Innovations at Work

A Guide to Best Practices in Employee Benefits

What Your Company Can Learn From *The Principal® 10 Best Companies for Employee Financial Security*

WE UNDERSTAND WHAT YOU'RE WORKING FOR.®

Principal® Financial Group

"*The Principal 10 Best Companies* set a great standard for other small and medium-sized companies looking to improve their benefit structures," says David Wray, president of the Profit Sharing/401(k) Council of America (PSCA) and judge for *The Principal 10 Best Companies* – 2003 & 2004.

"Small to medium-sized companies drive this nation's economy. It's of great value to recognize these companies for demonstrating how to be successful by investing in their greatest asset, their employees."

– SUSAN BJORK, SPHR, human resources director for Lancet Software Development, Inc., winner *The Principal 10 Best Companies* – 2003 and judge for *The Principal 10 Best Companies* – 2004.

The Principal® 10 Best Companies *are selected by an independent blue ribbon panel of business and employee benefit experts (see page 21) for excellence in employee benefits that contribute to long-term financial security.*

THE PRINCIPAL 10 BEST COMPANIES FOR EMPLOYEE FINANCIAL SECURITY – 2004

American Society of Health-System Pharmacists
Bethesda, Md.

American Urological Association Education and Research, Inc.
Linthicum Heights, Md.

Clipper Belt Lacer Company
Grand Rapids, Mich.

Distilled Spirits Council of the United States, Inc.
Washington, D.C.

ELTECH Systems Corporation
Chardon, Ohio

First National Bank of Greencastle
Greencastle, Pa.

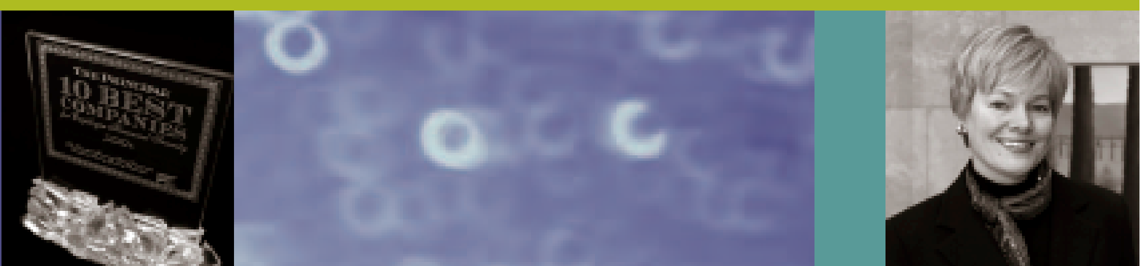
Leupold & Stevens, Inc.
Beaverton, Ore.

Pharmacists Mutual Insurance Company
Algona, Iowa

Rathbun Insurance Agency
Lansing, Mich.

USA Federal Credit Union
Auburn Hills, Mich.

Foreword



RENEE SCHAAF

DECISIONS, DECISIONS, DECISIONS

The 21st century workplace is a hotbed of choices and self-sufficiency. Today's employees are shouldering more responsibility for their benefits than ever before. They must help manage skyrocketing healthcare costs by sorting through complicated healthcare options. And they're charged with planning decades ahead—not to mention managing thousands of dollars in investments—so they can achieve a financially secure retirement.

In reality, however, **many employees are completely unprepared** to make these crucial decisions. As a result, many employers are faced with growing employee confusion, anxiety and inertia.

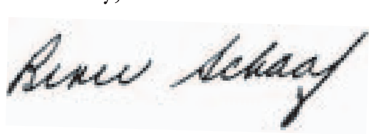
The Principal 10 Best Companies for Employee Financial Security have faced the same challenges. They have come up with benefit solutions that create a more loyal, more productive and more knowledgeable work force, which inevitably leads to greater customer satisfaction. And they've found ways to do it that don't break the bank. This guide highlights the **simple, inexpensive and impressively effective tactics** these outstanding companies have used to **help employees make informed decisions—and take control of their financial futures.**

INSIDE YOU'LL FIND:

- Interactive checklists to help you quickly review solutions to your own company's benefits challenges
- A chart to help you benchmark your benefits against *The Principal 10 Best* and your peers across the nation
- Detailed examples of the retirement, healthcare and employee communication best practices employed by our winning companies
- A look ahead at the next generation of healthcare and retirement benefit solutions

We thank our winners for sharing their experiences and proving once again that great benefits lead to great employees and ultimately, a great bottom line.

Sincerely,



Renee Schaaf
Vice President
Principal Financial Group

The Retirement Savings Challenge

We know of one employer that had a long-time employee come to Human Resources saying he wanted to retire despite only having $13,000 in his 401(k) account. That employee hadn't changed his retirement plan since he started working there and thought he had enough to retire!

