

The Amerisc Corp.

777 Zeckendorf Blvd. • Garden City, NY 11530 • (516) 745-7500

This
Just
In...

REGISTRATION UPDATE



HRA contributions can lose their tax-favored status if you allow employees or dependents to cash out unused balances, ruled the Internal Revenue Service in Revenue Ruling 2005-24. Health reimbursement account (HRA) withdrawals not used to reimburse medical expenses become taxable income to employees. Some employers contribute an amount equal to a retiring employee's unused vacation and sick pay into an HRA. The IRS says employees can receive such contributions tax-free, but they must be withdrawn for medical expenses only.



Few part-timers receive benefits. The Bureau of Labor Statistics reported the percentage of private industry part-time workers with employer-paid benefits during 2004 as follows: health insurance—11 percent, dental care benefits—8 percent, long-term disability—4 percent, retirement plans—20 percent, life insurance—9 percent, paid vacation—35 percent, paid sick leave—24 percent, paid holidays—37 percent, flexible workplace benefits—4 percent.



Washington state employers with 50 or more employees are gearing up for mental health parity. SB 5450 requires health plans covering medical and surgical services for some government and all private employers with 50 or more employees to cover mental health services and prescriptions beginning on January 1, 2006.

Congress Considers SIMPLE Health Plan & Genetic Discrimination

SIMPLE Health Plans

A new proposal would allow small businesses to set up simple cafeteria plans to allow employees to buy benefits with pretax dollars. S. 723, the SIMPLE Cafeteria Plan Act of 2005, borrows features of the SIMPLE pension plans for small businesses. The bill would amend the tax code to allow working business owners, including partners and S-corporation stockholders who own more than 2 percent of the stock, to participate in the plan. Current tax law excludes these owners from participating because they are considered self-employed rather than employees of the business.



The bill would also create a "safe harbor" for nondiscrimination rules. Employers who make an annual contribution of 2 percent or matching contributions of 3 percent to their employees' accounts for health insurance and other employee benefits are exempt from complex nondiscrimination testing.

S. 723 would also eliminate the "use it or lose it" rule by allowing participants to carry over unused account balances, up to \$500, into the next year. It would also allow cafeteria plans to pay for long-term care.

Genetic discrimination act moves forward



In March, the House of Representatives began considering The Genetic Information Nondiscrimination Act—H.R. 1227. An identical bill passed the Senate on a 98-0 vote earlier this year. The bill would make it unlawful for an employer to discriminate against an individual because of genetic information, and would prohibit the collection and disclosure of genetic information, with certain exceptions. It would also prohibit, with penalties, group health insurers or health plans from discriminating in enrollments and premiums on the basis of an applicant's



**EMPLOYEE
BENEFITS
REPORT**

Vol. 4, Number 8
August • 2005

Sliding Scale Premiums Can Encourage Participation

Health insurance rate increases have a disproportionate impact on lower-paid workers. When employers' group health premiums increase and they pass the increases along to employees, the increases take a larger chunk of these workers' disposable income. In response, some employers are embracing a sliding scale for employees' premium contributions.

Most employers contribute the same percentage for all employees who opt for single coverage and another (usually lower) flat percentage toward family coverage. Under a sliding scale premium plan, employers establish pay ranges (such as <\$35K, \$35K-\$100K, and >\$100K) then assign a required premium contribution percentage to each of these pay ranges. Contributions can be a percentage of salary or a percentage of the premium. Lower-paid employees pay less for their health insurance, while higher-paid employees pay more.

Outback Steakhouse, Inc., which has adopted sliding scale premiums, requires executives to pay more than 100 percent of premiums. Some 2,000 Outback managers pay 100 percent of premiums, while lower-paid workers pay only 29 or 41 percent of premium, depending on the deductible they select, according to an article in the *St. Petersburg Times*.

Benefits...

A sliding scale premium contribution helps keep lower-paid employees on the health plan. Although sliding scale premiums won't save your company money, they promote fairness by making health insurance affordable. And encouraging employees to remain in the health plan can have some benefits for employers as well. It can help you improve the overall health of your group — many low-wage earners are young employees who opt out of your benefit plan when they see the cost, while the unhealthy will pay just about any premium. Encouraging younger, healthier workers to stay in the plan can reduce this "adverse selection," which drives up health insurance premiums. Affordable health benefits can also help employers retain employees. Finally, by making healthcare affordable, you could reduce absenteeism.



And obstacles

Higher-paid employees will not like the idea of paying more for their coverage, and these are generally the people making buying decisions about health coverage. But think about it: higher earners can get bigger tax breaks. If your employees pay for healthcare through a flexible spending account, higher-wage earners have gotten larger tax breaks for years, as they can set aside more of their paycheck and take advantage of larger tax savings.

