2018 Annual Enrollment and Voluntary Benefit Offerings

Just over 151 million Americans have health coverage provided through an employer. In contrast, just over 12 million have individual health coverage through a state or the federal exchange. With costs increasing, annual enrollment decisions have become critically important in helping employees meet personal planning objectives. Yet, recent research indicates most employees are not efficient health care consumers. More employers are taking steps to encourage employees to become better at making health care decisions.

We thought that we would once again provide you with a summary of medical plan features, as well as certain voluntary benefits, that will be offered to employees next year. This data comes from a review of the 2018 annual open enrollment material at 240 companies where Ayco provides financial counseling or education services. Over 95% of our corporate partners have open enrollment in the fall on a calendar year cycle.

One or more high deductible health plans (HDHPs) will be available at almost all of our survey group. It will be a new feature at 6 companies, or 2% in our survey group, while 30 companies will offer employees the choice of utilizing either a health savings account (HSA) option or a health reimbursement account (HRA) - thus, the percentages below exceed 100%.

The following are design characteristics for the medical plans among our survey group for 2018 compared to what we saw in a similar review we conducted ten years ago:

![Chart showing the distribution of medical plan features offered by companies in 2018 and 2008.

- Offer a HDHP w/HSA: 96% (2018), 46% (2008)
- Offer HRA: 26% (2018), 18% (2008)
- Offer Both HSA & HRA: 13% (2018), 12% (2008)
- Offer Neither HSA nor HRA: 28% (2018), 3% (2008)
Consumer-Directed Health Plans

High deductible health plans (HDHPs), often called consumer-directed plans, can impact employee behavior according to several studies and often lead to more cost-conscious decisions about healthcare utilization. Employees enrolled in HDHPs have had lower per capita healthcare spending than those covered by traditional plans, according to a study by the Health Care Cost Institute. This is mainly due to less healthcare utilization. The Kaiser Family Foundation reported that HDHPs once again this year were the second most common type of plan employees enroll in, after PPOs. Nearly 30% of workers at large companies enrolled in HDHPs in 2017, up from 25% in 2015.

While HDHPs have become commonplace, almost all in our survey group continue to offer employees a choice of medical plans. We see very few companies offer only a HDHP to their employees – around 5% of our survey group for 2018. Full replacement has not taken off as some had speculated. We did notice that some companies are planning on the elimination of PPO, POS and HMO plans for 2019 and will only offer a HDHP.

We continue to see companies expand the number of HDHPs being offered. Nearly 30% of companies will offer two distinct HDHP options, 7% will offer three options, and one company will offer four options. Over 7.5% of the companies in our survey group added a HDHP option for 2018. But more choices often require more and better communication to assist employees in comparing options.

HSA Company Contributions

Most employers encourage employees to select HDHP coverage by making company contributions to their HSA. This can include a direct company contribution, a matching contribution, and/or having wellness incentives directed to the HSA. Of the 230 companies in our survey group with HDHPs, just under 90% will "seed" or make contributions to HSAs on behalf of employees who elect HDHP coverage. Eleven companies in our survey group determine the company contribution by the pay level of the employees, with the higher-paid receiving less. Forty-eight companies will contribute wellness dollars earned to the HSA, nearly 30% more than last year’s annual enrollment. Eight companies will match employee HSA contributions with a specified dollar amount, while two companies fund the HSA only for those employees who elect the HDHP for the first time. Forty companies will have tiers of contributions based on the number of family members covered.

Here are the amounts of company contributions for employee-only and family coverage among our survey group (excluding wellness incentive contributions):

**Single Coverage**

- Under $500
- $500
- $525-$775
- $800-$3,000

**Family Coverage**

- Under $1,000
- $1,000
- $1,100-$1,400
- $1,500
- $1,600-$6,000

Morningstar released its inaugural evaluation of HSAs earlier this year. It reviews the major HSA providers/recordkeepers to fees and expenses, as well as investment choices and features. Let us know if you would like a copy to see how your plan is rated.