With the widespread concern about long-term financial security, one would expect employees to be focused on planning ahead and saving for retirement. But they're not, and those who are don't want to do it themselves. According to The Principal Financial Well Being Index, Third Quarter 2004:

- **78 percent of workers say they are very concerned about their long-term financial future.**
- **45 percent of employees would prefer to have someone manage their retirement plan investments for them.**

This lack of savings is even more startling considering how pessimistic people are about their future standard of living:

- **The majority of workers (53 percent) expect their standard of living to decline in retirement. This is particularly true for employees who are nearing retirement. Two-thirds (66 percent) of employees over the age of 55 say their standard of living in retirement will decline.**

Clearly, there is a retirement savings quandary; some might even call it a crisis. Employees are looking for answers. Employers are searching for new ways to help their employees save for retirement.

Fortunately, *The Principal 10 Best Companies* have come up with ways to tackle head-on the retirement savings challenge. On the facing page, there is a checklist of helpful tips that *The Principal 10 Best* have implemented to improve the effectiveness of their retirement savings plans. The results: greater employee satisfaction about their benefits programs, greater employee financial security and greater morale in the workforce.

One out of four employees of small to medium-sized businesses has not yet planned for their retirement savings/security.

– The Principal Financial Well Being Index, Third Quarter 2004

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES, INC.

THE RETIREMENT SAVINGS CHECKLIST

Employees, especially younger ones, simply are not participating enough in their companies' 401(k) plans. Many who do sign up for their 401(k) plans when they are first eligible then demonstrate inertia, failing to rebalance, defer more or monitor their account balance.

The following are proven cost-effective strategies from *The Principal 10 Best* winners for overcoming employee confusion, anxiety and paralysis when it comes to retirement savings.

- ☐ Have you implemented automatic enrollment in your retirement plan? Instead of relying on employees to sign up for the plan, enroll them automatically upon hiring.
- ☐ Do you talk individually with employees who aren't saving enough? Visiting one-on-one with employees can help you identify—and overcome—each person's misconceptions about saving for retirement.
- ☐ Have you promoted catch-up contributions for workers age 50 and over? For 2005, workers age 50 and over are allowed to make an additional catch-up contribution of up to $4,000.
- ☐ Do you entice employees to increase their contributions by at least one percent per year? Giving a small gift—such as a phone card—to employees who boost their contributions has proven to be extremely effective for *The Principal 10 Best Companies*.
- ☐ Are you tailoring your communications for each age group? Younger employees, in particular, require different communication tactics. Use e-mail messages, PowerPoint presentations and Internet links to reach this group.
- ☐ Have you brought in a benefits representative or a certified financial planner? These trained professionals can meet with each employee to review his or her current retirement savings level, set savings goals and select an appropriate investment mix.
- ☐ Does your retirement plan include "life cycle" funds? These investment options give employees easy access to a professionally managed investment portfolio—usually tailored to their retirement date.

Fresh Thinking on Employee Healthcare

I keep reading how healthcare costs across the country are becoming unmanageable. We can definitely relate—we simply cannot continue to support these double-digit increases.

How many times do employers say that to themselves? They're not the only ones seeing the cold hard numbers rise year after year. Everyone knows that the national problem of continually rising healthcare costs isn't going away. If employers are worried about providing affordable healthcare, their employees are doubly worried:

- **Over 75 percent of working Americans would prefer $6,200 in employer-provided health insurance rather than the identical amount in pay.**

  – 2004 Health Confidence Survey, Employee Benefit Research Institute (EBRI) and Mathew Greenwald and Associates, Inc.

Rising healthcare costs have begun to affect employers' bottom lines, and employees' wallets. According to Employee Benefit Research Institute's (EBRI) 2004 Health Confidence Survey, employees with coverage are twice as likely to accept lower pay for more health benefits, rather than the reverse. Furthermore:

- **25 percent of workers say they have reduced retirement savings contributions because of growing medical bills.**

  – 2004 Health Confidence Survey, Employee Benefit Research Institute (EBRI) and Mathew Greenwald and Associates, Inc.

In this challenging environment, *The Principal 10 Best Companies* have figured out how to provide their employees affordable and competitive healthcare options without hurting the bottom line. Just like most small and medium-sized businesses, *The Principal 10 Best Companies* struggle to maintain benefits in an environment of double-digit cost increases. But they've implemented a variety of inventive tactics —many of which center around employee wellness and prescription drug coverage— to help them keep costs down while not sacrificing quality. In the following checklist, *The Principal 10 Best Companies* list plenty of valuable solutions for other growing businesses attempting to make healthcare less of a burden.

Over 75 percent of working Americans would prefer $6,200 in **employer-provided health insurance** rather than the identical amount in pay.

– 2004 Health Confidence Survey, Employee Benefit Research Institute (EBRI) and Mathew Greenwald and Associates, Inc.

FIRST NATIONAL BANK OF GREENCASTLE

THE HEALTHCARE CHECKLIST

There are a number of new approaches (see page 8) to help address the healthcare problem and likely more to come. But it's clear that with these changes comes more responsibility for the employee regarding how to use the system. *The Principal 10 Best Companies* have used some of these new real world tactics to improve their employees' experience with their healthcare benefits.

