BENEFIT Plan Developments

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Setting Up A Tax-Advantaged Commuter Benefits Program

The recent surge in gas prices has made getting to work considerably more expensive for most Americans, especially those driving long distances. For a relatively small investment, employers can help employees reduce their commuting costs—while providing them with additional options for traveling to work—by implementing a tax-advantaged commuter benefits program. Offering commuter assistance benefits can also be cost-effective for employers, who save money not only on taxes, but also on parking facilities.

Many employees want help with commuting costs and appreciate alternatives to driving their own cars. If made affordable and convenient, some employees would switch from driving to using public transportation and/or vanpools. Offering commuting assistance may also make a company more attractive to potential job applicants who do not have their own cars or are reluctant to drive long distances to get to work.

Employees who drive their own cars to and from work on a daily basis may experience stress due to traffic jams and long periods of time spent alone on the road. By contrast, employees who travel by train can spend time working or relaxing en route to the office, and employees participating in ride-sharing programs can chat with coworkers. In many areas, cars or vans with multiple passengers can drive in high occupancy vehicle lanes on the highway, making the commute quicker.

Solo drivers incur costs not only for themselves, but also for their employers. Providing adequate parking for employees can be very expensive, especially for companies in locations where land is expensive. The average annual per-space cost of parking is $600 for surface parking, $1,500 for parking structures, and $2,400 for underground parking, according to the government-sponsored Best Workplaces for Commuters program.

A company offering commuter benefits may subsidize the entire cost of alternative forms of transportation or share the cost with employees. The IRS permits employers to contribute up to $105 per month, tax free, toward employee transit or vanpool expenses; employees are allowed to have up to $105 per month deducted from their paychecks on a pre-tax basis to pay for transit or vanpools. Both employers

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and employees save on taxes, as neither pays FICA taxes on these benefits. Some states also provide tax credits to employers with commuter benefit programs.

For example, the annual cost to a Virginia employer for providing a typical employee with $105 a month in transit benefits amounts to $710.01 after state and federal tax savings are taken into account, according to Arlington Transportation Partners. Meanwhile, the after-tax value to the employee of these benefits was found to be $1,772.19.

Vanpooling is an ideal solution for bridging the gap between public transportation and the workplace. Vans can shuttle employees to and from train stations, bus stops, ferry terminals, and park-and-ride lots. Some companies may also set up a carpooling matching program, either internally or through an agency.

By installing bike racks, showers, and a locker room—or contracting with a nearby fitness club to use their facilities—employers can encourage employees to cycle or walk at least part of the way to work. Employees who struggle to find the time for a fitness routine may appreciate the option of combining commuting with exercising. Companies may also integrate these commuting options into existing wellness programs, offering employees incentives to burn their own fuel instead of spending money on gas.

Companies can further encourage employees to stop driving alone to work by implementing a parking cash out program, which offers cash incentives for giving up parking spaces. This approach can be especially useful for managing high parking demands. However, while up to $205 a month in parking expenses may be deducted from federal taxes, cash payments in lieu of parking are considered taxable compensation.

Employees will also spend less time and money commuting if they make fewer trips to the office. Compressed workweeks or regular telecommuting help employees reduce their commuting, and these schedules may also contribute to better work/life balance.

Some employees who would otherwise be interested in taking part in commuter programs may express reluctance about leaving their cars at home out of fear of being stranded due to unforeseen circumstances, such as unscheduled overtime, family emergencies, or a change in the weather. Employers can reassure these employees by setting up an "emergency rides home" program. If vehicles and drivers are not readily available when needed, companies can contract with a taxi operator to provide emergency rides at a discount.

Business owners who are uncertain about whether demand exists among their staff for commuter benefits can survey their employees about their preferences. Companies may want to set up an informational session in which various modes of commuter transportation are introduced and discussed. In addition to considerations related to cost and convenience, employees may be drawn to the broader benefits of driving less, including the opportunity to minimize their personal contributions to air pollution, traffic congestion, greenhouse gas emissions, and U.S. dependence on foreign oil.

Fewer Americans Planning For Long-Term Care

Americans are less concerned about the financial impact of long-term care (LTC) costs than they were roughly a decade ago, and they are less likely to plan for the possibility that they may require care, according to a survey of 1,000 people between the ages of 21 and 75 conducted by Greenwald & Associates for John Hancock Life Insurance Company.

While 57% of respondents in the 2006 survey said they are concerned about paying for LTC, this figure was down from 69% in a comparable 1997 survey. Results also showed that only 51% of respondents in 2006 expressed worry about ever needing LTC, down from 59% in 1997.

"Our survey suggests that Americans hold a number of alarming misconceptions about their potential need for long-term care," said Laura Moore, senior vice president, John Hancock Long-Term Care Insurance. "Their lack of worry and subsequent failure to plan for long-term care, despite understanding the financial impact it can have on people's lives, can lead to serious consequences in the future."

At the same time, however, the 2006 survey found that 64% of respondents believe they will live to age 85, compared with 61% in a 1998 survey; while 85% believe the cost of LTC could significantly reduce their retirement income and assets, compared with 76% in 1998.