Costs

The National Business Group on Health (NBGH) survey of large employers projects healthcare cost increases of around 5% next year. Nearly half of large employers increased deductibles and/or co-pays this year and another 40% are considering taking this step in the next several years. While a majority of the companies in our survey group will increase employees’ share of premium costs for 2018, the increase generally will be in the range of 2-5%, similar to the increases of the last two years. But most companies will raise costs for PPO coverage to a greater extent than for HDHP coverage. The Kaiser Family Foundation reported that the average premium cost for family coverage in 2017 was $18,764, with employees paying 29% of the total cost. For single coverage, the average cost was $6,690 with the employee paying 18%. An Aon analysis estimates that U.S. workers can expect to spend an average $5,200 in 2018 on healthcare related costs.
The increasing cost of prescription drugs is one of the major factors propelling a rise in healthcare spending. Prescription drug costs have climbed to be the third-largest of the major categories of healthcare spending after hospital costs and doctors/clinician services. Using special pharmacy management programs has become a major cost-management strategy, according to the Segal Group.

**Tax Reporting** – While pending tax law changes may eliminate the individual mandate, employers will still be required to issue Form 1095-C to employees by January 31, 2018 and provide Forms 1094-C and 1095-C to the IRS by April 2, 2018 confirming employee coverage for 2017. The IRS has begun targeting corporate non-compliance with reporting for prior years and has issued letters to companies that failed to properly report.

- **Spousal Surcharge**
  
  We continue to see more companies impose a spousal surcharge if an employee seeks to cover a spouse who has access to medical coverage through his/her own employer. For 2018, nearly 30% of our survey group will impose this additional cost, three-times the number of companies that had a similar charge ten years ago and up nearly 10% from last year. This surcharge ranges from $40 to over $250 per month.

  Here are the spousal surcharge monthly amounts we saw reported among 66 companies in our survey group:

<table>
<thead>
<tr>
<th>Monthly Amount</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>$50 per month</td>
<td>10%</td>
</tr>
<tr>
<td>$60-$90 per month</td>
<td>13%</td>
</tr>
<tr>
<td>$100 per month</td>
<td>21%</td>
</tr>
<tr>
<td>$105-$150 per month</td>
<td>51%</td>
</tr>
<tr>
<td>$200 or more per month</td>
<td>5%</td>
</tr>
</tbody>
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  We also saw one company impose a surcharge if dependents eligible for other coverage are covered under the employer’s plan.

- **Coverage for Dependent & Domestic Partners**
  
  A Commonwealth Fund study estimated that 6.6 million young adults under age 27 are covered by a parent’s medical plan. Adult children are not required to be covered under a parent’s plan – independent children can select their own health coverage, including through a state exchange, and possibly qualify for a premium tax credit. We continue to see companies (about 10% of our survey group) indicate that they will be conducting dependent eligibility audits or will request verification of dependent eligibility.

  The Affordable Care Act does not require employers to offer medical coverage to an employee’s spouse – although, almost all employers have done so. With same-sex marriage now legal, we counted eight companies that modified or gave notice of their discontinuance of same-sex domestic partner coverage.

- **Flexible Spending Arrangements (FSAs)**

  Historically, almost all companies in our survey group have had a health FSA providing a means for employees to pay for qualified healthcare expenses not covered by insurance on a pre-tax basis. The IRS issued IR-2017-187 last month as guidance on how taxpayers can take advantage of health FSAs during 2018.

  FSAs have certain characteristics similar to their health plan cousins, HRAs and HSAs, although the differences can be confusing. This may explain why only about 35% of employees elect to participate in a health FSA, according to EBRI. In fact, the need for an employee during annual enrollment to estimate, or guess, as to their out-of-pocket healthcare expenses for the following year makes FSAs a sometimes uncertain reimbursement mechanism. In addition, the “use-it-or-lose-it” rule makes funding FSAs riskier than fully funding a HSA. So, utilization has fallen.

  A challenge for employers first adopting a HDHP is explaining how an employee must exhaust their FSA balance before year-end (even if the plan has a grace period) in order to be able to fund the HSA or, alternately, delay funding the HSA until the end of the grace period. We saw several companies explain this in their 2018 open enrollment material.

  The growth in the number of HDHPs being offered, along with the larger number of employees electing to participate in a HDHP and lower participation in limited purpose FSAs has led more companies in our survey group to not offer or drop altogether the availability of a limited purpose FSA. For 2018, just over 62% of our survey group with a HDHP will offer employees a limited purpose FSA, about a 10% reduction from last year.