Review this checklist to find solutions to your own company's benefits challenges.

- ☐ Does your medical insurance cover preventive care? Increasing benefits to cover more preventive care can actually help cut costs in the long run.
- ☐ Do you offer on-site health screenings? Thorough health screenings can help identify previously undetected health problems early—before they reach crisis proportions.
- ☐ Will your medical insurance carrier encourage and assist you with wellness initiatives? Comprehensive wellness programs have been proven to cut healthcare costs. Ask if your carrier offers a wellness program.
- ☐ Do you work with your insurance carrier to cut costs? Your carrier wants to keep your business. Ask them to conduct a policy review to help identify ways in which you can cut costs.
- ☐ Have you adopted innovative approaches to prescription drugs? Studies have shown that implementing a three-tier program—with at least a $15 differential between tiers—does motivate employees to choose generic over brand name prescription drugs. Other innovations include prior authorization to ensure drugs are administered appropriately and step therapy, which requires certain medications be used as a first line of treatment before other, more expensive products.
- ☐ Are you using standard policy language? Non-standard policy options can cost more than you think. Stick with standard contracts.
- ☐ Are you engaging employees about the growing popularity of consumer driven healthcare, particularly health savings accounts (HSAs)? A survey by the Employee Benefits Research Institute showed that interest is emerging in HSAs, which are the newest way owners of growing businesses can provide healthcare coverage and provide the opportunity for employees to participate in the decisions made about their health and healthcare.

Knowing How Good They've Got it

We're spending a ton of money on our benefits, yet employees don't seem to appreciate them. How can we make them understand the value of what they receive?

Good benefits programs that are valued by employees result in increased shareholder value, better customer service and lower employee turnover. But good benefits programs come at a cost. That makes it even doubly frustrating for employers when their employees don't fully appreciate the benefits they receive, or when they view benefits as an entitlement. Often, employees do not appreciate the benefits they receive simply due to a lack of awareness about the contributions the company makes on their behalf.

- **More than 70 percent of employees agree that good benefits encourage them to work harder and perform better.**

– The Principal Financial Well Being Index, Third Quarter 2004

That makes an even stronger case for communicating the value of benefits programs. If employees don't appreciate nor understand their benefits, they're less likely to make the extra effort for their companies when the need is greatest.

The Principal 10 Best Companies use several innovative approaches—along with many tried-and-true methods. They suggest that employers ask themselves the questions listed below to make sure their employees understand, use and appreciate their benefits.

EMPLOYEE COMMUNICATION & EDUCATION CHECKLIST

- ☐ First, are you really accommodating your employees' benefits needs, and doing so as cost-effectively as possible? Take note of employees' reactions to benefits, and try to modify programs to meet their needs, cost effectively.
- ☐ Do you communicate with employees year-round? As the old adage goes, "Tell them. Then tell them again and again and again."
- ☐ Are you limiting the size of benefits meetings? People are more comfortable asking questions in small groups as opposed to all-employee meetings.
- ☐ Have you shown employees the numbers? Consider distributing a total compensation statement annually, to each employee, to show how much you spend on benefits. That will really drive home the message about how much they're really being compensated.

Comparing to The Principal® 10 Best Companies

Growing companies and their advisors can use the following guide to see how they stack up to *The Principal 10 Best Companies* and companies across the nation.

Benefits that Contribute to Employee Financial Security	Your Firm's Offerings	The Principal 10 Best (15-508 Employees)	National Averages By Number of Employees (ees)		
Percent of firms offering employees Health Benefits		100%	63%[3] (20-99 ees)	99%[3] (200+ ees)	
Percent of employees who participate in their employer health plan		92%	80%[3] (3-199 ees)	83%[3] (200-999 ees)	
Single premiums paid by firms for covered employees		94%	86.2%[1] (10-24 ees)	82%[1] (25-99 ees)	81.5%[1] (100-199 ees)
Family premiums paid by firms for covered employees		80%	73.6%[1] (10-24 ees)	68.7%[1] (25-99 ees)	73.6%[1] (100-999 ees)
Percent of firms offering employees Group Life Insurance		100%	78%[2]* (20-99 ees)	94%[2]* (100-499 ees)	98%[2]* (500-999 ees)
Percent of firms offering a 401(k) Plan		80%	21%[5] (2-99 ees)	46.6%[5] (100-499 ees)	83.1%[5] (500-999 ees)
Participation rate		93%	79.1%[4] (1-49 ees)	79.7%[4] (50-199 ees)	76.1%[4] (200-999 ees)
Average employee deferral H = Higher Paid Employees L = Lower Paid Employees		8%	H = 7% L = 6%[4] (1-49 ees)	H = 6.4% L = 5.3%[4] (50-199 ees)	H = 6.3% L = 5%[4] (200-999 ees)
Match formula		100% offer match, with various formulas	50% up to 6% of pay[4]		
Percent of firms offering Profit Sharing Plan		50%	16%[2]* (2-99 ees)	Not Available	
Percent of firms offering Defined Benefit Plan		70%	9%[6] (1-99 ees)	34%[6] (100+ ees)	
Percent of firms offering Retirement Plan for part-time employees		60%	24%[6] (1+ ees)		
Percent of firms offering employees Short-Term Disability Insurance		90%	41%[2]* (20-99 ees)	61%[2]* (100-499 ees)	65%[2]* (500-999 ees)
Percent of firms offering employees Long-Term Disability Insurance		90%	45%[2]* (20-99 ees)	73%[2]* (100-499 ees)	86%[2]* (500-999 ees)
Percent of firms offering employees Accidental Death & Dismemberment Insurance		100%	58%[2]* (20-99 ees)	86%[2]* (100-499 ees)	91%[2]* (500-999 ees)
Percent of firms offering employees Long Term Care Insurance		60%	7%[2]* (10-99 ees)	9%[2]* (100-499 ees)	17%[4]* (500-999 ees)
Percent of firms offering employees Flexible Spending Accounts (FSAs)		90%	21%[8] Healthcare FSA, 22%[8] Dependent Care FSA (10+ ees)		80%[7] (500+ ees)

