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Control costs with defined-contribution health care plans

Rapidly rising health care costs and new federal insurance requirements may leave many managers scratching their heads at how to obtain quality insurance products at a reasonable cost. New defined-contribution insurance plans provide more coverage choices for employees, while setting fixed costs for employers. These insurance plans, much like the shift in retirement savings in the 1980s, are emerging as a promising alternative for manufacturers looking to add more predictability when it comes to health care costs.

Old concept, new twist

Until relatively recently, defined-benefit pension plans were the norm for employees, who received a set amount of money each week or month after they retired in exchange for their years of service. About 30 years ago, employers began migrating employees over to defined-contribution 401(k) plans, named after the section of the tax code where they're described. These now-standard retirement plans are individual accounts that invest the combined contributions of both employees and their employers and don't provide a guaranteed payment, or defined benefit.

The unpredictability of new health insurance requirements and the rising costs of health care are currently pushing many companies and providers to explore a similar model for health care. According to the consulting firm Mercer, nearly half of the 2,900 businesses interviewed in a recent survey reported that they're considering — or have already switched over to — a defined-contribution health care plan.

How it works

Under the Patient Protection and Affordable Care Act, most individuals must carry health insurance (or pay a penalty), many employers must provide health insurance coverage to their employees (or pay a penalty) and insurance companies must guarantee the issuance of their policies, eliminating pre-existing medical condition exclusions.

Defined-contribution health plans, through public or private exchanges, may offer 10 times as many options as the traditional health care plan method.

To help meet these new requirements, state-specific insurance exchanges will begin providing health care coverage on Jan. 1, 2014. The employees of many small businesses also are expected to participate in these state insurance marketplaces, as well as in private insurance exchanges that have emerged since the law's passage.

While these private exchanges are still in their infancy, and open enrollment for state-based exchanges isn't set to begin until late 2013, both are expected to work similarly to online travel sites such as KAYAK.com or Expedia.com, which allow a la carte offerings and side-by-side price comparisons.

Using a private insurance company, benefits provider or state-based exchange, employers set a monthly budget for their workforce and employees choose a plan that provides the best coverage for them and their families. The end result is that managers are spared the annual sticker shock when their insurance providers raise rates for their group coverage plans.

What they offer

Typically, even at large companies, employees under the traditional model have the option to choose from only a handful of insurance plans. Similar to the system used for federal workers, however, defined-contribution health plans through public or private exchanges may offer 10 times as many options. From high-deductible plans to those offering low copays, individuals choose plans based on their families' specific health care needs.

Online registration makes these programs easy to use for HR personnel and employees. In addition to limiting paperwork and controlling overall benefits costs, these plans also reduce the administrative burden of traditional health care plans, which require time-consuming annual enrollment periods.

For example, a die-casting plant in Rockford, Ill., has 27 full-time employees whose families are on the company's health insurance at an average cost to the company of roughly $10,000 per family. Those employees have a choice of two health plans, and costs increase an average of 15% per year.

In 2012, the company began working with a private exchange provider to set up a defined-contribution benefit plan set at $8,000 per family per year. Starting next year, employees will have an option of 16 plans and the company is expected to save about $50,000.

Upcoming PPACA deadlines for employers

Implementation of the Patient Protection and Affordable Care Act is spread out over a decade, which was designed to provide enough time for companies, federal officials, health care providers, employees and insurance companies to plan for the biggest changes to the nation's health care system in a generation.

But with so many changes inherent in the changeover, it can be difficult to keep track of all the deadlines. Here's a rundown of the major deadlines facing employers in the coming years:

- **Oct. 1, 2013:** Open enrollment period for individuals and small businesses begins for state-level health insurance exchanges.
- **Jan. 1, 2014:** State-level insurance exchanges become operational, tax credits for small businesses to offer health insurance take effect and new rules involving health care coverage waiting periods start.
- **Jan. 1, 2015:** Manufacturers and other companies that have more than 50 employees may pay a substantial fine if they don't offer their employees a certain level of health insurance coverage.
- **Jan. 1, 2018:** Companies must pay an additional tax on high-end health insurance plans that cost more than $10,200 per year for individuals and $27,500 for families.