  To help eliminate the risk that an employee first electing a HDHP in 2018 may not be able to fund a HSA during the year due to having unused FSA dollars from 2017, several companies will allow unused FSA or carryover dollars to be transferred to a limited purpose FSA in 2018.
The Grace Period or $500 Carryover Option: Under rules modified by the IRS several years ago, employers may, but are not required to, allow up to $500 of unused amounts remaining in a FSA at the end of a plan year to be carried over and available to reimburse qualified medical expenses at any time the following year. The carryover option is an alternative to the 2½ month grace period provision which allows reimbursement over an extended period. A plan may have one or the other, but not both. All eligible participants must be informed of the $500 carryover if it is offered.

Other FSA Features
- Have $500 Carryover Feature 34%
- Have 2½ Month Grace Period 22%
- Have Neither Feature 44%

Dental and Vision Coverage
Dental care is the second-most utilized healthcare benefit. Cost shifting also is occurring here with employees bearing more of the cost. Almost all of our survey group offer employees the option of selecting dental and/or vision coverage for themselves and eligible dependents. For dental plans, there typically are at least two coverage options made available. Here are the maximum annual amounts that may be reimbursed under dental plans in our survey group, excluding orthodontics, which usually have a separate lifetime maximum:

Max. Annual Reimbursement Per Covered Individual % of Companies
Less than $1,500 3%
$1,500 39%
$1,700 - $1,900 6%
$2,000 39%
$2,250 - $2,500 9%
More than $2,500 4%

Wellness Programs
It is generally accepted that wellness programs help employees develop healthier lifestyles, and healthier employees can lead to reduced medical costs. Nearly 90% of companies have some form of employee wellness program, which can include health screenings, gym memberships, and smoking cessation programs. There is evidence of generational differences in how these are viewed. A 2017 survey by Virgin Pulse indicates that effective wellness programs can be important in the recruitment, retention, and engagement of employees. According to the National Health Center for Health Promotion and Disease Prevention, 20% of healthcare costs for adults in the U.S. are attributable to preventable illness, while 40% of costs are attributable to behaviors that can be modified.

Among our survey group, over 75% will offer employees cash, reduce their share of premiums, or make a contribution to an HSA, if the employee participates in a wellness initiative. The cash reward typically is $240-$500 to the employee and a similar amount to a spouse (although, this incentive is between $500-$950 at 24 companies and exceeds $1,000 at 10 companies). We counted over 25% of our survey group imposing a surcharge or increased premiums on those employees who continue to use tobacco, with a few companies offering a cash incentive to cease tobacco use.

The Equal Opportunity Commission (“EEOC”) has issued regulations which permit an employer to offer employees an incentive of up to 30% of the cost of individual coverage for participating in a wellness program. However, earlier this year, a federal court ruled that the EEOC must revisit its guidance to justify the 30% threshold. The AARP had sued arguing that this could unfairly penalize employees who opted out of a wellness program or refused to disclose personal medical information. This matter is in a state of flux at the moment.

Decision Making
While employees typically are given two to three weeks to review open enrollment material, the “average” employee spends less than an hour studying the information and making benefit elections. A MetLife study of Employee Benefit Trends reported that one-third of employees are not actively engaged in their annual benefits enrollment. An Aflac survey reported that over 80% of employees spend less than an hour researching their benefit options and 57% spend less than 30 minutes. Most employees recognize they may be making mistakes in open enrollment decisions, according to an analysis by Empyren Benefit Solutions, with over half of those surveyed wasting as much as $750 annually due to poor benefit choices. Here are the top mistakes employees make during annual benefits enrollment (according to several reports):

- Not spending sufficient time reviewing enrollment material including new offerings and instead sticking with prior year elections or default coverage;
- Failing to discuss coverage options with spouse;
- Ignoring tax savings available through HSAs and FSAs;
- Making decisions without taking advantage of available assistance.
Other Items of Interest

Some of the more interesting features we saw in 2018 open enrollment materials include:

- Just over 15% of our survey group eliminated one or more medical plans for 2018;

- 5% of our survey group will be utilizing a private exchange for active employees in 2018; more companies (around 15% of our survey group) are using private exchanges for their retiree coverage;

- A large majority offer remote access to a doctor on a 24/7 basis, such as through telemedicine services. Utilization of this greatly expanded this year and helps keep costs down;

- The most common number of coverage tiers is four, with costs based on the number of eligible dependents;

- Seven companies will pay employees who opt out of employer-sponsored health coverage; two companies eliminated their opt-out credit for 2018;

- Approximately 15% of our survey group offered passive enrollment, with prior year’s coverage continuing unless an affirmative election is made. However, FSA funding requires an affirmative election.

