FYI® Roundup
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Recent Research in HR and Employee Benefits 2016 – Fall Edition

Our fall *FYI Roundup* examines a number of publications that offer insights, trends and analyses of HR and employee benefit issues of interest. In this issue, we focus on parental leave, the US labor market and salary projections for 2017, labor and employment regulations, digital tools and open enrollment, benefits outsourcing, retirement planning, and tuition assistance.

Parental Leave Growing in Popularity

Silicon Valley has embraced parental leave, and high-tech companies are leading the way in offering generous benefits to new parents:

And a Baby Makes Three (Months Off) encapsulates in-depth interviews from 15 major high-tech companies that showcase the motivation behind offering paid parental leave, its impact on their business imperatives and HR's role in crafting policies that effectively marry corporate social values with government regulation. Summaries of the interviewed companies' policies will be particularly useful for employers interested in benchmarking their leave programs. (Integrated Benefits Institute, 2016. **Note:** report can be downloaded from the website)

US Labor Market and Compensation Forecasts

Labor Market Indicators

Has the US labor market fully recovered? This question has sparked much debate in recent months because of the relationship between unemployment and the Federal Reserve's monetary and fiscal policy. If the job market is still weak, should interest rates stay low and the government run larger deficits? But if the job market is nearly recovered, should rates start to increase and the government avoid a fiscal stimulus?

The Case for a Weak Labor Market analyzes longer- and shorter-term trends in job creation, unemployment, labor force participation, involuntary part-time employment, compensation, duration of unemployment, and workers remaining on the job. The research concludes that, despite the low unemployment rate, the labor market has not fully recovered from the Great Recession and is still depressed. The study suggests that raising interest rates now would throw thousands/millions of Americans out of work. (Center for Economic and Policy Research, 2016)

Budget Predictions

Salary budgets are critical to a firm's annual compensation planning process and pivotal to ensuring workforce stability in a tightening labor market. A recently released survey predicts that budget increases will remain flat at 3% in 2017:

Salary Increase Budgets 2017 analyzes responses from 461 organizations in 11 industries to forecast overall salary budget increases, merit increases and increases for four employee groups: nonexempt hourly (nonunion), nonexempt salaried, exempt, and executive. 2016 increases are compared to the 2017 projections. (The Conference Board, 2016. **Note**: complimentary copies are available only to members)

Increasing Cost of Regulatory Compliance

The flurry of regulatory activity by the DOL during the Obama administration has generated employer concerns over productivity losses and escalating compliance costs. Recent research estimates DOL and other federal agency rules will cost the economy roughly $80 billion over the next ten years and companies over 400 million paperwork hours:

The Aggregate Economic Cost of New Labor Market Regulations analyzes seven notable regulations and changes in the labor laws from DOL, OSHA, EEOC, and NLRB that will significantly burden the industries affected and their workers. The new rules are: DOL's Fair Pay and Safe Workforces rule (the so-called "Blacklisting" rule); DOL overtime rules; OSHA workplace silica standards; EEOC annual reporting rules; NLRB "Ambush Election" rule; NLRB's redefinition of what is a "joint employer;" and OSHA's annual workplace injury and illness reporting rules. The analysis shows that regulatory costs skyrocketed in 2016. In addition to $80 billion in compliance costs, the analysis projects an aggregate job loss of more than 155,000 workers stemming directly from these regulations along with more jobs being changed from full-time to part-time. (Center for Manufacturing Research, 2016)

Focus on Employee Health

Digital Tools

Recent survey data reveals that consumers' use of health apps and wearables has doubled in the past two years among health technology users. As the patient experience goes digital, consumers are leading the way in using digital tools to manage their healthcare and access health records:

Patients want a Heavy Dose of Digital presents data in an infographic format highlighting consumers' perceptions and use of electronic tools to gain information about their health. Differences of opinion between healthcare consumers and healthcare providers in accessing electronic health records are highlighted; and a two-year comparison of the growth in the use of apps and wearable devices by consumers and patients' willingness to share wearable health technology data with their doctors is provided. Data identifies a gap between physician and patient expectations, and provides a window into what healthcare consumers want and digital tools and patient strategies that could close that gap. Plan sponsors will also find the data useful in plan design and benefit offerings from a health consumerism point of view. (Accenture, 2016)

