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Benefit Insights

May 2013

A Newsletter for Clients and Friends of First Insurance Agency Inc.

Is It Better To Pay The PPACA Penalty Or Continue Offering Health Coverage?

When 2014 arrives, employers and their workers must be prepared for the changes the Patient Protection and Affordable Care Act brings. New laws will require employers with a workforce larger than 50 employees to either pay a penalty or offer medical coverage to employees. This is why it is important for employers to start making their plans as quickly as possible. Many employers have reported that this new law will increase their expenses, which will result in the need to reduce workers' hours or lay off employees. Many employers are favoring the idea of eliminating their health insurance offerings. Although paying the penalty may seem like the right answer for some employers, there are several reasons to reconsider.

Reporting Requirements

If employers eliminate their health coverage offerings, they will be subject to federal reporting rules. The reason for this is to determine the amount of the company's penalty fee. In addition to collecting more data from employees, employers will have to deal with the hassles of inquiries from exchanges.

Losing A Tax Break

Employers offering health coverage qualify for several tax breaks. However, those who do not extend coverage will not qualify. Employee premiums paid through Section 125 plans do not count toward an employer's taxable income, and contributions are not classified as taxable income for employees.

Coverage Costs Are Adjustable

Although employers may face the

possibility of covering more workers, they will have options for lowering their coverage costs. Lowering coverage to hover just above the required minimum value of 60 percent is one option, and reducing workers' hours to make them part-time employees is another choice.

Difficulty Recruiting And Keeping Top Talent

If employers make too many cuts to their health programs or choose not to offer coverage, they will make their companies less attractive to the best potential employees. Workers who are considered top talent may start looking elsewhere for employers offering health benefits. Tarnishing the company name by driving good workers away is not something that will benefit companies on a long-term basis. The costs of hiring new workers, compensating for lost productivity and paying the costs associated with business disruptions could cost more than a reasonable health plan would.

Variable Financial Complications

When employers decide to drop coverage, they will likely see employees start demanding other forms of compensation. Since they will be expected to use their own money to pay for exchange-based coverage, employers should expect employees who are put in such a situation to be unhappy. To make matters worse, employers without preformed plans to pay the nondeductible penalties may make their own financial situations even worse. It is important to remember that penalties will increase over time.

Counting Difficulties

It will be difficult for most employers to form a final count of their staff. Classifying part time and full-time employees is not an easy process. In 2012, the Internal Revenue Service released a set of rules that are not completely clear about what constitutes part-time status. If employers miscalculate how many part-time workers they have, this mistake could be costly.

The PPACA will bring big changes for both employers and employees. As employers develop their plans before 2014 approaches, it is important for them to keep workers informed. There are still affordable coverage options, which can be explained by an agent. For answers to any other questions, discuss concerns with an agent.



First Insurance Agency Inc.

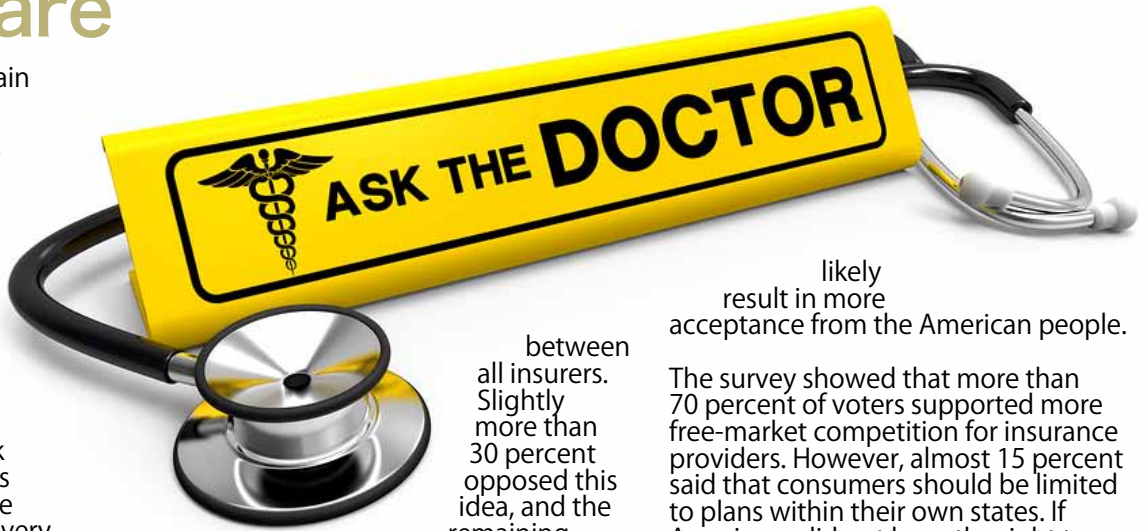
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Rasmussen Reports: Americans Still on the Fence About the Future of Medical Care