Sliding-scale plans can also add to your expenses if your organization doesn't have enough high-paid employees to subsidize the "premium adjustment" for lower-paid workers.

Mercer Human Resource Consulting found that only 4 percent of companies overall, and 10 percent of companies with 500 or more employees, had based benefits on compensation in 2004. However, as premiums continue to rise and the number of uninsured grows, more companies will likely consider implementing some kind of sliding scale or tiered benefit contributions. To discuss this and other strategies to make healthcare more affordable for lower-paid workers, please call us. □

GENETICS – continued from Page 1

or insured's request for or receipt of genetic services. It would also prohibit insurers from requiring genetic testing.

The Health Insurance Portability and Accountability Act (HIPAA) of 1996 provided some protections against genetic discrimination in health insurance. The act prohibited health insurers from excluding individuals from group coverage due to past or present medical problems, including genetic predisposition to certain diseases. It limited exclusions from group plans for preexisting conditions to 12 months (18 months for late enrollees) and prohibited such exclusions for people who had been covered previously for that condition for 12 months or more. And the law specifically stated that genetic information in the absence of a current diagnosis of illness did not constitute a preexisting condition.

On the other hand, HIPAA did not prohibit health insurers from charging a higher rate to individuals based on their genetic makeup, prevent insurers from collecting genetic information or limit the disclosure of genetic information about individuals to insurers. Nor did it prevent insurers from requiring applicants to undergo genetic testing. □

Ten Ways to Control Benefit Costs



With group medical costs still rising an average of 11 percent or more per year, many employers are looking for ways to control costs without drastically reducing benefits. Here are some simple ways you can control benefit costs:

- 1 Shop around.** According to a report by the Kaiser Family Foundation, 57 percent of small businesses shopped their insurance in 2004. Although only one-third changed plans or carriers (31 and 34 percent, respectively), shopping around can't hurt.
- 2 Work with a good broker.** We can help you shop your current plan and alert you to new plan designs that could save money. We can also help you ensure your benefit plans comply with current laws. Avoiding fines and lawsuits for noncompliance can save you a lot of time, money and trouble.
- 3 Tighten benefit eligibility criteria.** If you have high turnover during the first year of employment, you're paying to cover many employees who aren't going to stay long-term. Consider instituting a six-month waiting period before employees become eligible for coverage. Note that this strategy could backfire if you're competing to hire qualified employees. Some states might also limit the waiting period to 90 days (for example, North Carolina), so check state laws before changing your plan.
- 4 Review the summary plan descriptions (SPDs) your insurer provides.** Do they clearly spell out eligibility criteria for coverage? If you don't understand them, chances are many employees won't, either. Most states require SPDs to be in "plain English." However, employers with many employees who aren't fluent in English might need SPDs in another language. This can help employees avoid misunderstandings regarding eligibility for coverage — and help you avoid paying for benefits for ineligible employees or dependents.
- 5 Verify eligibility for coverage during re-enrollment periods.** Check employees' status — if you offer benefits to full-time workers only, do they still qualify?
- 6 Check the status of covered dependents.** Ford Motor Company, which began auditing its benefit rolls several years ago, has cut more than 60,000 ineligible dependents from its program, according to a report in *U.S. News & World Report*. Require documentation where necessary — for example, if your plan covers dependents who are enrolled in school full-time until age 21 or 23, you can require documents to verify the student's status. You might also be able to exclude dependents who are employed and have other group coverage.
- 7 Larger companies that spend thousands of dollars a month in health care claims could find it helpful to conduct a health claim audit.** An auditor can look at your company's claims to be sure your insurer

or claims administrator (if you self-insure) is paying claims only for eligible beneficiaries, and according to policy provisions. Sometimes insurers or administrators, under pressure to pay claims promptly, develop a "pay now and pursue later" approach. This means they'll sometimes pay a questionable claim before the deadline and pursue the beneficiary or provider for repayment if the claim later turns out to be ineligible for payment.

- 8 Larger employers might also want to check their local providers' records for safety and quality of care.** The U.S. Department of Health and Human Services has launched Hospital Compare, a site that lets you compare standards of care and outcomes in specific areas. Comparing data on your local hospitals will give you the information needed to steer employees toward providers that will make more effective use of your healthcare dollars. <http://www.hospitalcompare.hhs.gov>.
- 9 Avoid giving COBRA benefits when you don't have to.** By law, employers can charge COBRA beneficiaries no more than 102 percent of what a "similarly situated individual" who hasn't experienced a COBRA-qualifying event would pay. However, COBRA benefits can be costly to administer. Employers do not have to offer COBRA coverage when: 1) they drop coverage or are dropped by the carrier for nonpayment of premiums, 2) they drop coverage for a division or class of employees or 3) they change insurance carriers and the carrier refuses to cover current beneficiaries (although the employer must continue coverage for those currently covered under COBRA), 4) the employee voluntarily drops coverage (unless he/she is anticipating a qualifying event, such as divorce), 5) the employee or qualified dependents fail to provide notice of a qualifying event within 60 days, 6) the employee loses coverage due to a change in job status or failure to meet performance goals, unless he/she loses coverage due to a reduction in hours, 7) the employee is fired for gross misconduct. Employers can also terminate COBRA after it has begun when an employee is no longer disabled and returns to work, an employee or dependent gets other group coverage or when an insured fails to pay premiums by due date. Be sure to check with your COBRA administrator for current regulations.
- 10 Flexible spending accounts often make sense for larger employers.** They give employees a menu of qualified benefits to select from. These can include health insurance, dental insurance, vision insurance, group term life insurance, disability insurance, dependent care benefits and more.