1. Agency for Healthcare Research & Quality; *Medical Expenditure Panel Survey, 2002* http://www.meps.ahcpr.gov/MEPSDATA/ic/2002/Tables_I/TIC3.htm
2. LIMRA MarketTrends; 2004 *Trends in the United States* *U.S. Small Businesses in 2000
3. The Kaiser Family Foundation and Health Research & Education Trust; *Employer Health Benefits 2004 Annual Survey* http://www.kff.org/insurance/7148/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=46288
4. Profit Sharing Council of America; *47th Annual Survey of Profit Sharing and 401(k) Plans reports* on the 2003 plan year experience of 1,161 profit sharing and 401(k) plans
5. Spectrem Group study, 2003
6. Bureau of Labor Statistics; *National Compensation Study: Employee Benefits in Private Industry*, March 2003
7. Employee Benefit Research Institute EBRI Issue Brief No. 273; Mercer Human Resources Consulting, 2004
8. Employee Benefit Research Institute Facts from EBRI; Mercer Human Resources Consulting, 2002

Meeting the Healthcare Benefits Challenge

Each of *The Principal 10 Best Companies* is extremely troubled about the rising cost of healthcare. “It’s getting tougher and tougher to keep the package,” worries Clyde Schock, senior vice president and CFO at ELTECH Systems Corporation. “We can’t afford these 15 to 20 percent annual increases in our medical costs. It greatly concerns us.”

Taming these cost increases will require great efforts on the part of employers and employees. *The Principal 10 Best Companies* use the following tactics to maintain benefits while enlisting employees’ help in the struggle to control costs.

- **Educate employees on misused benefit features.** Determine areas in which employees may not be using benefits most appropriately. Then create targeted communications to address the problems. “We’ve had meetings on generic versus brand-name drugs and on using emergency room visits wisely. We try to target areas in which employees may not be using benefits in the most economical manner,” explains Bob McCrary, human resources manager at ELTECH Systems.
- **Make it easy for employees to exercise.** Four years ago, Clipper Belt Lacer Company transformed a space set aside for smoking into a fitness area. The result has been some dramatic improvements in employees’ health—as well as a reduction in healthcare expenses—which Clipper Belt Lacer is sharing with employees. “Our goal this year is to reduce the charge to the employee for dependent health coverage when the employee participates in our wellness plan,” says Nancy Ayres, the company’s general manager. “We have the added benefit of good attendance and healthier people, even though we have an aging population.”
- **Pay employees to live healthier lifestyles.** Clipper Belt Lacer Company pays employees $500 if they stop smoking for 12 months. Employees can also earn $500 by meeting strict physical fitness guidelines.
- **Help pay for preventive care.** The American Urological Association recently increased their wellness benefits to cover more preventive care. Catching health problems early can drastically reduce costs in the long term.
- **Offer on-site health screenings.** Pharmacists Mutual Insurance Company has offered on-site health screenings for more than 16 years. “On occasion, an individual has been sent immediately to a hospital or doctor due to high blood pressure. We have detected diabetes that people were unaware of. Obviously the early detection has helped with saving some costs,” explains Marilyn Deal, the company’s vice president of human resources.

75 percent of **healthcare dollars** are **spent** on **diseases** caused by unhealthy **lifestyles**.

– Fries JF, Koop CE, Soklov J, Beadle CE, and Wright D. Beyond health promotion: Reducing need and demand for medical care. Health Affairs, 1998.

LEUPOLD & STEVENS, INC.