Voluntary Benefits

Annual enrollment is also an opportunity for many companies to provide information concerning available voluntary benefits. Here are some of the more common voluntary benefits offered by our survey group and other Ayco corporate partners:

If you would like a review of voluntary benefits and perquisites offered to executives as reflected in Ayco’s 2017 Executive Benefit Survey, please request an electronic copy of our survey by emailing us at rfriedman@ayco.com.
ISS & Glass Lewis Issue 2018 Proxy Voting Guidelines

Institutional Shareholder Services (ISS) and Glass, Lewis & Co. (Glass Lewis) are the primary shareholder voting and corporate governance monitors. Both recently released updates to their respective voting guidelines for the 2018 proxy season. The ISS updates apply to shareholder meetings held beginning on February 1, 2018 while the Glass Lewis policies apply to meetings held anytime in 2018. Here is a brief summary of a few of their respective policy focuses for 2018:

- **Non-Employee Director Compensation** – Based on a study finding that median director pay at S&P 1500 companies has increased each year since 2012, ISS has adopted a new policy recommendation regarding voting for or against those directors responsible for approving non-employee director compensation. If there is a pattern, (which requires two or more consecutive years) of awarding excessive directors pay without disclosing a compelling rationale or other mitigating factor, ISS will recommend a vote against such board members. (Because of the consecutive year requirement, it will not be applied until 2019.)

- **Pay-for-Performance (P4P) Policy** – ISS has tweaked its quantitative P4P assessment for CEO pay. Under its updated policy, CEO pay will be measured against three to four relative financial performance metrics (which will vary by industry) measured over a three-year period. Further details of this methodology are expected to be issued within the next month. This new calculation will join three others (Relative Degree of Alignment, Multiple of Median, and Pay-TSR Alignment) that ISS will use in making its recommendation with regard to Say-on-Pay voting.

Glass Lewis has not changed its P4P evaluation model and will continue to review the pay for the top five proxy reports using five performance metrics.

- **Say-on-Pay/CEO Pay Ratio** – If a company fails to include its Say-on-Pay (SOP) proposal or SOP frequency in its proxy materials, this could result in a “vote against” recommendation for the compensation committee or potentially the full board. Since the CEO pay ratio disclosure will be new in the 2018 proxy for most companies, it will not impact an ISS vote recommendation for next year. However, both ISS and Glass Lewis intend to include this information in their reporting to investors.

If a SOP vote has received less than 70% support, ISS described what additional information it wants companies to disclose in subsequent year proxies.

- **Change-In-Control (CIC) & Poison Pills** – ISS has modified its position with regard to vesting of equity upon a CIC. Full points will be credited only if there is no single-trigger or discretionary vesting for time-based awards. For performance-based awards, acceleration is limited to actual performance achieved, pro rata of target based on the elapsed portion of the performance period. They have also modified their holding requirement of company stock and reduced the recommended period from 36 months to 12 months.

With regard to “poison pills”, ISS will now recommend a vote against all board nominees if a company maintains a poison pill that has not been approved by shareholders (a poison pill generally stymies corporate takeovers).

- **Gender Diversity and Pay Differences** – While ISS will not use a lack of gender diversity as a factor in a voting recommendation for directors, it will begin to report if a board has no women directors. Glass Lewis also updated its policy dealing with gender diversity on boards. Beginning in 2019, Glass Lewis may recommend voting against the nominating committee chair if a board has no female members.

ISS will consider shareholder proposals for reports on corporate gender pay gaps on a case-by-case basis.

- **Climate Change** – Glass Lewis expanded its disclosure policy on climate-related shareholder proposals.

**Educational Assistance Benefits Likely to Continue**

The tax exclusion for employer-sponsored educational assistance benefits was eliminated in the tax reform bill which passed the House. However, the Senate version does not eliminate this commonly offered employee benefit. So, it appears that it will survive, although possibly with a few tweaks.