Many Americans are still uncertain about whether the Patient Protection and Affordable Care Act will be good or bad for their futures. The reality of the issue will likely vary for each person depending on individual circumstances. A recent telephone survey from RasmussenReports.com shows that more than 45 percent of voters feel optimistic about the new health care reform. However, almost 50 percent of voters look upon it unfavorably. Researchers wanted to see how many people were either very enthusiastic or very discouraged about the new law. Of the percentages previously listed, slightly more than 15 percent of voters who favored the law were very enthusiastic. Almost 35 percent of voters who were not optimistic about it were also strongly opposed to the law.

Research experts at RasmussenReports.com say that this survey indicates most Americans do not want employers, the government and insurers to make choices on their behalf. While there is a small amount of support for letting the government make insurance companies offer comprehensive coverage to everyone, the majority of Americans prefer to let individuals make their own choices about options and prices. The survey showed that 40 percent of respondents favored government requirements for uniform coverage



between all insurers. Slightly more than 30 percent opposed this idea, and the remaining respondents were undecided.

While the survey seemed to show noticeable support for uniform coverage, more than 75 percent of voters responded that people should have the right to select coverage options that are priced differently according to what the plans cover. Less than 10 percent opposed this idea, and the remaining respondents were undecided. When voters were asked if they favored the idea of Americans' choices between plans offering higher deductibles with lower premiums, 85 percent said they were in favor. Barely more than five percent of respondents said they were not in favor. Since these people clearly prefer to have control of their options, experts at RasmussenReports.com say that adding this to the new health care law would

likely result in more acceptance from the American people.

The survey showed that more than 70 percent of voters supported more free-market competition for insurance providers. However, almost 15 percent said that consumers should be limited to plans within their own states. If Americans did not have the right to choose their own deductibles and levels of coverage, the ability to buy plans from other states would hold little value.

This recent two-day survey started on January 11, 2013 and included 1,000 likely voters. Before the 2012 presidential election, the majority of American voters favored repealing the new law. Almost 75 percent of Democrats show support for the PPACA. However, nearly 85 percent of Republicans have unfavorable opinions about the law. Approximately 50 percent of undecided voters viewed it unfavorably both before and after the election. Whether Americans view the new law favorably or unfavorably, there are changes coming for everyone. To learn more how it will alter individual circumstances, discuss concerns with an agent.

Why Everyone Needs Life Insurance



When asked about life insurance, most financial experts will tell people that this form of coverage is one of the most important components of solid financial planning. The following instances outline some of the

biggest advantages of life insurance.

Life insurance replaces income for surviving family members or dependents. If a person has people who depend on his or her income, it is important for that individual to have a plan to continue providing for dependents in the event of an untimely death. This is especially important for families with young children and a spouse who stays at home to care for them. It can also be important for couples. If one person earns more, the survivor would face financial hardship in meeting monthly obligations. In addition to this, people who provide financial support to their aging parents should also purchase life insurance to make sure

they receive the continued support they need.

Life insurance builds an inheritance for heirs. For those who want to pass something on to heirs but do not have many assets, life insurance is an easy way to do that. By naming specific heirs as beneficiaries, the named individuals will receive the money the policyholder wants them to have.

Life insurance pays for final expenses. With the price tags of most funerals hovering close to \$10,000, it is important for every person to have at least enough life insurance to cover final costs. These

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What Happens to Workers if They Get Sick or Hurt?

According to a recent survey, four in ten American workers live paycheck to paycheck. This means that an unexpected illness or injury that takes your employees off the job for more than a few days can have devastating consequences for many of your employees who depend on their wages to survive.

Disability insurance - sometimes called disability income insurance - helps protect workers' incomes against the possibility of loss of work from illness or injury.

