

The View from Level VII™

Who are the Level VII™ Companies?

This is the second issue of *The View* from Level VII™, a bi-monthly forum for valuable information and ideas from some of the top business and financial services professionals around.

This newsletter's contributors, the **Level VII™ Companies** is an *alliance of business professionals*, who have chosen to share some of their 150 years of experience and complement of talents in business, law, accounting, finance, insurance and investments.

Through *The View*, we are committed to educating our clients and community by bringing timely and accurate information on a variety of business and financial topics.

It is our hope that this broad yet incisive source of information, presented in a quick read format, becomes one that the business and professional community will pause to look at in their increasingly busy day.

For more information about us, topics from *The View*, as well as requests or recommendations, please contact us via our website: www.LevelVIICompanies.com. Thank you for your time and interest.

In this and/or future issues you will find short, yet meaningful articles on:

- **Human Resources** – HR Professional Consultants, Inc.
- **Risk Management** – ERMI (Enterprise Risk Management, Inc.)
- **Executive Compensation** – Harman & Associates
- **Executive Benefits** – Weir Financial Resources, LLC
- **Employee Benefits** – Benefits Advantage, Inc.
- **Benefits Administration** – ee-plan
- **Private Wealth Planning** – Weir Financial Resources, LLC
- **Business Succession** – Weir Financial Resources, LLC

Medical Benefits Strategies

We've received preliminary input from all 3 of our Western NY Medical Benefits carriers indicating that 2003 rates for their most popular fully insured programs will be approximately **20% higher** than 2002 rates. This follows the 20% increases that occurred in 2002. While no single approach is appropriate for every group, following are strategies that have helped our clients manage these rapidly rising costs:

- "Partnerships" with a single carrier to develop "high option - low option" programs
- Experience-rated or partially self-insured programs to take advantage of favorable group demographics
- Prescription drug benefits programs which take advantage of unique provider network and alternative funding options
- Alternative rate structures and employee contribution requirements that can be based on income and the number of covered dependents
- Proposals from national commercial carriers to take advantage of unique benefit designs and alternative funding options
- New benefit options for fully insured programs from our 3 local carriers that provide better value for employers and employees
- New benefit and funding options for retirees
- Flexible benefits programs that allow employees to direct dollars towards the benefits that best meet unique needs
- Voluntary benefits programs that meet unique employee needs without any additional employer funding

Benefits Advantage, Inc. provides consulting and insurance brokerage services for all types of employee benefits programs. Emphasizing *personal service, creative ideas, and positive results*, Benefits Advantage, Inc. has 30 years of industry experience working with clients.

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Workers Eligible For FMLA Protection

Shortly before completing his first year of employment at a medical center an employee left work for unspecified medical difficulties. At the time of his departure, the employee had accumulated two weeks of vacation time. The employer denied his request for leave under the Family and Medical Leave Act (FMLA), but did allow him to take a medical leave of absence.

When the employee reported for work after the leave ended, he was fired. The employer contended that the employee had left work 51 weeks after he took the job, one week shy of protection under the FMLA. The employee subsequently sued for wrongful termination.

On May 10, 2002 the U.S. District Court for the District of Maine ruled for the employee. (*Ruder v. Maine General Medical Center*, D. Me., No. 01-CV-220-B-S, 5/10/02). The court pointed to a DOL regulation stating: The 12 months an employee must be employed by the employer need not be consecutive months. If an employee is maintained on the payroll for any part of a week, including any periods of paid or unpaid leave (sick, vacation, etc.) during which other benefits or compensation are provided by the employer (e.g., workers compensation, group health plan benefits, etc.), the week counts as a week of employment.

Under the regulation, the court said, any time spent on vacation during the first year of employment counts toward the required year of employment. Exactly when within that first year the employee takes the vacation is irrelevant, the court said.

Knowing your rights and responsibilities as an employer and employee is crucial. We can help. **HR Professional Consultants, Inc.** offers human resource services and outsourcing for businesses of various sizes.

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Are Stock Options Dead?

With the recent media and government crescendos about obscenely high levels of dubious stock option payouts, the seeming answer to the title question would be a resounding YES!

What led to these payouts? Probably in the majority of cases the bull market of the 1990's, which was further exacerbated by stock option gains not linked to **real** company financial performance. Additional causes included:

- inflated results from such irregular actions as off-balance sheet financing, inadequate auditing, and extensive capitalization of expenses
- no regulatory requirement to expense option gains
- lax executive and Board of Director oversight

To recruit, retain and motivate senior executives some form of long term incentive plan (LTIP) is essential in the present era. Competitive pressures – by region, country and worldwide – are constant and increasing at an ever faster rate. Private companies cannot escape the need for LTIPs either. Closely held companies are increasingly hiring external executives to lead their firms to higher levels of financial performance (and the related strategic and business planning).

Stock options had become the most popular method of delivering LTIPs. LTIP designs which supplement basic retirement plans (with low contribution levels) also continue to proliferate quickly, particularly in the previously unattended smaller and medium sized companies. Knowing the LTIPs integral role in total compensation, it is no longer an issue of whether to have such plans, but how best to deliver them.

Now is the ideal time for public and private companies alike to introduce or revise sound, performance-based LTIPs. The present level of corporate valuations and stock prices is the lowest (and most realistic) its been in some years. And we believe the importance of LTIPs play in driving and achieving real increases in company valuation will continue to grow.

Stock options and stock-based plans are alive and well; they just need redesign. Is your company ready?

Harman & Associates with its fortune 500 background, has extensive national and international experience in executive compensation planning for private and public companies.

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105% of Income in Retirement?

If the decreasing retirement account values and wavering stock market were not enough to worry workers planning for retirement, new studies are coming out indicating that the traditional 70 percent of pre-retirement income will not be enough to maintain living standards in retirement.

Recent reports by industry and educational institutions including Watson Wyatt, AON and Georgia Sate University indicate that employees may actually need as much as 105 percent of pre-retirement income once factors such as rising medical costs, early retirement, extended mortality and inflation are accounted for.

Retirement age is the most significant factor in calculating retirement income. The 70 percent savings target is more accurate assuming retirement at age 65, but for many who are intending to retire earlier, income needs become much greater.

So too, are income needs greater for lower income workers as they will pay medical costs at the same levels as higher income workers. Another factor noted is changing retiree-spending habits, such as maintenance of transportation expenses at pre-retirement levels.

Furthermore, despite the tremendous amount of resources and tools now available, workers have tended to avoid determining their financial needs and desires. A 2001 Strong survey found that 53% of Americans have not calculated how much money they will need to save for their retirement.

As much as the increase in post-retirement income is alarming, this apathy toward proactively doing something about it is even more so. Think of it this way, out of the 100,000 hours one works to accumulate what their lifetime wealth isn't it worth spending a fraction of that time planning how to protect and enjoy this wealth.

Weir Financial Resources, LLC is a financial advisory firm offering information, advice and solutions in Executive Benefits, Business Succession and Private Wealth Planning.

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