

BENEFIT

Plan Trends



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President Obama Extends Overtime Pay Protections

On March 13, President Obama, signed a memorandum that directs the U.S. Department of Labor to expand overtime pay protections and streamline overtime rules so that many more salaried workers in lower-level supervisory and professional positions are eligible to receive time-and-a-half pay when they work more than 40 hours a week.

Under the so-called white-collar exemption in the Fair Labor Standards Act (FLSA), workers who are classified as executive, administrative, or professional employees can be denied overtime pay, or pay of at least 1.5 times their regular pay rate for hours worked in excess of 40 hours per week. To qualify for the exemption, the employees must have

job duties that meet specific tests, such as managerial or supervisory responsibilities or duties requiring

advanced knowledge or independent judgment. In addition, employers are currently prohibited from denying overtime pay to any salaried worker who makes less than \$455 per week.

The memorandum instructs Secretary of Labor Thomas E. Perez to update Federal regulations regarding who qualifies for overtime protection, and to consider how the rules could be revised to update existing protections in keeping with the intention of the FLSA. The new rules could, for example, require that workers perform a minimum percentage of executive duties before they can be exempted from qualifying for overtime pay protection.

The directive is expected to result in a significant increase in the earnings

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Dodd Consulting, LLC

One Landmark Square, 8th Floor, Stamford, CT 06901-2603

Phone: (203) 504-3633 Fax: (203) 504-3639

E-mail: info@doddconsulting.net

Website: www.doddcconsulting.net



“An exception that was originally meant for high-paid, white-collar employees now covers workers earning as little as \$23,660 a year.”

threshold, and a reduction in the number of workers who qualify for the white-collar exemption. The move to update the exemption will, however, be subject to the normal rulemaking process, which requires the Labor Department to formally propose a rule and offer the public an opportunity to comment before the final rule is issued.

According to White House officials, overtime rules that established the 40-hour workweek have eroded over the years, resulting in millions of salaried workers, such as convenience store managers or fast food shift supervisors, being left without the protections of overtime, and sometimes being paid less than the minimum wage when they work large numbers of extra hours. Officials noted that the current threshold of \$455 per week set in 2004 is below today’s poverty line for a worker supporting a family of four, and applies to only 12% of salaried workers. They also pointed out that states like New York and California have already set higher salary thresholds for exempting workers from overtime rules.

“Unfortunately, today, millions of Americans aren’t getting the extra pay they deserve. That’s because an exception that was originally meant for high-paid, white-collar employees now covers workers earning as little as \$23,660 a year,” Pres. Obama said during the signing ceremony. “So if you’re making \$23,000, typically, you’re not high in management. If your salary is even a dollar above the current threshold, you may not be guaranteed overtime. It doesn’t matter if what you do is mostly physical work like stocking shelves, it doesn’t matter if you’re working 50 or 60 or 70 hours a week—your employer doesn’t have to pay you a single extra dime. And I think that’s wrong.”

The expansion of overtime pay is the latest in a series of executive actions Pres. Obama has recently taken without seeking Congressional approval. Since the beginning of the year, he has ordered an increase in the minimum wage to \$10.10 for Federal contractors, and has directed the Treasury Department to create the

“myRA,” a new tax-advantaged retirement account aimed at workers who currently have little or no retirement savings.

A number of business groups have criticized the latest directive, saying an expansion of overtime pay will increase administrative burdens for businesses and could lead to job losses.

Long-Term Incentives Increasingly Tied To Performance

Although the use of stock options and other appreciation awards in executive compensation has declined in recent years, the growing popularity of performance-based awards, as well as increased diversification in the executive long-term incentive (LTI) mix, has more than offset this drop, the results published in March 2014 of an analysis of the LTI programs of large companies conducted by human resources consultancy Towers Watson have shown.

To gain insights into the changing landscape of LTI programs, researchers reviewed the characteristics of the LTI programs disclosed in proxy statements of Fortune 500 companies between 2011 and 2013. The analysis indicated that LTIs make up 65% of the average CEO’s total direct compensation, and appear to play a pivotal role in retaining executives and aligning their interests with those of shareholders and other stakeholders.

Among the most significant changes observed over the three-year period was an increase in performance-based awards: the percentage of companies granting performance plan awards rose from 60% to 67%, while the percentage of companies granting performance-based restricted stock increased from 23% to 26%. The analysis also found a continuing decline in stock option awards over the period: the percentage of companies granting stock options decreased from 67% to 61%.

Researchers further noted that there is an ongoing trend among the companies studied toward market alignment in performance metric selection, as total shareholder return (TSR) continued to be the most prevalent metric for performance plan awards, with a 45% prevalence in 2012.

In addition, the study found that the number of LTI vehicles that companies are granting has increased in recent years, and the mix of those awards has grown more diverse: between 2011 and 2013 the percentage of companies granting only one form of LTI award fell by more than three percentage points, to 17%; while the share of companies granting three forms of awards rose three percentage points, to 30% in 2012. Overall, the findings indicated that there were two noteworthy trends: movement toward more diversified LTI mixes consisting of multiple types of vehicles and movement toward LTI mixes that include performance-linked awards.

