Benefit Insights

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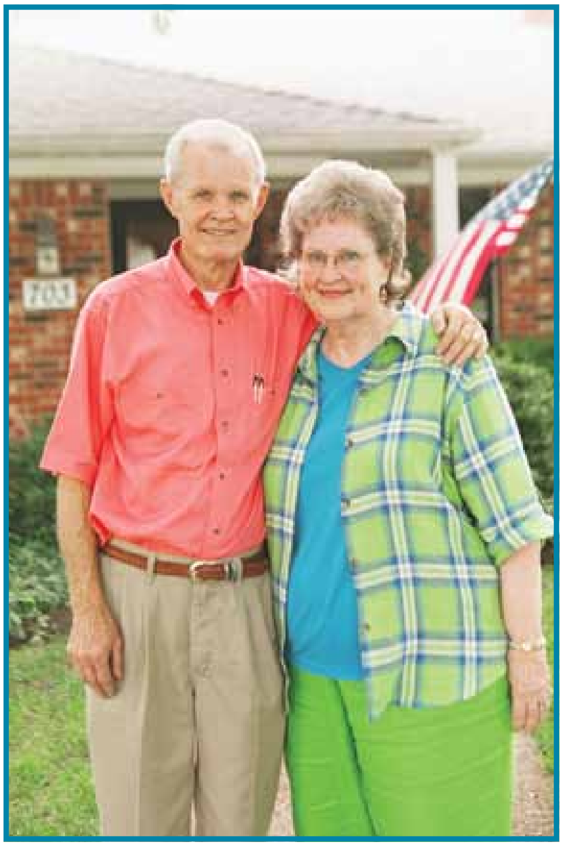
First Insurance Agency Inc.

25 West State St. Upper Level
Mason City, IA 50401
www.1stinsurance.com

Phone: (641) 423-8184
(641) 421-8000
Toll Free (Iowa)
(800) 247-0713
Toll Free (out of Iowa)
(800) 367-6907
Fax: (641) 421-1940

Health Savings Accounts Can Build Retirement Wealth

When preparing retirement funds to sufficiently carry an employee through their retirement years, it's crucial for the employee to think about all the ways that they can potentially maximize their workplace benefits. A great example can be found by looking at how a health savings account or HSA could also function as a retirement account. In certain instances, such as with



employees that aren't made to spend down HSA contributions each year, HSA's can function in just such a manner.

Let's say that there's a 40-year-old worker that's very concerned that he isn't saving enough to last him through his retirement years. He seeks the guidance of a professional financial advisor to address his concerns. The advisor runs a retirement projection based on the workers 401 (k) contributions. Unfortunately, the worker discovers that he needs to save around five percent more than his current six percent salary deferral in order for him to have his retirement where it should be.

At this point, the advisor and the worker start to talk about where the extra retirement funds could possibly come from. One option would be to increase his 401 (k) contribution. However, the worker brings up how he's maxing out his contributions to his HSA, around $3,000 dollars per year. He goes on to say that he's considering lowering his deferral during the next open enrollment period. And, here is where the worker discovers that he can build retirement funds with his HSA. Since his deductible is only $1,800, the excess funds can be counted toward his needed retirement savings.

Of course, the above is just one scenario of using an HSA. There's actually several reasons why it could be beneficial for an employee to use a large HSA balance as part of their retirement.

- Most people naturally have more medical expenses with age. A study by Fidelity may add a little perspective, as it estimates that around $250,000 in non-Medicaid covered health expenses will occur during the retirement years of a typical 65-year-old retired couple. Wouldn't it be nice if these expenses could be paid for tax-free? Well, they can be with an HSA. HSA funds can be used without taxation for various qualified medical expenses–from long-term care insurance premiums to remodeling a home to accommodate a wheelchair or other assistive living device.
- For individuals that are fortunate enough not to have high medical expenses throughout

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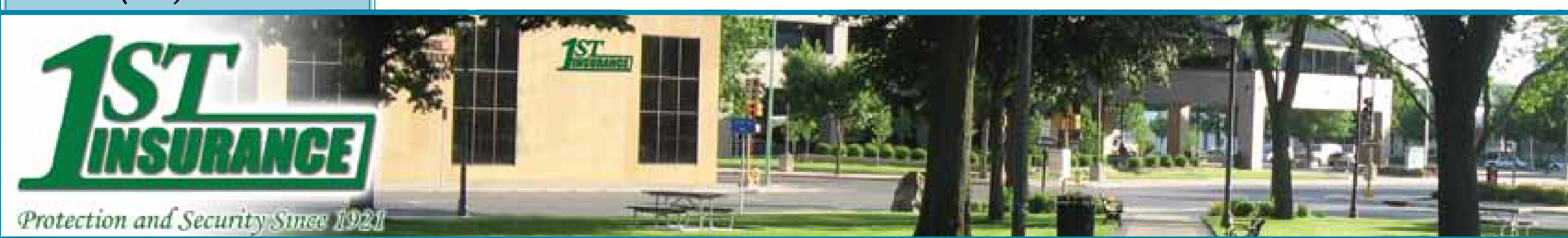

