NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

TAKE FULL ADVANTAGE OF EMPLOYEE BENEFITS

Company Programs Can Help to Stabilize Your Future

ENGLEWOOD, COLORADO—Employees call them perks. Employers call them indirect compensation. No matter what you title them, job benefits are a vital and sometimes overlooked form of reimbursement, which can be worth 30 percent or more of the value of an employee's salary. They can mean substantial savings, opportunities and tax breaks—provided that employees take full advantage of the options available.

"Benefits vary widely among companies, but even many small firms offer basic programs that can have a profound impact on quality of life, for both the short- and long-term," explains William L. Anthes, Ph.D., president and CEO of the National Endowment for Financial Education® (NEFE®). NEFE is a Colorado-based, independent foundation whose mission is to educate Americans about personal finance. Anthes says, "Unfortunately, many employees fail to enlist in programs that could be helpful to them and their families. This is particularly true in the area of retirement savings."

This situation can be negative for employers, as well. "Companies design benefits to build loyalty and improve job skills and satisfaction for their employees. When the programs are unused or underused, everyone loses," says Anthes.

In order to help workers better understand the benefits available, many employers provide orientation sessions or benefits training, and all companies distribute benefits publications. However employees often feel overwhelmed by the complexity of the programs. To ensure that you are taking full advantage of your benefits, Anthes suggests employing the following three steps:

- Examine your active enrollments.
- Determine what options you may have overlooked.
- Follow basic guidelines to keep choices current.

Review Active Selections

Many employees make benefits decisions soon after starting a job and then rarely, if ever, revise them. To ensure that selections reflect your current needs and those of your family, periodically revisit your choices. "You could be concentrating too much in some areas and missing out on opportunities in others," Anthes says. "Make sure the selections are right for you and that they reflect your best interests." Major categories of benefits that may need periodic review and revision are described below.

Health insurance frequently is recognized as one of the most important job benefits. "In some cases, employees are able to choose from a selection of plan types that vary in terms of price and specifics of coverage," Anthes explains. If you can select your own plan, make sure you are getting the most appropriate coverage. Several factors to consider in making a choice include your age; size of your family and special needs; cost, including premium amount, level of co-payment for doctor visits and prescription drugs and amount of annual deductible; policy on pre-existing conditions and specific illnesses; number of hospital days covered per year; and home-care visit provisions. "If you determine that a change is necessary, then you'll have to file the appropriate paperwork," Anthes adds. "Changes to plan selections usually are allowed once a year, during the 'open enrollment' period." Be sure to take note of when your enrollment period occurs. If you do not make the necessary changes during this time frame, your employer may be precluded by the health plan from changing your selections until the subsequent year or next open enrollment period.

Whether or not you can choose your plan, you should be aware of the advantages as well as the limitations of the types of provider(s) available to you.

The most common types of health plans are:

- Health Maintenance Organizations (HMOs), generally the least expensive type of health-care providers. Members use doctors and hospitals within the HMO network and rely on a selected primary-care physician to provide basic or preventative care and refer them to specialists as necessary.

- Preferred Provider Organizations (PPOs), which are slightly more flexible than HMOs. A larger number of doctors and hospitals are included in their networks. Co-pays are charged for doctor visits, but subscribers may use physicians outside the network for a higher fee.

- Indemnity plans, also called "fee for service." These plans reimburse subscribers after medical expenses are incurred. Subscribers can use the physicians of their choice, but indemnity plans generally do not cover preventative care.

- Point of Service (POS) plans, which often are described as "hybrid" or "open-ended" because they combine features of HMO and PPO programs. They are increasingly popular due to the flexibility they provide members.

Retirement plans represent another significant job benefit. However, employee participation in such plans has been declining since 2000. Data from the latest Current

Population Survey, conducted by the Census Bureau, showed 2002 declines in both the number of employers sponsoring retirement plans and the number of employees participating. The results confirmed a three-year downward trend.

"Corporate scandals and stock market volatility undoubtedly have had an impact on employee confidence in retirement plans, but their overall potential value is undeniable, especially when employers are matching a percentage of employee contributions," Anthes says. He urges employees to take part in retirement savings plans, to carefully examine all options and to invest as much as their financial situation and plan parameters allow.

Typical retirement plan types include:

- Defined benefit plans, the tried-and-true pension plans that were the foundation of retirement funding for the majority of the 20th century. Managed entirely by employers, pension plans now generally are offered only by large firms and are increasingly uncommon.