What it covers

In a nutshell, disability insurance helps replace a portion of a worker's income if that worker loses his or her income due to an injury or illness. Typically, disability insurance policies will replace between 50 and 65 percent of a worker's income - a percentage low enough so that most people will rather return to the work force as soon as possible, but high enough so that most workers can at least keep a roof over their heads, the lights on in their homes, and some food on the table for themselves and their families when they recover.

Broadly speaking, there are two kinds of disability insurance policies - short-term disability insurance for events that disrupt income for less than 90 days, and long-term disability policies, which cover benefits for a longer period of time.

Advantages of Group Coverage

Group disability coverage has advantages for both the employer and the work force. Advantages to the employer include:

- Reduced costs compared to offering individually underwritten policies to everyone.
- Increased employee loyalty - especially after someone in the work force has a claim and word gets out that these valuable benefits kicked in.
- Tax deductible premiums
- Easy, streamlined administration
- List billing

Advantages of group disability insurance to the worker include the following:

- Affordability - The employer subsidy makes it possible for workers to get coverage they would be unable to get on their own.
 - Pre-existing conditions that would make it impossible

for employees to get coverage as individuals may be waived in a group plan.

- Streamlined application process - no medical exam required
- No prior year tax returns or income verification are required. The employer reports income information to the disability insurance carrier

In addition, some policies are portable: If the employee leaves the company, he can sometimes keep the policy, though he loses the employer subsidy. Portability is an important feature, because disability insurance can be difficult to qualify for on the individual market.

Disadvantages of Group Disability Insurance

All coverages have advantages and disadvantages. These are some of the disadvantages:

- Less flexibility. Managers and supervisors may have different needs and risk profiles compared to rank and file employees.
- Less coverage. Some workers may be able to get more robust plans on the individual market than carriers offer via group plans.
- Benefits are taxable to the recipient.
- More restrictive definitions. With disability insurance policies, the definition of the word "disability" in the contract itself is of paramount importance. For example some policies, known as own occ policies, pay benefits if you cannot work in your own profession. Other policies will not pay benefits if the worker can work in any occupation. All things being equal, own-occ policies are preferable - but they tend to have higher premiums, and are less prevalent in the group disability insurance market.

Taxation of disability insurance

Group term premiums are generally deductible to the business as a business expense, just like any other wage

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can be burdensome to survivors, but life insurance makes it easy for family members to pay probate costs, administrative costs and funeral expenses.

Life insurance covers death taxes. In today's world, even death is taxed. It is taxed at both a federal and state level. Without life insurance, survivors would have to sell the deceased's assets to try to pay for these costs. In some cases, they may have to take a smaller inheritance instead. However, life insurance can be put in place to cover these costs and take the burden off of survivors' shoulders.

Life insurance builds savings. There are types of life insurance that yield a cash value. If this amount is not paid out as a death benefit, it can be withdrawn or borrowed by the policyholder. In addition to this, the interest is tax deferred. For sums paid out as death benefits, the interest is tax exempt.

Life insurance makes charitable contributions possible. If policyholders name charities as beneficiaries on their policies, they can provide larger sums than they may have otherwise been able to out of pocket. Many single people who do not have surviving family members to name as beneficiaries choose this option to leave a positive mark on the world.

Life insurance is something that can benefit any adult regardless of age, marital status and family status. To learn more about what options best fit individual needs, discuss concerns with an agent.

expense. The value of the premiums, however, is not usually taxable as income to the worker.

Disability insurance benefits may or may not be taxable, depending on the circumstances. Generally, if the recipient didn't pay taxes on the premiums, then the benefits are taxable as ordinary income. This is true for most employer-paid group health insurance plans. If the employee paid part of the premiums, then a similar percentage of benefits will be tax-free.



INSURANCE

HEALTH CARE REFORM FOR BUSINESS SEMINAR!

Mark your calendar!

Please join First Insurance Agency for our upcoming seminar, Health Care Reform for Businesses. Noted health insurance speaker, Jesse A. Patton, LUTCF, HIA, MHP, FAHM, HIPAAA, EHBA, PHIAS will lead this important and timely discussion on the Affordable Care Act – how you are affected, how to prepare and what you need to know NOW. The seminar will be held in Mason City, IA at the Prime and Wine Restaurant Conference Room on Thursday, May 9th. Address is 3000 4th St. S.W. We will begin at 10:30 a.m. and lunch will follow the seminar at 12:00 p.m. Please RSVP to Ann Harty -641-421-8000 or aharty@1stinsurance.com. See you there!



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