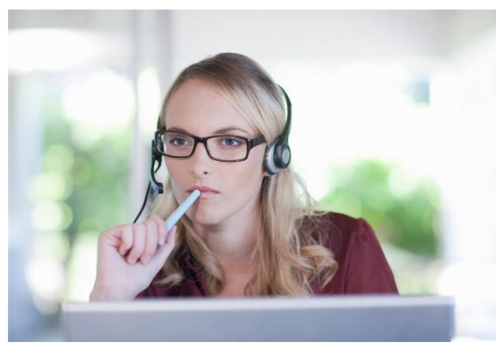
Open Enrollment

Fall marks the beginning of open enrollment season, the period when employees review their health insurance needs and make their annual benefit selections. As the cost of health insurance continues to shift to employees, the impetus for employers to help workers make informed decisions about their options is becoming greater:

Workforces Report - Open Enrollment Survey highlights benefits enrollment trends and corresponding attitudes in the workplace. The study focuses on employees' views on major medical and other health insurance options during open enrollment. Based on responses received from 1,900 employees across all industries, it evaluates high-tech and low-tech online tools and resources that can help employees during enrollment and indicates in chart form their usage by Millennial and non-Millennial workers in selecting health benefits. The survey also offers a "vision" of benefits enrollment in a "perfect world." Insights offered will be helpful to plan sponsors who want to improve their enrollment process. (AFLAC, 2016)

Increasing Interest in Outsourcing Benefits Administration

According to a poll of financial executives, local, state, and federal regulation and compliance challenges are driving employers to consider outsourcing some parts of their benefits administration:



A Rising Interest in Outsourcing Benefits Administration analyzes survey responses from 180 finance executives, 78% of whom are from large US companies with more than $1 billion in annual revenues. Survey results show their top priorities for administering employee benefits programs and their strategies for managing regulatory burdens under the ACA, ADA, FMLA and state and local mandates in 2017. Roughly 27% of the respondents reported that they are already outsourcing ACA reporting, ADA compliance and FMLA requirements, as others are considering it. Fewer respondents reported outsourcing local or state leave mandates. Poll results suggest there is a growing interest in outsourcing benefits administration to allow companies to focus more on the strategic value of benefits planning. (CFO and Prudential, 2016)

Options Broaden for Retirement Planning

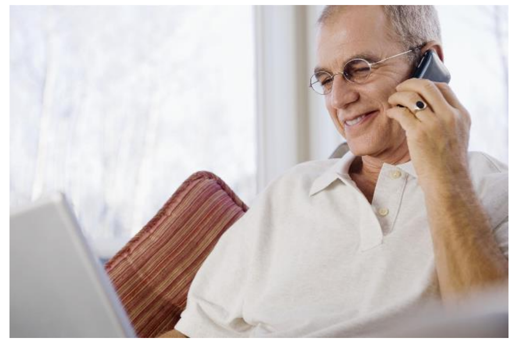
Cash Balance Plans

The number of new Cash Balance Plans as compared with 401(k) plans surged due to rising taxes, legislative changes, broader options for plan sponsors, and the retirement savings crisis according to new research data:

National Cash Balance Research Report provides an in-depth analysis of the latest IRS Form 5500 filings, identifying statistical data and trends specific to cash balance plans. The report highlights the number of plans and their growth over a 13-year period; firms with the largest assets, interest credit rates, plan asset investments, regional and industry breakdown of these plans and plan combinations. The research also explores what triggered the recent growth of these plans, and their strategic role in retirement benefits planning. (Kravitz, 2016)

Defined Benefit (DB) Plans

Increasing interest in a steady lifetime income stream has prompted researchers to revisit the role defined benefit plans play as a guaranteed source of income, and how they impact state, local and national economies:



Pensionomics 2016 analyzes DB pension plan data in public and private sectors to assess the overall national economic impact of benefits paid by these plans to retirees. Multiple tables quantify the impact in the US and in each of the 50 states and the District of Columbia in terms of jobs, output, value added, and tax impacts of pension benefit expenditures. Detailed information on the methodology used to calculate economic output is included. (National Institute on Retirement Security, 2016)