ELTECH SYSTEMS CORPORATION

- **Make sure employees share in some of the costs.** "The 100 percent-paid plan isn't a wise thing to do anymore," Ayres believes. "Employees never get a bill of any sort. They never see how much things cost. That's why we went to the 90/10 plan, and that's how we explained it to employees. It's important that they see that healthcare costs money."
- **Partner with carriers.** The American Urological Association initially received a 25 percent increase from its medical insurance carrier last year. Terri Spriggs, the organization's human resources manager, worked proactively with the carrier to make plan changes. Thanks to that tactic, the American Urological Association ended up with just a three percent cost increase.
- **Offer a flexible spending account.** Flexible spending accounts (FSAs) are a tax-advantaged way to help employees deal with rising healthcare costs. USA Federal Credit Union recently increased the medical portion of its FSA. "We increased it from $2,500 to $3,900, realizing there will be additional costs for employees," says Tom Alter, executive vice president and chief administration officer.
- **Look into carrier-sponsored wellness programs.** Clipper Belt Lacer Company's healthcare provider offered the company a one percent price break for implementing a wellness program. "Out of our 80 employees, 75 signed up for it. We're confident this will have an impact," Ayres says.
- **Initiate ongoing communication with insurance carriers.** Don't wait until renewal time to think about your company's medical insurance costs. "We're aware that we are in an environment of increasing costs and unknowns, so we keep in constant contact with our insurance carriers and start conversations earlier," says Mark Campobello, associate executive director of finance and organizational services at the American Urological Association.

Meeting the Retirement Savings Challenge

It's virtually impossible for employees to achieve long-term financial security without the help of an employer-sponsored retirement plan. That's why retirement plans are such powerful tools for employers who want to attract, motivate and retain the best employees.

To make sure employees get the most out of these valuable benefits, *The Principal 10 Best Companies* use the following practices.

- **Offer a match.** Each of *The Principal 10 Best Companies* offers an employer matching contribution—a major factor in the success of these plans and a real boost to employees' financial security. "We feel that our 100 percent match (up to 5 percent) is among industry leaders and that is supported by the almost unanimous participation in our plan," says Jim Kucinski, vice president of Human Resources, USA Federal Credit Union. The company matches 100 percent of the first five percent of employees' pay; and their participation rate is an impressive 97 percent.
- **Use the "1% Challenge℠."** Challenge employees to increase their deferrals by at least one percent. Several of *The Principal 10 Best Companies* have had resounding success with this approach. At ELTECH Systems, 23 percent of employees increased their deferrals by one percent or more as a result of the company's "1% Challenge" campaign. The American Urological Association saw 25 percent of employees increase deferrals after using the same tactic.
- **Encourage new hires.** Allow new employees to participate in the retirement plan immediately. "We added a dual choice for our 401(k) plan. New hires participate right away without the match. The match starts after one year. We've really had good success with that in participation and as a recruiting tool," says Tina Marie Wohlfield, human resources administrator, USA Federal Credit Union.
- **Talk individually with employees who aren't saving enough.** "We go out one-on-one and talk with employees who are not fully capitalizing on what's offered to them. If you talk one-on-one, you can get them to participate more," says Nancy Ayres, general manager of Clipper Belt Lacer Company.
- **Make extra efforts with young employees.** Encouraging young employees to join retirement plans can be a challenge. Marilyn Deal, vice president of human resources at Pharmacists Mutual Insurance Company, recommends this low-tech approach. "We do find it somewhat hard to get younger employees to participate, but with one-on-one counseling sessions and word of mouth between employees, we've definitely seen more participation," she says.

23 percent of employees at ELTECH Systems increased their deferrals by one percent or more as a result of the "1% Challenge℠"

USA FEDERAL CREDIT UNION

- **Help older employees catch up.** Leupold and Stevens, like several of this year's winners, added a catch-up provision to their 401(k) plan so that employees age 50 and older could contribute an additional $3,000 to the plan this year.
- **"Plant" employees to talk about the plan.** One of this year's winning companies "plants" employees of different ages to talk up the retirement plans during employee meetings "Sometimes it's easier to hear from one of your peers," a company official explains.
- **Bring in a financial expert.** Distilled Spirits Council of United States used a financial planner to encourage 401(k) participation. "He did illustrations showing what would happen to employees' paychecks if they increased their deferral and what they would have at retirement that they wouldn't otherwise," Gooding explains. "About 25 percent of our staff raised their elective contribution as a result."

100 percent of The Principal 10 Best Companies offer two retirement plans. 40 percent offer three retirement plans.

Meeting the Employee Education Challenge

It's no coincidence that companies with top-notch employee communication and education programs reap the greatest return on their investments in employee benefits. *The Principal 10 Best Companies for Employee Financial Security* use several innovative approaches—along with many tried-and-true methods—to make sure their employees understand, use and appreciate their benefits.