- Defined contribution plans, such as 401(k) and 403(b) programs, which came into vogue in the 1980s and now are the predominant form of company-sponsored retirement programs. Employees designate a percentage of their salary for investment in one or more of a given set of options; the annual contribution is tax-deductible until the time of withdrawal. In addition, account earnings accumulate tax-free until you remove the money. Employers may match, in cash or their own company's stock, a portion of the employee contribution.

  With defined contribution plans, employees may be required to manage their own accounts (called "self-directed plans"), so an understanding of basic financial principles is key. Anthes says, "Employees must determine the amount of risk and the potential for growth inherent in various types of investments, and they must be able to choose options that are right for them." Employers legally are forbidden to recommend a particular investment choice, but a growing number of companies, primarily large ones, are offering general financial education workshops or programs.

- Savings Incentive Match Plans for Employees, better known as SIMPLE plans, which allow employees to contribute up to $9,000 a year to a retirement program. Individuals age 50 or over may contribute an additional $1,500 annually. Employers match their employees' contributions and employees are vested (i.e., they own the money both they and their employers contributed) immediately.

- Profit sharing or bonus plans—the employer's way of sharing profits with workers. These may take the form of cash or company stock and be presented outright or deposited in a tax-deferred account. Anthes emphasizes that profit sharing and bonus plans can contribute to retirement income, but are not designed to fully fund living expenses.

Paid and unpaid leave also represent important employee benefits. They provide options for time away from work that may, at various points in an employee's life, prove essential. Vacation amounts and provisions vary. Some companies provide for compensatory time in return for overtime worked, as well as paid personal days, holidays and sick leave. Know your company's rules and always try to use all available paid leave rather than risk losing it at the end of a designated period. "Be familiar with family leave policies, as well as provisions for leaves of absence and other non-paid leave," Anthes advises. "Many requests that do not relate to family or medical problems are handled on a case-by-case basis."

Look for Untapped Opportunities

In examining the details of benefits programs, some employees may discover features or options they previously overlooked or did not understand. For instance, many companies offer less-publicized programs that may provide valuable coverage, including life insurance plans, dental and vision plans, disability insurance and long-term care insurance. In some cases, most notably with life insurance, companies automatically provide the benefit. In others, employees can choose to pay a regular premium, which is deducted from their paycheck. Anthes explains, "Depending on specific circumstances, employees may be well-advised to opt for these types of insurance. Families, especially those with several children, should seriously consider all opportunities for coverage."

Among the most frequently overlooked benefits are:

- Education programs, which enable employees to get job-related training or educational credentials without bearing the full cost. Employers contribute some or all of fees and tuition. "These programs present an exceptional opportunity to improve career options and greatly increase an employee's future earning potential," Anthes says.

- Flexible Spending Accounts (FSAs), perhaps the most underused of employment benefits. Created by federal legislation in 1978, FSAs allow employees in participating companies to contribute tax-free dollars to various expenses—most commonly, health care and dependent care. The money also can be used to cover specified expenses not covered by insurance plans.

- Employee Assistance Plans (EAPs), generally offered by large companies, which encompass a variety of options, often outside the scope of other programs. According to Anthes, "The range of options can be extensive, going from smaller benefits such as laundry service and employee discount programs, to larger alternatives such as adoption support, family counseling and financial planning services."

Take a Long-Term Approach

Making the most of benefits is an ongoing process. From the acceptance of a job through the ensuing years with a company, an employee is faced with a series of changing circumstances and choices. It is imperative to stay informed and current. To use your benefits to their fullest extent for the duration of your job, Anthes suggests the following guidelines:

- Study all benefits material as it is made available to you and attend related classes and update sessions as they are offered.
- Get to know appropriate staff in your organization's benefits or human resources office and ask questions whenever necessary.
- Store all benefits material and keep it handy.
- Be familiar with your own financial situation and know how much you can contribute without straining your budget.
- Pay yourself first and set financial goals. Take necessary steps to reduce or eliminate current debt and reallocate funds to take advantage of available benefits.
- Discuss all benefits options with your family, and make choices that provide the level of coverage you need.
- Compare the insurance coverage available through your spouse's employer with that offered by your own company, and select the more comprehensive and effective option for your family.
- Change benefits selections as your circumstances dictate. Your benefits options may increase as you gain seniority on the job. Review your situation and available options annually and make revisions as necessary.

"Remember that benefits are established to help workers make the most of their employment. Those who fail to capitalize on the opportunities available to them are forfeiting a portion of their future financial security," Anthes says. "Know your options and your needs. Understand both your benefits' potential and your own, and use them to reach your goals."

For additional information on the National Endowment for Financial Education and on saving and investment strategies, consult the NEFE Web site at http://www.nefe.org/