for loss of speech or hearing, triplegia (the paralysis of three extremities), paraplegia (paralysis characterized by loss of movement or feeling in the lower half of the body), hemiplegia (paralysis of one half of the body), the loss of a thumb and index finger of the same hand, and a condition known as uniplegia, which is the complete and irreversible paralysis of one limb.

Pros

If your company plans to pay for coverage, you will find the low premiums for AD&D insurance a pleasant surprise. Accidental death and other covered losses occur rarely, so AD&D costs much less than term life coverage with similar limits. This makes it an attractive benefit for your employees, even if offered on a voluntary basis.

AD&D holds particular appeal for young workers, who statistically are more likely to die from accident than illness. The vast majority of these workers do not have individual disability insurance. AD&D benefits could help an insured recoup some of the income lost if he or she lost a limb, sight or hearing in an accident and couldn't work. AD&D is especially valuable for employees whose jobs depend on their physical capabilities.

You can offer AD&D coverage to employees as a standalone policy or as an addition (endorsement) to a group term life policy. If bought as an addition to a term life policy, AD&D will provide "double indemnity," or twice the death benefit, to the insured's beneficiary.

Cons

AD&D insurance coverage has some important limitations. For example, many AD&D insurance policies do not pay benefits if the insured dies during surgery, has a mental or physical illness, has a bacterial infection or hernia or dies as the result of a drug overdose. That's why AD&D coverage is no substitute for term life insurance. Policies also exclude death or dismemberment resulting from war.

Some financial advisors say AD&D is a poor investment, since the conditions under which it pays benefits occur so rarely. However, if a breadwinner dies suddenly in an accident, AD&D benefits can make the family's financial circumstances less stressful. And if a young person loses a limb, vision or hearing in an accident, AD&D benefits can help make up some of the income loss likely to result.

Is AD&D coverage right for your company? Please call us for more information.

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mation. Many employers like having online access to plan information and usage data, including the number of people on leave, average length of leave, and at which locations. For employees, plans often work best when they offer multiple ways to get information, whether mail, phone or online.

- **Rehabilitation.** Evaluate the insurer's capabilities in rehabilitation and case management. How successful has the carrier been in helping employees return to productive work?

Group long-term disability coverage provides a valuable addition to the well-rounded benefits program. If you'd like to learn more, please contact us and we'll help find a plan that's right for you.

Why Everyone Needs Long-Term Disability Insurance

What would your employees do if they became injured or ill and couldn't work for an extended period? How does this affect morale?

By the time people reach age 35, they have a one in three chance of being disabled for more than 90 days during the rest of their working life, according to the Health Insurance Association of America. A recent MetLife survey indicated that an increasing number of employees are more concerned with having financial security in the event of a disability than they are with premature death.

Group long-term disability income (LTD) insurance provides your employees funds to help them meet daily expenses when they cannot work. This security can enhance recruiting, retention and productivity.

Employers can cover the entire cost of LTD, cost-share with the employee or offer coverage as an employee-paid, voluntary benefit. You can also offer group or individual coverage.

Studies show that almost half of mid-size to large employers provide coverage that pays benefits for at least five years. Typical group policies replace 50 to 60 percent of income, which balances disabled employees' need to meet expenses with the employer's need to provide incentives to return to the job. Many employers fund a basic plan to protect employees, who can then add supplemental coverage to meet their individual financial needs.

Tax Issues

If the employer pays premiums and does not include those amounts in gross income, employees do not have to pay income taxes on them. However, any benefits they receive from the policy count as taxable income. If the employee pays all or part of premiums, these amounts come from after-tax dollars. But benefits received in this case are tax-free.

Most disability policies are non-cancelable, so the insurance company cannot cancel the policy (except for nonpayment of premiums, of course). This gives employees the right to renew the policy every year without an increase in premium or a reduction in benefits, regardless of their health. However, the insurer has the right to increase pre-

miums as long as it does so for all other policyholders in the same rating class.

What to look for

As with all benefit programs, employers have many options when selecting a group LTD plan:

- **Ease of use.** Employees and employers should have easy, timely access to infor-

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Disabilities: Myths and Realities

Here are the top misperceptions employees have about disability, according to The Council for Disability Awareness:

- ***It's not going to happen to me.*** **A disabling accident occurs every two seconds in the United States, yet nine out of 10 workers dramatically underestimate their chances of becoming disabled. The odds are three in 10 that a worker entering the workforce today will become disabled some time before retiring.**
- ***If I do become disabled, it won't last long.*** **Eighty-five percent of workers surveyed express little or no concern that they may suffer a disability over three months long. While it's true many disabilities last only a few months, the average disability actually lasts 2.5 years.**
- ***They cover disabilities at work.*** **Most employers, particularly larger companies, provide some form of sick pay and long-term disability benefits to employees. That's not necessarily the case among small employers. More employers offer voluntary disability insurance at the workplace, but some employees opt not to buy the coverage. Also, many employees mistakenly think their medical insurance covers lost wages, but it doesn't.**
- ***I don't need disability insurance because I have workers' compensation.*** **More than 90 percent of disabling accidents and illnesses are not work-related and not covered by workers' compensation.**