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Unpack the Benefits Package

By Martha M. Hamilton
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To all the soon-to-be graduates out there, I want to say one word to you. Just one word.

No, not plastics.

I'm talking about benefits.

When you're looking for that first post-degree job, the tendency is to focus on salary in deciding which offer to take. But salary is just one piece of the financial package. A job with a lower salary may be worth more than a job with a higher salary because of medical, retirement and other benefits.

I confess that I didn't catch on to this until later in life. When I snagged my first job at age 13 at the neighborhood dry cleaners, I was so excited that I didn't even ask how much I would be paid. And when I came to The Post, I was oblivious to benefits that turned out to be among the major advantages of working here.

But now I know.

Last week I asked Ron Gebhardtsbauer, a senior fellow at the American Academy of Actuaries, to figure how much I would have needed in savings to produce the monthly income I receive from The Post as a retiree. The answer: It would have taken about \$800,000 in savings to buy an annuity that would provide me with the same lifetime stream of payments.

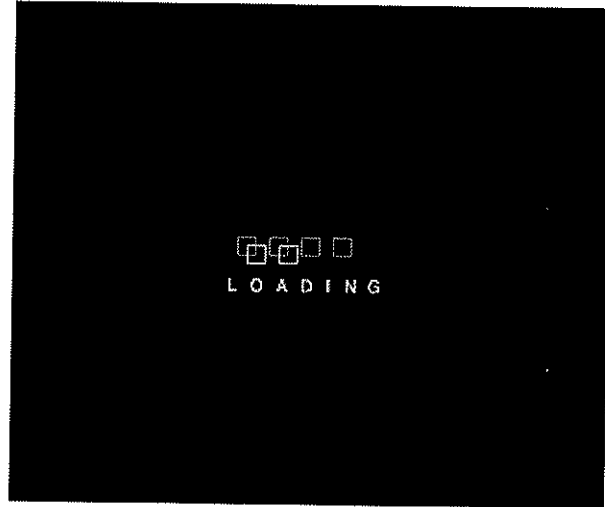
My pension is the old-fashioned, defined-benefit variety, a species that is fast disappearing. Most recent graduates will be talking to employers who offer cash balance plans or 401(k) or other defined-contribution plans. It's important to know the pluses and minuses of each type of pension plan and to understand other benefits, such as employer-provided health insurance and paid parental leave.

Most recent graduates need help understanding the value of the benefits they're being offered, said Monica Shutte, a career adviser at the Robert H. Smith School of Business at the University of Maryland. Her office encourages job-hunting graduates to read benefits packages and to create a spreadsheet that shows salary and the cost of benefits to both the employer and the employee. Job seekers should know, for example, how much the employer pays toward health insurance but also the premiums and co-pays for which the employee will be responsible.

"That visual aid for the student makes it very real for them how much a role benefits are paying in addition to salary," she said. They can add up everything to see which offer is worth the most.

Shutte said most employers provide detailed information about benefits to prospective workers. "Because it's becoming more and more competitive out there, the salary range is very tight, so benefits packages are what separates one company from another," she said.

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Some benefits may be more or less attractive depending on your age and your long-range plans. For instance, as valuable as a defined-benefit pension has been to me, Gebhardtsbauer said a worker who doesn't plan to stay with a company for most of his or her career might benefit more from a different type of retirement plan.

In a traditional pension, your employer funds all contributions, which increase as you get closer to retirement, and decides how to invest the money. At retirement, you receive a guaranteed payment based on your age, salary and years of service. The longer you stay, the bigger your take at retirement.

However, younger workers who plan to leave after a few years might prefer a cash balance plan or 401(k), both of which are more portable than a traditional defined-benefit plan, Gebhardtsbauer said.

In a cash-balance plan, companies contribute a set amount for each worker but put in nearly the same amount for all employees regardless of age or years on the job. Like a traditional pension, the cash-balance plan promises a specific payout at retirement. Once you are vested -- or legally entitled to benefits -- you'll have more money in a cash-balance plan than in a regular plan should you decide to leave after just a few years in the job. If you leave, you can take a lump sum that you can spend or roll over into another retirement account.

In a defined-contribution plan, the best known of which is the 401(k), you and, usually, your employer each contribute to your retirement account. Unlike a traditional pension, you choose how that money is invested. When you leave your job or retire, you may either get a lump sum based on how much the account is worth after investment gains and losses, or you may leave it in the 401(k) plan or roll it over to another retirement account. Gebhardtsbauer also had advice for job hunters deciding between a job that offers health insurance and a job with a higher salary that doesn't. Call an insurance company to find out how much it would cost to buy an individual health policy to see whether the higher salary would cover it.

University of Maryland graduate student Nathan Groce, 27, who is to start a job in brand management for Campbell Soup in August, paid close attention to benefits when he was job hunting recently.

Before accepting the position at Campbell, Groce and his fellow graduate students compared benefits at companies offering jobs, which helped them understand the pros and cons of each offer and gave them some negotiating leverage, he said.

Groce said that comparison paid off. Campbell's salary was among the best of several competing offers, and the benefits include health and dental coverage, both a defined-benefit pension and a 401(k) plan, group discounts for gyms, and auto and home insurance.

The Salisbury native was not a stranger to benefits, having spent four years working between undergraduate and graduate school.

But he also had help from his mother, a human resources manager who specializes in employee benefits. "She said, 'Don't just look at the salary package.' "

Good advice from an impeccable source.

Any questions about retirement that you'd like to see explored in the column? Please e-mail me athamiltonm@washpost.com.