The results also showed that the design of restricted stock and stock option awards has remained fairly stable over the past several years. Among the companies granting option awards, 89% made grants that vested over three to four years, and the vast majority (91%) awarded options with ratable vesting schedules. The analysis further indicated that most option grants (77%) had a 10-year term, while the remainder granted option awards with shorter exercise periods, typically five or seven years.

Americans Face Challenges In Saving For The Future

Despite the recent upturn in the economy, large numbers of Americans continue to face significant challenges in accumulating enough savings to cover their long-term financial needs, according to the findings of a national survey released in February 2014. The survey interviewed 1,018 adults and assessed household savings

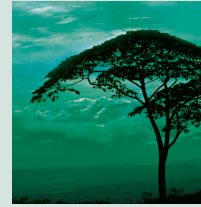
as part of the “America Saves Week” event, an annual event in which government, business, and nonprofit organizations at the local, state, and national levels work together to promote good savings behavior.

When asked if they were making progress in meeting their savings needs, only 35% said they were making good or excellent progress, while 63% indicated they were making only fair or no progress. However, even though only about one-third reported that they feel prepared for their long-term financial future, a much larger share said that they are at least paying their bills and saving a little: more than 68% indicated that they are spending less than their income and saving the difference; up from 65% in 2013, though down from 73% in 2010.

Nearly two-thirds (64%) said that they have sufficient emergency savings to pay for unexpected expenses, like car repairs or a doctor visit; and more than three-quarters (76%) reported that they either have no consumer debt or are in the process of reducing it. Researchers noted that these shares are similar to those found in last year’s survey but are lower than in 2010, when 71% said they had sufficient emergency savings, and 79% said they were reducing consumer debt or were consumer debt-free.

The results further indicated that the proportion of respondents who report they are building equity in their home or other property declined sharply from 68% in 2010 to 54% in 2014, and that the share of homeowners who expect to pay off their mortgage debt before they retire decreased from over 78% in 2010 to 68% in 2014.

The findings also uncovered some clear differences in savings behavior between lower middle-class Americans (\$25,000-\$50,000 annual household incomes) on the one hand, and middle- and upper middle-class Americans (\$50,000-\$100,000 annual household incomes) on the other: respondents in the former group were considerably less likely to report that they spend less than their income and



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save the difference, are debt-free or in the process of reducing their consumer debt, and have a sufficient emergency fund.

“The group hit the hardest by the Great Recession and its aftereffects have been moderate income households,” said Stephen Brobeck, executive director of the Consumer Federation of America. “The rest of the middle class was not damaged as severely, and lower income households were protected somewhat by the social safety net.”

Employers Remain Committed To Health Care Plans

While the cost of providing employer-sponsored health care plans is expected to increase slightly in 2014, most U.S. employers remain committed to providing health benefits to workers, but anticipate making some changes to their plans over the next few years, according to the results of an annual survey published in March 2014 by human resources consultancy Towers Watson and the National Business Group on Health (NBGH), an association of large employers.

The survey of 595 large U.S. employers between November 2013 and January 2014 found that employer costs are expected to reach \$9,560 per employee in 2014, up 4.4% from \$9,157 in 2013. Researchers noted that health cost increases fell to a 15-year low of 4.1% in 2013.

The results also showed that, in response to rising costs, employers are continuing to shift costs to employees: the employees' share of premiums was found to have increased nearly 7%, to \$2,975; while the total employee cost share rose to 37% in 2014 from 34.4% in 2011. According to the report, employees now pay over \$100 more each month for health care benefits than just three years ago.

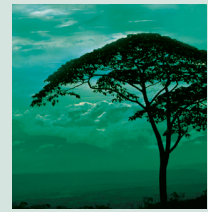
While the vast majority (95%) of the employers surveyed stated that subsidizing health care coverage for active employees is a very important part of their rewards package, almost as many (92%) said they expect to make moderate to significant changes to their programs by 2018.

The findings also indicated that employers are particularly focused on changing their contribution strategies for spouses and dependents: 49% of respondents said they have increased employee contributions for dependent tiers at higher rates than for individuals, and another 19% expect to do so next year. Moreover, 24% of the companies surveyed reported levying spousal surcharges of around \$100 per month if other coverage is available to the spouse.

When asked if they offer account-based health plans (ABHPs), nearly three-quarters said they currently offer these plans, with another 9% saying they expect to add one for the first time in 2015. Nearly 16% reported having adopted total-replacement ABHPs, up from 7% in 2012. Meanwhile, two-thirds believe that private health insurance exchanges will offer a viable alternative to employer-sponsored coverage for active employees as early as 2015.

“While private exchanges are proving to be an effective option for retiree health coverage, most employers are taking a wait-and-see approach to gauge whether these models can deliver greater value for their active employees than self-managed programs,” said Helen Darling, president and CEO of the National Business Group on Health.

The survey also found that 22% of the companies had adopted outcomes-based incentives (other than for tobacco), and that this figure could reach 46% by 2015. The findings further indicated that two-thirds use financial incentives to encourage participation in wellness activities, and 22% of those companies design these as penalties.



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