When asked whether they have made arrangements for paying for LTC, 69% of 2006 respondents said they have done little or no planning, up from 58% in 1996 and 49% in 1997. In addition, 43% of those surveyed in 2006 admitted they have not planned at all, up from 34% in 1996 and 24% in 1997.

When asked how they would cover the cost of LTC without insurance, 43% of 2006 respondents said they would pay for it out of pocket, compared with 40% in 1997. Yet 46% of those surveyed in 2006 admitted they would not be able to afford even one year of LTC, up from 43% in 1997.

The 2006 survey also revealed declining confidence in Social Security, Medicare, and Medicaid as sources of LTC funding. Some 61% of 2006 respondents said they are not confident Social Security will be available when they retire, up from 53% in 1998; 62% expressed doubt that Medicaid will be available, compared with 55% in 1998; and 67% said they are not confident Medicare will be adequate to meet their needs, versus 61% in 1998. Even so, 47% of 2006 respondents said they believe they will be able to qualify for Medicaid coverage of LTC needs by transferring assets to family members, up from 45% in 1997.

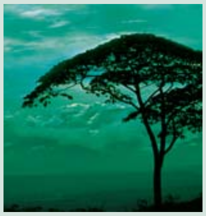
"Clearly, long-term care is difficult for Americans to think about—in fact, our survey suggests that they are in denial, taking a chance they won't need care or just ignoring the fact that they might," said Moore. "In the case of long-term care, ignorance is not bliss. We've found that planning for long-term care expenses can dramatically change the quality of care for those needing care and the quality of life for their families when a care situation arises. Once people take the first step in long-term care planning, they often find that it is not as overwhelming and cost-prohibitive as they had thought."

Adult Care Responsibilities Costly For Employers

Employees with adult caregiving responsibilities may be frequently absent from work or even leave their jobs, resulting in a productivity loss for employers that could be as high as $33.6 billion a year, according to a Metlife Mature Market Institute study.

Citing survey findings by the National Alliance for Caregiving and AARP, the study reported that more than 44 million Americans have adult caregiving responsibilities, and nearly 60% of these caregivers are working, the majority full-time. The 2004 survey showed that at least 60% of employed caregivers had made some work-related adjustments to accommodate their caregiving duties, with 10% reducing their hours from full-time to part-time. Among all caregivers surveyed, 9% left their jobs as a result of their responsibilities, 3% took early retirement, and 6% left work entirely.

The Metlife study calculated the costs of caregiving to employers, focusing on



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employees who provide more intense levels of care. This is defined as help for an average of 12 to 87 hours a week with at least two activities of daily living (ADLs), such as bathing, feeding, and toileting, and at least four instrumental activities of daily living (IADLs), such as shopping, transportation, and financial management. According to MetLife estimates, more than 2.8 million male and 4.2 million female full-time employees provide these intense levels of care for an adult. Using these numbers, researchers calculated the productivity costs to employers.

Assuming the average percentage of intense caregivers leaving the workplace on an annual basis is 2.4%, or 168,252 employees, and using a basis of 50% of median salary as the replacement cost, researchers estimated that the total annual cost to employers of replacing these employees exceeds $2.8 billion.

The study also looked at costs due to absenteeism and partial absenteeism. Based on estimates that 10% of male caregivers miss an average of 12 work days per year and 18% of female caregivers miss an average of 33 days a year, the estimated annual cost to employers of absenteeism as a result of caregiving responsibilities was found to be over $3.4 billion. Assuming that 58% of employed caregivers are absent an average of one hour a week because they have to leave work early or arrive late due to caregiving duties, and that 22% of these caregivers are unable to make up the time lost, the annual cost to employers of partial absenteeism exceeds $800 million.

Using similar assumptions, Metlife researchers calculated the annual costs to employers of other types of employee absences and disruptions due to intense adult caregiving responsibilities, including workday interruptions, eldercare crises, extra time spent supervising caregivers, unpaid leave, and the move from full-time to part-time work. Researchers concluded that the total annual cost to U.S. employers of lost productivity due to employees' intense caregiving responsibilities is $17.1 billion. After running the same calculations for all full-time employees with adult caregiving duties, not just those with more intense responsibilities, researchers determined that the total annual cost of lost productivity is $33.6 billion.

Researchers observed that, as life expectancy increases, more workers will be involved in caring for aging family members and friends. While around one-third of large employers nationwide have eldercare programs to help employees cope with these responsibilities, smaller to mid-size companies are less likely to have programs in place.

The study recommended that employers work together with employees and community organizations to develop programs and services for employed caregivers, including workplace benefits, such as flextime, telecommuting, and job-sharing; caregiver support programs, such as respite care and adult day services; employee and/or employer-funded long-term care insurance; and information, referral, and educational programs. Because the employees providing care are a heterogeneous population, researchers added, employers should focus on providing individualized care planning, information, and flexible work arrangements, as well as personal support from managers and supervisors.

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