- **Be persistent.** Benefits education isn't a one-time event. Employees need to be reminded regularly about the advantages of their benefits program. "When I report annually on how much the Society has invested in terms of cash contributions, staff members tend to be amazed and gratified by ASHP's generosity," says Henri R. Manasse Jr., Ph.D., Sc.D., ASHP's, executive vice president and CEO.
- **Use a variety of communication methods.** *The Principal 10 Best Companies* employ one-on-one conversations, payroll stuffers, e-mails, newsletters and posters, to remind employees about important benefits opportunities, changes, deadlines and more.
- **One-on-one works best.** If it's at all feasible, talk with each employee individually—especially new hires. "One-on-one is the most effective way to communicate," says Scott Lloyd, vice president human resources. "It makes people feel that you care about them, and you can read their body language to see if they're grasping what you're telling them."
- **Small group meetings are also effective.** If communicating one-on-one isn't possible, limit the number of employees in benefit meetings. As Terri Spriggs, human resources manager at the American Urological Association, explains, "We've found that people are more comfortable speaking in small groups. It's less intimidating to ask a question."
- **Tailor communication methods for different age groups.** "You need different types and styles and content of information based on age," explains Dr. Henri R. Manasse Jr., executive vice president and CEO of the American Society of Health-System Pharmacists. "Younger employees expect things to be delivered differently. They're not just going to sit and listen to a 50-minute lecture." Consider using electronic communication tools, such as e-mail messages and PowerPoint presentations, to reach younger employees.
- **Let them know what you're up against.** "Before our health insurance renewed, we had meetings to explain to employees what changes will be made and why," says Nancy Ayres, general manager at Clipper Belt Lacer Company. "The 'why' is every bit as important as the 'what.' If we have to change something, they may not like it, but they do understand why."

"You need different types and styles and content of information based on age."

– Dr. Henri R. Manasse Jr., executive vice president and CEO, American Society of Health-System Pharmacists

AMERICAN UROLOGICAL ASSOCIATION EDUCATION AND RESEARCH, INC.

- **Give out "benefit bucks."** To educate employees on the cost and value of benefits, Pharmacists Mutual Insurance Company gave out "benefit bucks" in an employee seminar. "We gave out several thousand fake dollars and had employees use that money to pay, post-tax, for their benefits. They ended up owing, and they were very surprised. It really changed some attitudes," explains Marilyn Deal, the company's vice president of human resources.
- **Write materials at an eighth grade level.** Studies have shown that the average person reads at an eighth-grade level. Pharmacists Mutual Insurance Company found this approach to be highly effective in its benefits materials. Most word processing programs have readability features that will evaluate the grade level of text.
- **Distribute an annual pay and benefits statement.** "Employees are given a copy of their annual individual salary and benefits statement, which shows specifically what the company pays for their benefits. Employees are very often astonished," says Ruth Ross, risk management supervisor, Leupold & Stevens, Inc.
- **Lay it all out for them.** Each quarter, The Rathbun Agency takes the unusual—but effective—step of showing all 16 employees the company's entire financial statement. According to John Keel, the company's president, this helps employees appreciate the value of the company's benefits program. "You've got to make employees a part of the business," stresses Keel.

"The 'why' is every bit as important as the 'what.'"

– Nancy Ayres, general manager, Clipper Belt Lacer Company

A Forward Look at Healthcare: Help is on the Way

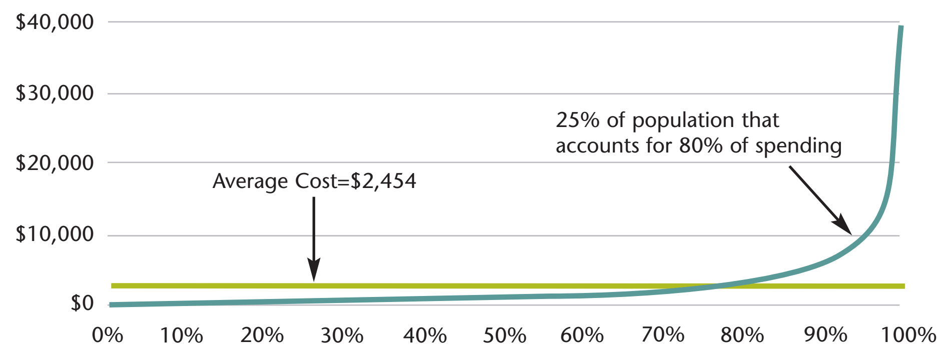
You know the bad news—double-digit increases in the cost of healthcare, with no end in sight. Like most companies across the nation, The Principal 10 Best Companies *cite skyrocketing healthcare costs as their number one benefits concern. Now for the good news.*

The next generation of healthcare solutions shows significant promise in helping to control costs. Industry experts predict that two approaches in particular-health savings accounts and employee wellness programs—will be implemented by leading companies in the coming months and years.

HEALTH SAVINGS ACCOUNTS (HSAS)

HSAs—along with health reimbursement accounts (HRAs), flexible spending accounts (FSAs) and medical savings accounts (MSAs)—are consumer-driven healthcare options that allow employees to set aside money for healthcare expenses on a tax-favored basis. (See the accompanying table for an at-a-glance comparison of these four healthcare options.)