The employer can contribute to the account; contributions qualify as nontaxable to employees and a business expense for employers. Employers

SIMPLE 401(k)s Ease Administration



Small firms often don't have the financial or staffing resources to compete with larger firms on benefits. SIMPLE retirement plans make it easier for small employers to provide competitive retirement benefits by easing administrative and compliance burdens.

SIMPLE plans, short for Savings Incentive Match Plan for Employees, include a variety of IRA-based plans. Since 1997, small employers have been able to offer a SIMPLE 401(k) plan, which eliminates some of the hurdles of a traditional 401(k).

Qualifications:

Only employers with 100 or fewer employees who received at least \$5,000 in compensation from the employer during the preceding calendar year can set up a SIMPLE 401(k) plan. In addition, employees who are covered by a SIMPLE 401(k) plan cannot receive retirement contributions or benefit accruals under any other plans from the employer. However, employers with a SIMPLE 401(k) can set up another retirement plan for employees who do not qualify for the SIMPLE 401(k).

Contributions:

- * Employees can contribute a percentage of their pre-tax salary, up to \$10,000 for 2005.
- * Employers must make annual contributions to all eligible employees. Employer contributions must be either 1) a dollar-for-dollar matching contribution, up to 3 percent of pay; or 2) a nonelective contribution of 2 percent of pay for each eligible employee.
- * Employees aged 50 and over qualify for additional "catch up" contributions of up to \$2,000 for 2005.
- * No more than \$205,000 of the employee's compensation can be taken into account in figuring salary reduction contributions, matching contributions and nonelective contributions.
- * Both employer and employee contributions go into either a plan trust fund or individual employee IRA.

Advantages:

- * SIMPLE 401(k) plans do not have to meet the complicated nondiscrimination and top-heavy rules of traditional plans if they meet the criteria listed above. Employers simply file a Form 5500 every year.
- * Employers have flexibility in choosing some of the plan's features

— such as whether employees can contribute to the plan and how much.

- * You can convert an existing traditional 401(k) to a SIMPLE IRA if your firm meets the qualifications.
- * The straightforward benefit formula allows for easy administration.
- * Plans can permit participant loans and inservice withdrawals. These features give participants more flexibility but add to your administrative burdens.

Disadvantages:

- * Employees that are covered by a SIMPLE 401(k) plan cannot receive any contributions or benefit accruals under any other plans of the employer.
- * All contributions vest immediately, including employer contributions. (In a traditional 401(k) plan, employee deferrals are 100 percent vested, but employer contributions can become vested over time.) This reduces the plan's ability to reward employee longevity.
- * Fees can be higher than for other SIMPLE retirement plans. Administrators can charge based on plan assets, per person, per transaction or any combination thereof. Expect to pay one-time fees for startups, conversions and terminations.
- * SIMPLE 401(k)s offer limited flexibility, with their required contributions and lower contribution limits. The "safe harbor" provisions of a traditional 401(k) requires employer contributions similar to those under a SIMPLE 401(k). Because of this and the traditional 401(k)'s greater flexibility, many employers—even smaller ones—opt for a traditional 401(k).

For more information on SIMPLE 401(k)s or other retirement plans for small employers, please call us. □

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looking to save money on benefits can contribute an amount equal to the premiums for a "bare bones" health policy; employees who want a richer health plan or other benefits can contribute a set amount of their pre-tax salary into their account to pay for additional benefits.

Health savings accounts (HSAs) paired with a high-deductible health policy (HDHP) offer any size employer—even self-employed—employers another consumer-directed health plan option. Employers can buy a qualifying high-deductible health policy and set up HSAs for their employees. HSAs belong to the employee and can be funded by either the employer or employee to pay for qualified medical expenses not covered by the HDHP. Proponents of HSAs say they give employees incentives to become better healthcare consumers because funds belong to them. Detractors say they require employees to have more knowledge of the healthcare system and benefit younger, healthier workers who need less healthcare.

For more suggestions on cutting health benefit costs, please call us. □



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