Currently, there actually are two distinct Internal Revenue Code (IRC) tax provisions which support employer-provided education assistance. Under IRC §127, employers can provide employees with up to $5,250 annually in
educational assistance benefits, the value of which would be excludible from the employee’s taxable income. These benefits can be applied toward tuition, fees, books, supplies, and equipment for programs that could cover a high school equivalency diploma, an undergraduate or graduate degree, or professional continuing education. However, it does not include payment for tools or supplies, meals, lodging or transportation and also does not include payment for courses involving sports, games or hobbies.

An employer must have a separate written plan to provide this employee benefit and cannot offer employees a choice between tax-free educational benefits and other taxable benefits. All eligible employees must be provided with reasonable notification of the terms and availability of any program. While a plan cannot discriminate in favor of highly compensated employees, it may be designed with other restrictions. For example, employers may limit a program only to employees who have worked for the company for a minimum period and may also set other eligibility requirements, such as maintaining a minimum academic standard (e.g., getting a “C” grade or better).

It is also possible to offer benefits that greatly exceed the $5,250 exclusion, although the value in excess of that amount would be considered taxable income. If an employee has multiple employers offering this benefit, the $5,250 exclusion limit is aggregated and applies to all employment-based educational assistance for the year.

**Working Condition Fringe Benefit** - In addition to the tax exclusion provided by IRC §127, employers can provide tax-free benefits for work-related education expenses under IRC §132(d). This allows employers to provide a working condition fringe benefit that maintains or improves job skills or helps the employee meet the requirements of his/her current position. Unlike the IRC §127 exclusion for educational assistance, there is no statutory maximum amount under a working condition fringe benefit. In addition, employers may offer this benefit only to certain categories of employees. However, employers typically do set rules and standards for this separate and distinct tax-free educational benefit.

**Tuition Reduction** - Employees at educational institutions are eligible for a separate and distinct tax benefit. Under IRC §117(d), a “qualified tuition reduction” can be provided to such employees and their family members. This means the cost of college (undergraduate), high school or below may be excluded from income. However, this is a tax benefit at risk under the pending tax bill.

It is estimated that just over 80% of employers offer some form of educational assistance, according to the International Foundation of Employee Benefit Plans. We estimate that over 85% of Ayco corporate partners offer either §127 educational assistance or a §132 working condition benefit (or both). On average, it is reported that around 5% of employees participate in such a program annually.

An interesting study as to the value or return on investment (ROI) received by employers for an educational assistance program was released last year. The study was conducted by Accenture and funded by Lumina Foundation, a not-for-profit organization, and focused on the program in place at Cigna. It found that for every dollar spent on its educational reimbursement program, Cigna saved approximately $1.29 through reduced employee turnover and lower recruiting costs.

One of the more unique education benefits was introduced by Starbucks in 2014. Under the Starbucks College Achievement Plan, eligible U.S. employees can earn a bachelor’s degree for Arizona State University (though its online degree program) with tuition fully paid for through a scholarship reimbursement structure.

And finally, these various education programs are separate and distinct from the student loan repayment benefits which have become somewhat popular recently. It should be noted that there is no current exclusion from income for such benefits.
Did You Know...?

- Some of the more interesting and unique voluntary benefits we saw offered include:
  - Gender reassignment surgery reimbursed;
  - Fertility services and egg freezing;
  - Take your dog to work day;
  - Free museum passes;
  - On-site massage therapist, physical therapist, chiropractor;
  - Up to five months paid parental leave;
  - Mid-day surfing/skiing program;
  - Free corporate products, including tires, double burger w/fries, clothing, and beer.

- Educational assistance programs under IRC §127 were created in 1978 originally with no maximum benefit amount (reflecting the significantly lesser cost of higher education 40 years ago). In 1984, Congress set a $5,000 cap on this tax-free benefit, which was increased to $5,250 in 1986. It was expanded to allow an exclusion for graduate level courses in 2001, when the $5,250 limit was made permanent. Its predecessors include the WWII GI bill which entitled WWII veterans access to higher education, and the Higher Education Act of 1965 which authorized government grants and loan programs to low-income individuals.

About This Newsletter
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The Ayco Company, L.P.
P.O. Box 15201
Albany, New York 12212-5201
Phone (518) 640-5250
Fax (518) 640-5249
E-mail rfriedman@ayco.com

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