Still evolving

Even though the pension model has been around for decades, defined-contribution plans are rapidly developing and the offerings are continuously changing. Check with your financial advisor today to learn what's available in your area and if these plans are right for your business. ■

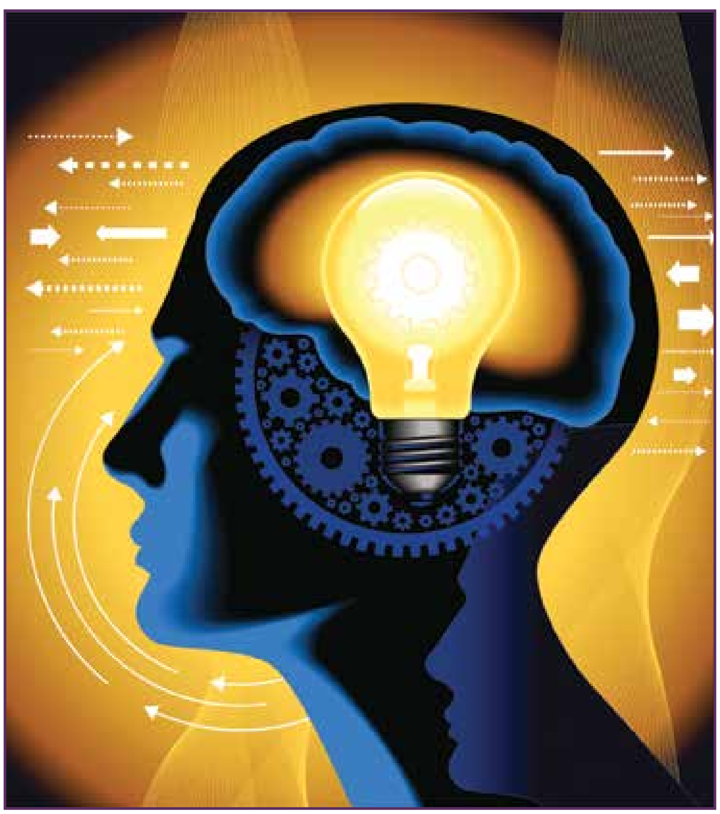
Knowledge is power

Competitive intelligence gives you a leg up on your rivals

You're constantly looking to best your competition, right? And your strategy to achieve this likely involves looking internally: What can you do to improve your products and services and, ultimately, attract new customers? But does your strategy also call for looking externally? If not, it should. Gathering competitive intelligence can help provide strategic insights into your rivals' future plans.

Gather data

Years ago, the notion of gathering detailed information on competitors may have been negatively referred to as "corporate espionage." Nowadays? Not so much. This is the information age, when companies have a strategic imperative to analyze every bit of data they can on what the competition is doing at all times.



Of course, "at all times" doesn't mean "at any cost." Competitive intelligence is the process of *legally* and *ethically* gathering data on competitors. And your purpose isn't to undercut what they're doing but to anticipate trends, compare best practices and target opportunities.

Before you dive into competitive intelligence, it's important to establish a formal policy governing your efforts.

Specifically, you need to stay apprised of your competitors' product and service lines, financial standing, and market position. You should also track whether the competition is expanding or contracting. Mergers, acquisitions or strategic alliances could mean you need to play defense, while closures or bankruptcy may mean it's time to go on the offensive.

Develop policy

Before you dive into competitive intelligence, it's important to establish a formal policy governing your efforts. (If you've already gotten started, perhaps slow down and integrate a policy going forward.) Generally, a competitive intelligence policy should be authentic. When gathering information, don't hide behind secret identities or misrepresent your affiliation. For instance, if you sign up to receive marketing e-mails from a competitor, use an official company address and, if asked, state "product or service evaluation" as the reason you're subscribing.

Your policy also must respect all formal agreements. In the course of gathering competitive intelligence, you or your employees may establish sources within the industry or even with a specific competitor. Be sure you don't encourage these sources, even inadvertently, to violate any standing confidentiality or noncompete agreements.

Because the technicalities of intellectual property law are complex, you must abide by all intellectual property rights and laws. It's not particularly difficult to run afoul of the rules unintentionally. When accessing or studying another company's products or services, proceed carefully and consult your attorney before putting any lessons learned into practice.

Finally, be sure to monitor consultants closely. When it comes to competitive intelligence, the Achilles' heel of many companies isn't their employees but outside consultants. If you engage third parties for any purpose, be sure they know and abide by your policy.

Use available resources

The Internet provides a good starting point for competitive intelligence. Begin with your competition's websites. You should know the ins and outs of their sites as well as you do your own. Look to relevant industry websites and blogs, too. And don't forget social media: Facebook, Twitter and LinkedIn. Also check out Hoovers.com for "comprehensive insight and analysis about the companies, industries and people that drive the economy."

The printed word is your friend, too. Assign one employee (or more) to keep tabs on national and local newspapers, industry publications and journals, and any other useful print sources. Your competitors' brochures, catalogs, press releases, annual reports and other collateral should be must-reads as well.

Bear in mind that, at its most basic level, competitive intelligence can simply involve talking. Encourage yourself and your employees to chat up virtually anyone who might hold a nugget of useful knowledge — customers and prospects, bankers, business contacts, and referral sources.

Verify and analyze data

Naturally, you have to do more than just gather data. You must be able to verify its accuracy, a critical component of competitive intelligence, and analyze it.