Employers Consider the Cost of Maintaining a "Grandfathered" Plan Under Health Care Reform

"Grandfathered" health plans-plans in existence on the enactment date of the Patient Protection and Affordable Care Act-enjoy exemption from some of the provisions of the health care reform law. However, in order to maintain grandfathered status, a plan must refrain from making certain changes, including those involving plan design, cost-sharing or insurance carriers. Employer plan sponsors are having to decide how having a grandfathered plan balances against the need or desire to modify plan provisions or change carriers in response to rising plan costs and rates...and many are questioning whether the advantages of making changes to their plans outweigh the benefits of avoiding some reform mandates.

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In a survey from Hewitt Associates, 90% of the companies said they anticipate losing grandfathered status by 2014, with the majority expecting to do so in the next two years. Most (72%) of those anticipating losing grandfathered status indicated they would do so because of the need or desire to make design changes. The surveyed employers also cited changes to company subsidy levels (39%), health plan consolidation (16%) and insurance carrier changes (16%) as additional reasons why they thought it likely they'd lose grandfathered status. In a separate survey by Mercer, 53% anticipated retaining grandfathered status in 2011, but half of this group expected they would no longer be grandfathered by 2014.

Employers with grandfathered plans are asking these questions, according to Hewitt: " What changes do we need or want to make to our health care plans?" and "How can we make them without significantly increasing costs?" For many employers, it will boil down to deciding how much the freedom to implement plan changes is worth, versus the cost of complying with health care reform's mandates. For example, in the Mercer survey, employers were asked to estimate what it would cost to meet the law's requirements for 2011, and the response was, on average, and addition of 2.3% to plan costs. Employers were also asked to predict how much their plan costs would rise if they made no cost-saving changes, and the response was an addition of 10.1%. That's the kind of increase that many employers will decide they simply cannot bear. These estimates may indicate that, at least at this point, some employers project the cost-effective decision will be to comply with health care reform's mandates, in order to have the freedom to make plan design and insurer changes that fit into their overall cost-containment strategy.

Among the changes a grandfathered plan cannot make in order to maintain that status are raising coinsurance levels, increasing deductibles or out-of-pocket limits by more than medical inflation plus 15 percentage points, and raising copayment levels by more than the greater of $5 or a percentage equal to medical inflation plus 15 percentage points. For many employers, staying within these limits simply won't be an option. The Mercer survey reflects this: Even though it would mean loss of grandfathered status, 35% said they would consider raising deductibles/out-of-pocket limits, 31% would consider increasing employee coinsurance levels, and 23% would consider raising copays, beyond what's allowed under reform.

Employers also need to consider to what extent their plans might already be in compliance with provisions of health care reform. For example, one of the health care reform

provisions that does not apply to grandfathered plans is the requirement that preventive care services, including immunizations and screenings, be covered with no cost-sharing for plan participants. Many plans already provide for this, and an increasing number continue to willingly move in this direction as recognition of the importance of preventive care grows.

In the coming months, employers with grandfathered plans will be examining their current plan design and assessing whether it will continue to meet their business needs, along with employees' health care needs. It remains to be seen how many will decide they'd rather have the flexibility to change their benefit programs, than be restricted to the limited plan modifications allowed under the new law.

Finding the Benefits Broker Who's Best for Your Company

A good employee benefits package that appropriately fits your employees' needs is an important part of the formula for most companies' success. The right benefits package helps to attract and retain employees, keeps them motivated, and inspires them to give you their best. But as we all know, benefits can be expensive, and finding the right benefits at the right price can be a time-consuming, sometimes frustrating experience. It's here that the services of a benefits broker can make all the difference.