DISTRIBUTION OF HEALTH SPENDING
adults ages 18-64, 2001



Source: Employee Benefit Research Institute estimates from the 2001 Medical Expenditure Panel Survey.

40-50 percent of adults are at high risk of chronic health conditions.

– J.F. Molloy, 2003

PHARMACISTS MUTUAL INSURANCE COMPANY

How HSAs work

Money can go in on a tax-free basis and accumulate on a tax-free basis. When an employee uses the money to pay for a qualified medical expense, the money comes out on a tax-free basis.

There is no use-it-or-lose-it rule associated with HSAs, as there is with FSAs. The money is portable if an employee leaves a job or changes insurance companies. However, in order to make tax-free contributions to an HSA, an individual must be covered by a health plan that has an annual deductible of not less than $1,000 for self-only coverage and $2,000 for family coverage.

How HSAs can help you control healthcare costs

“HSAs reduce premiums by requiring a high-deductible plan, which brings down the cost of insurance,” explains Paul Fronstin, senior research associate at the Employee Benefit Research Institute. “That’s where employers save money. Employers then have the option of taking the premium savings and recycling that money into an HSA.” HSAs may also help reduce costs by making employees more astute healthcare consumers.

Diabetes costs the United States $98 billion per year.

– National Diabetes Clearinghouse

EMPLOYEE WELLNESS PROGRAMS

America is in the midst of an obesity epidemic, which has in turn made diseases like diabetes more commonplace. Employers are now exploring ways to introduce wellness programs to combat their employees' bulging waistlines. "Wellness is something employers need to look at—along with disease management," advises Fronstin. "Employers have to approach healthcare costs on both tracks. You want to take care of the 20 percent of the population that accounts for 80 percent of healthcare spending. Also, you don't want that 80 percent to become part of the 20 percent."

What defines a "wellness program?"

True employee wellness programs go beyond health fairs, nurse lines and even fitness facilities. According to the National Wellness Institute, "Wellness is an active process of becoming aware of, and making choices toward, a more successful existence."

A comprehensive wellness program should include:

- Regular health screenings (evaluating blood sugar and cholesterol levels, body composition, blood pressure, heart rate, etc.)
- Direct intervention for employees with high-risk health conditions (disease management)
- Ongoing wellness education and promotion for all employees
- Thorough measurement of the program's results

64 percent of adults in America age 20 and older are overweight. In the year 2000 alone, the total cost of obesity in the United States was estimated at $117 billion.

– Centers for Disease Control

"Our goal team's **recommendation** was to work toward the health savings account with **a higher deductible** health plan next year."

– Marilyn Deal, vice president of human resources, Pharmacists Mutual Insurance Company

RATHBUN INSURANCE AGENCY

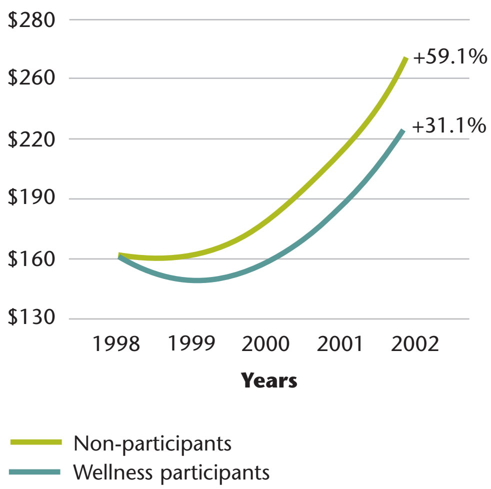
CLIPPER BELT LACER COMPANY

How employee wellness can help you control healthcare costs

The advantage of wellness programs to employers is simple—healthier employees mean reduced claim activity and reduced absenteeism. Several studies have documented the cost benefits of wellness programs. The graph below, for example, shows a significantly lower medical claims trend for wellness program participants over a four-year period.

Clipper Belt Lacer Company, one of this year's winners, gives two clear examples of cost savings due to its wellness efforts. "One employee, who was on blood pressure medication, started working out regularly here. After six months, he was able to get off the medication. Another employee was on a cholesterol-lowering medication. After exercising more regularly, he too was able to stop using the medication," says Nancy Ayres, the company's general manager.

MEDICAL TREND STUDY
EMPLOYEE MONTHLY CLAIMS



Study comparing claims of Molloy Wellness participants with 3 or more health screenings to non-screened individuals.