Ensuring accuracy comes down to quality sources and fact-checking anything of which you're uncertain. The task of analysis lies with you and your management team. Fortunately, there's software that can make the job much easier.

Tip playing field in your favor

In today's still-challenging economy, your business must use all available information to tip the playing field in your favor. Your competition, undoubtedly, is doing the same. Using competitive intelligence can help you learn what they're cooking up and determine if your plans hold their own. ■

Carbon tax 101

Understanding the potential effects of "cap and trade"

A recent National Association of Manufacturers (NAM) report, *Economic Outcomes of a U.S. Carbon Tax*, outlines the potential impact of long-debated federal revenue proposals that would increase costs for manufacturers and other large energy consumers in the United States.

Once a bipartisan idea that passed the U.S. House of Representatives in 2009, a carbon tax — also referred to as "cap and trade" — has been shelved since the recession took hold four years ago. An economic resurgence in the United States, however, is expected to breathe new life into the proposal, which would set the nation's carbon dioxide emissions at specific levels and force energy-dependent industries to pay extra for exceeding their allotment.

Reduced output and wages?

Compared with today's wages, NAM estimates that a carbon tax could reduce worker take-home pay by as much as 8.5% during the next 40 years because of increasing overall energy costs. This uptick, NAM claims, "would ripple through the economy and result in higher production costs and less spending on nonenergy goods." In this scenario, manufacturers and other large energy consumers in the United States would pay $20 per metric ton of carbon dioxide until 2018, with a 4% annual increase. In 2018, an open market would set prices for carbon dioxide credits with the goal of reducing pollution 80% in the United States by 2053.

Even though manufacturers and energy producers are expected to be the hardest hit under a carbon tax, other industries up and down the supply chain, too, may have to raise prices and reduce output.

Overall, NAM estimates that a carbon tax would reduce manufacturing output in the United States by as much as 15% in the coming decades. The report also paints a bleak picture for the wider U.S. economy if a carbon tax is signed into law. In addition to lowering economic activity in the United States, it would create inflationary pressure on consumers and give policymakers fewer options when it comes to reducing the deficit.

"A carbon tax would have a net negative effect on consumption, investment and jobs, resulting in lower federal revenues from taxes on capital and labor," the report states.

Supply chain affected

Even though manufacturers and energy producers are expected to be the hardest hit under a carbon tax, other industries up and down the supply chain, too, may have to raise prices and reduce output. NAM estimates that farmers would face a nearly 10% drop in production in the coming decades under a cap-and-trade system.

A carbon tax also would force transportation companies and commercial services firms to reduce output and raise prices, according to NAM. Trucking, rail and other nonpersonal transportation providers would lower production by an average of 1.5% per decade during the next 40 years, NAM estimates, while commercial services providers would reduce output by about 3% over the same period.

"Overall, the net impact of a carbon tax would be negative, as the adverse effects of the imposition of such a tax would outweigh any benefits, including the reduction of the deficit/debt and lower personal income tax rates," NAM concludes in its report.

Be prepared

Preparing for any changes to the tax code requires careful planning. And even though a carbon tax is still under debate, its potential effects on your company can be significant. It's wise to be proactive and discuss with your financial advisor today to see if a carbon tax would affect your plant's viability in the future. ■

New EPA rules may mean higher fuel costs

The Environmental Protection Agency (EPA) has moved to reduce sulfur levels in the air by upping emissions and gasoline standards. But according to some estimates, the new rules may mean almost a dime more per gallon of gasoline, an expensive proposition for distribution companies.

The rule changes, proposed in March and still under review by regulators as of this writing, would set reduced emissions levels for four separate categories starting in 2017: passenger cars, light-duty trucks, medium-duty passenger vehicles and heavy-duty vehicles.

The EPA estimates that the new standards will raise gasoline rates in the United States by one cent per gallon and $130 per vehicle. In addition, the EPA puts the overall price tag of the program for businesses and consumers at $3.4 billion by 2030.

The American Petroleum Institute (API) and other trade associations claim that the EPA is overstating its case. These groups argue that the regulators are vastly underestimating how expensive the new rules will be for businesses and consumers, while doing little to help the environment.

API cites outside research suggesting the cost of the new rules may increase the price of a gallon of gas by nine cents. Plus, the new rules would require $10 billion in additional investments to comply with the law, as well as an additional $2.4 billion per year on ongoing costs to meet the new requirements.

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As a manufacturer or distributor of goods, your profitability is subject to the ups and downs of the economy. Government regulations, collective bargaining and liability issues seem to be the only sure things in your industry. To have any chance of success you need excellent management, marketing, planning, analysis and internal controls. More than ever, managers in the manufacturing industry must keep a watchful eye on areas such as profit centers, tax considerations, and state and local regulations.

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