What should you look for in a benefits broker? How do you determine if a benefits broker is right for your business? What sets a terrific benefits broker apart from the rest of the field? If you're in the market for a new benefits broker, here are a few things to keep in mind—

- Whereas agents represent specific insurers, brokers work with a variety of carriers. Therefore, in most cases, one benefits broker should be able to help you with all your company's benefits needs, so long as that broker works with a decent number of carriers that offer the kinds of benefits you're looking for. A broker also should have the kind of experience and relationships with insurance carriers that your company can leverage to get the products and services you need at the best price.
- A broker should not only help you find the right benefits at the best price; he or she also should make sure that you're getting exactly what you pay for. A broker should be involved enough with billing and other processes to be able to ascertain that you're not being overcharged, paying for employees who are no longer on the payroll, etc.
- Compliance issues loom as a challenge for any employee benefits plan sponsor. With federal laws and regulations and state laws and insurance mandates, it's grown increasingly difficult to stay on top of all the rules that may apply to the benefits plans you offer. A good benefits broker will be thoroughly versed in all compliance issues relevant to your employee benefits offerings, helping you to avoid fines, penalties and other legal action.
- An effective benefits broker will want to understand all aspects of your business operations and needs and will be familiar with the benefits practices of companies in the area in similar industries and of similar size. This knowledge is critical to the broker being able to advise you on crafting the benefits package that your company needs to compete for talent.
- The employee benefits field is a very fluid, fast-moving industry, where new products, services and technologies are emerging all the time. You want a broker who is extremely knowledgeable about the benefits industry; one who is current with trends and developments, and what is "state of the art" in the field.
- Nothing decreases the value of your benefits package like claims difficulties. If employee claims are mismanaged, processed incorrectly or delayed, both your employees and your HR/benefits staff will be frustrated and dissatisfied. Your benefits broker should be proactive in working with employees, staff and insurers to maximize smooth claims flow, and be an advocate for employees and for the company when claims difficulties do arise.
- Benefits renewal/open enrollment is a time-intensive, high stress period for any company. A benefits broker should provide assistance to make this time as smooth as possible, and be available to you well in advance of renewal time to begin the process.

The best way to ascertain that a benefits broker possesses these characteristics is to ask questions, both of the broker and his or her current clients. Ask for a reference list when interviewing candidates and make the calls to check it out. Do your homework, and you'll increase your chances of finding a broker who can help your investment in benefits pay off for your organization and your employees.

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their years at work, an HSA can provide some financial flexibility. Although funds are subject to taxation when not used for medical-related purposes, those at least 65-year-old can withdraw the funds for any reason they see fit.

- A Roth 401 (k) has tax-free withdrawing, but is funded with post-tax dollars. A traditional pretax 401 (k) features tax breaks only up until retirement. The benefits of an HSA are unique in that funds contributed to it are in the form of pretax dollars and remain tax-free on withdrawal for medical purposes.

The Growing Nest Egg

Financial institutions that manage HSA accounts typically allow investment of HSA funds (in excess of an employee's annual deductible) into mutual funds. In other words, if the HSA has an annual deductible of $2,000 and the employee contributes $3,000 dollars to the HSA, then the employee could invest the annual unused $1,000. After thirty years at 7% annual interest, the employee would have grown a retirement nest egg of about $100,000.

Imagine how elated the worker in the above scenario might be to find out that his employer had not only given him the flexibility of using his HSA for his current and future medical expenses, but also a means to supplement or pad his retirement nest egg.

Using Life Insurance to Protect Your Life's Work

After you've spent your lifetime building your business, the next prudent step is to take the time to consider how to protect your lifelong investment. The careful application of life insurance covering the right area is one tool available to the business owner.

The assets accumulated during the growth of your company may include buildings, equipment, land, key employees, your accounts receivable, and of course cash. On the other side of the ledger will be the debt you may have incurred in order to expand and grow. Of all your assets, the most flexible and useful asset is cash. Given the proper financing, most organizations can change and adapt to varying market conditions and events that may impact operations.

The next most valuable assets are employees who have proven themselves to be both competent and reliable. In most family owned small businesses, there are one or two key employees who have been with the company long term and whose experience provides a major asset. How do you protect these two important variables? Consider the use of life insurance.

The purchase of life insurance on a valuable employee provides two ingredients of safety. The first is a cash reserve which can be tapped when necessary, offering access to funds in times of hardship or when loan interest rates may be prohibitively high. The second safety benefit comes into play should the business suffer due to the death of a key employee. The death benefit provides a financial cushion, allowing the organization to recover from the loss of profits that may ensue due to the loss of an employee. It also provides a means of securing a replacement employee of equal skill and experience. Remember that hard assets are useless without the proper employees to utilize them.

Life insurance is also a useful tool in ensuring the continuation of a business in the event of the death of a partner or major shareholder. Coupled with a buy-sell agreement between partners, life insurance provides affordable protection, and prevents the financial burden that can be placed on both business and family at a time when emotions are running high.

If you've worked a lifetime for your business, it's worth just a few hours of planning and consultation with a life insurance professional to consider the use of life insurance in protecting your major assets and providing for a smooth ownership transition in the face of unforeseen events.

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25 West State St. Upper Level • Mason City, IA 50401

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Phone: (641) 423-8184
(641) 421-8000
Fax: (641) 421-1940

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