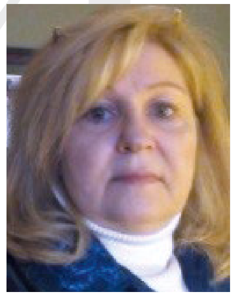
Tackling Tough Benefit Challenges

SERVICE ASSOCIATE Q&A



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Q. *What are some ways that school districts can use active and post-employment benefits to attract and retain teachers?*

A. Most new teachers are not thinking about retirement, but rather about how to pay back student loans and cover the cost of a young, growing family. Instead of retiring early, many districts are encouraging teachers to stay longer in the district as replacements are difficult to find. Further, many find that retiree health coverage is driving district health plan trends. The culmination of these situations results in benefit changes.

Changes vary between districts based upon their philosophy regarding post-employment benefits. Some see it as a health care benefit while others choose to eliminate retiree health benefits and provide a post-employment benefit that is a cash-related benefit. Some districts even split the benefit into partly health care-related and partly a cash-related benefit.

Further, districts vary on whether the benefit should be paid at retirement or include a vesting schedule wherein the longer an employee stays, the greater the vested portion he/she will receive upon severance.

Coordinating the post-employment benefit with how the salary schedule is designed provides for a cohesive compensation program that can then meet the goals of the employer and provide an attractive and meaningful benefit to the employee.

Q. *Conversely, what strategies are school districts using to balance good benefits with the budget?*

A. In an effort to control health plan costs (both active and retiree), districts have established high-deductible medical plans, allowing for a lower premium rate and (hopefully) lower increases from the carrier in future years. Since, statistically speaking, only a percentage of employees will have claims exceeding higher deductibles, the employee and their families are bearing the cost of these deductibles — not the carrier.

In an effort to attract and retain employees, districts have added a health reimbursement arrangement (HRA) that is tied to the health plan and may be equal to a portion of the deductible or even 100 percent of the deductible amount. In essence, the district is self-insuring a portion of the plan costs.

What happens to funds when the employees do not access/use the entire HRA balance in the health plan year? Here are some common provisions:

- What is unused is forfeited and next year employees receive a new HRA balance of the same amount.
- What is unused is rolled over and added to the next year's additional employer HRA contribution. Now the total HRA balance is available for other eligible out-of-pocket expenses such as copays and eye glasses.
- What is unused is rolled over into a post-employment HRA and the employer provides a new HRA contribution for the next health plan year. This is a unique way of having the employee help to create their own post-employment benefit (or add to a post-employment benefit provided by the district).

Q. *Have you seen good examples or strategies that school districts are using to manage their employment benefits?*

A. Creating meaningful and sustainable benefits are the most important goals. This can mean something different for each district. When it comes to post-employment benefits, many districts are looking at the ability to fund the benefit via a trust — either through contributions to the trust for paying benefits in retirement or possibly creating a benefit based upon an amount or formula to fund per year of service, as the benefit is earned.

Besides the HRA benefit, districts are also using the 403(b) benefit. It can be an annual amount paid into a 403(b) for the retiree in retirement, a benefit funded each year during active years or service, or a 403(b) match benefit. Eligibility may be tied to retirement or based on a vesting schedule. Some benefits are funded as earned, leaving no unfunded expenses while others are funded via a post-employment trust or general assets.

Districts have many options available and much flexibility to design a program to meet their needs. However, every benefit has specific guidelines that must be followed to avoid violations. ■

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