Defined Contribution (DC) Plans – Automatic Features

The increase of DC plans as the primary retirement savings vehicle in the workplace calls for the use of common definitions, especially when communicating the benefits of adopting automatic features, according to recent industry research:

Building a Common Language to Promote Adoption of Auto Features offers a definitional framework for discussing automatic features, with the ultimate goal of spurring adoption of plan design features that improve plan participant savings outcomes. Suggested standard definitions are intended to serve as a guidepost for discussions with plan sponsors, policy makers and other retirement professionals. (The Defined Contribution Institutional Investment Association, 2016)

Defined Contribution Plans – Lifetime Income Options

The onus of planning a retirement strategy to last a lifetime is on 401(k) participants. A recent government report addressed concerns about retirees' risk of outliving their savings and having to rely on Social Security:

401(k) Plans: DOL Could Take Steps to Improve Retirement Income Options for Plan Participants examines the increased reliance on 401(k) plans as a source of lifetime income. This GAO report addresses lifetime income options for 401(K) plans; deterrents that keep plan sponsors from offering a mix of options; financial literacy for plan participants; and defaults that exist for participants who don't choose lifetime options. It reviews actions DOL and Treasury have taken to help plan sponsors and providers offer lifetime income options, and includes recommendations to the Secretary of Labor aimed at encouraging plan sponsors to offer lifetime income options. (US Government Accountability Office [GAO], 2016)

Public Sector Pensions

Even as alarming news about public sector pension liabilities continues to make headlines, one recent study reports that the total cost burden for pensions appears to be under control in most places, with only a handful of jurisdictions facing huge challenges:

Will Pensions and OPEBs Break State & Local Budgets? analyzes the costs of pensions, OPEBs (other post-employment benefits), and other debt service costs for all states and the largest counties and cities, and gauges the total cost burden. Costs assume a 6% discount rate and an adequate amortization schedule, and are compared to own-source revenue. Methodology used to assess the cost burden included recent guidance from GASB (Governmental Accounting Standards Board), and the Census of Governments was used as the source to provide the total cost burden estimate. The analysis reveals that eight states (IL, NJ, CT, HI, KY, MA, RI, and DE) face payments that indicate potential trouble. Chicago, Detroit, San Jose, Miami, Houston, Baltimore, Wichita and Portland are the most at-risk cities, and six counties in CA — along with Cook County, IL and Prince George's County, MD — face the most risk. The discussion about funding and potential solutions offers food for thought for public plan administrators. (Boston College, Center for Retirement Research, 2016. **Note:** report can be downloaded from the website)

Investment Advisors

The rise of the "robo advisors" is disrupting the way investment advisory services are offered. As digital services become more popular, concern is growing over the use of technology to satisfy fiduciary standards and regulatory obligations. A recent white paper provides an in-depth analysis of digital investment advisory services which are projected to manage some $285 billion in assets by 2017:

The Evolution of Advice: Digital Investment Advisers as Fiduciaries explores the emergence and growth of digital advice and its impact on fiduciary responsibility and regulatory obligations. This white paper examines fiduciary standards included in the Investment Advisors Act (SEC), FINRA (Financial Industry Regulatory Authority) suitability rules, DOL's "Fiduciary Rule" and BICE (Best Interest Contract Exemption), to validate whether robo advisors can meet the duty of care and loyalty similar to their human counterparts. (Morgan Lewis, 2016)

Talent Management – Tuition Reimbursement

Certain employers looking to more effectively manage or cut recruiting costs are focusing more on their existing workforce, and discovering that developing and training in-house talent is paying off:

Talent Investments Pay-Off provides a case study of an employer's Education Assistance Program (EAP) that provided a 4% return on every dollar invested in tuition assistance over a five-year period. Qualitative interviews with business and administrative staff indicated a 58% ROI (or higher if productivity gains are included). This research report may encourage more employers to view tuition reimbursement programs as strategic investments in talent and employee engagement, and inspire them to expand existing training and development programs. (Lumina and Accenture, 2016)

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