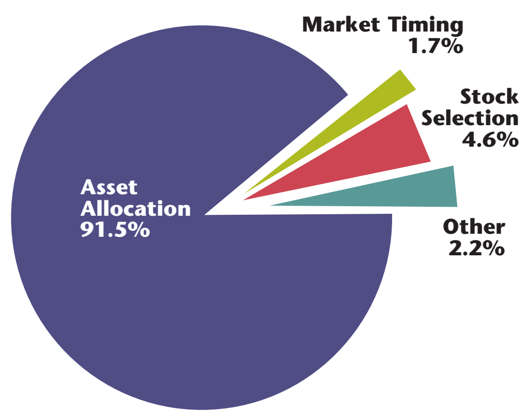
A Forward Look at Retirement Benefits: the "Do it for Me" Trend

Employees' attitudes toward investing for retirement have changed dramatically over the past several years. "Before 2000, employees told employers, 'Give me more investment choices.' Now employees are saying, 'Help me. I don't want to do this.' This is a drastic change in the workplace," says David Wray, president of the Profit Sharing/401(k) Council of America and a member of the judging panel for *The Principal 10 Best Companies for Employee Financial Security*.

"We are now moving toward a situation in which employees are still empowered but with greater paternalism in the form of managed accounts, automatic enrollment and more passive solutions," Wray continues. "When offered, passive solutions relieve employees' stress and increase participation by five percent."

Passive solutions can also have a significant impact on employees' financial security at retirement. More than 90 percent of the total return variation of a portfolio is determined by asset allocation decisions. In contrast, stock selection and market timing decisions account for less than seven percent of the variation. As a result, employees who lack the knowledge to select an appropriate investment mix will likely face considerably lower returns over time and, ultimately, a much smaller nest egg at retirement.

THE IMPACT OF VARIOUS FACTORS ON YOUR INVESTMENT RESULTS



Source: Financial Analysis Journal, May/June 1991
Study results confirmed, April 1999.

47 percent of U.S. workers agree they would enroll in a program that automatically increases their 401(k) deferral rate an additional one percent each year.

– The Principal Financial Well Being Index, Third Quarter 2004

AMERICAN SOCIETY OF HEALTH-SYSTEM PHARMACISTS

"The requirement to make asset allocation decisions is so intimidating that many people do nothing," Wray agrees. "Easy is absolutely better. Down the road we will see lots of passive solutions such as automatic contribution increase options, automatic rebalancing, managed accounts and all-or-nothing life stage funds."

"The idea that we would have employee responsibility with a capital 'R' was a 1980s concept," Wray concludes. "The new concept is employee responsibility with a small 'r.' Employees will not be expected to do it on their own."

"Professional management and professional advice are different. Professional management is pure 'you do it for me,' where professional advice is what employees do themselves with guidance from an advisor. Most employees now want 'do-it-for-me.' "

– David Wray, president, Profit Sharing/401(k) Council of America

The Principal® 10 Best Companies for Employee Finan

2004 WINNERS

AMERICAN SOCIETY OF HEALTH-SYSTEM PHARMACISTS
Location: *Bethesda, Md.*
Type of business: *Professional membership association for pharmacists who work in hospitals and health systems*
Number of employees: *199*
Web site: *www.ashp.org*

AMERICAN UROLOGICAL ASSOCIATION EDUCATION AND RESEARCH, INC.
Location: *Linthicum Heights, Md.*
Type of business: *Professional membership association for urologists*
Number of employees: *101*
Web site: *www.auanet.org*

CLIPPER BELT LACER COMPANY
Location: *Grand Rapids, Mich.*
Type of business: *Manufacturer of maintenance products for conveyor belts. Acquired by Flexco in 1995.*
Number of employees: *80*
Web site: *www.flexco.com*

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES, INC.
Location: *Washington, D.C.*
Type of business: *National trade association representing producers and marketers of distilled spirits sold in the United States*
Number of employees: *50*
Web site: *www.discus.org*

ELTECH SYSTEMS CORPORATION
Location: *Chardon, Ohio*
Type of business: *Provides a wide range of products, technology and services to the electrochemical industry*
Number of employees: *180*
Web site: *www.eltechsystems.com*

FIRST NATIONAL BANK OF GREENCASTLE
Location: *Greencastle, Pa.*
Type of business: *Locally owned community bank*
Number of employees: *112*
Web site: *www.fnbgc.com*

LEUPOLD & STEVENS, INC.
Location: *Beaverton, Ore.*
Type of business: *Manufacturer and marketer of premium rifle scopes, binoculars and other recreational optic accessories*
Number of employees: *536*
Web site: *www.leupold.com*

PHARMACISTS MUTUAL INSURANCE COMPANY
Location: *Algona, Iowa*
Type of business: *Provides insurance and investment products to pharmacists, pharmacies, home healthcare providers, home medical dealers and card and gift stores*
Number of employees: *235*
Web site: *www.phmic.com*

RATHBUN INSURANCE AGENCY
Location: *Lansing, Mich.*
Type of business: *Full-service insurance agency*
Number of employees: *15*
Web site: *www.rathbunagency.com*

USA FEDERAL CREDIT UNION
Location: *Auburn Hills, Mich.*
Type of business: *Member-owned credit union with 66,000 members nationwide*
Number of employees: *123*
Web site: *www.usafcu.org*

cial Security

THE JUDGES

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Learn more about this year's winners by visiting the Principal Financial Group Web site at www.principal.com/theprincipal10best.

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[2]As of September 30, 2004.

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