Benefit Insights

November 2012

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

Employer Health Care Costs Will Increase Significantly in the Near Future

A recent survey showed that about 80 percent of employers have expressed their intentions to continue offering health benefits to employees in the near future. Although the projected cost increase of the new health care reform bill shows a significant increase from years past, employers are still seeing the benefits of keeping or reducing coverage instead of dropping it completely.

The biggest changes of the new bill will not go into effect until 2014. However, it is important for employers everywhere to have a strategy and get ready for the changes before they happen. Changes brought about by the new PPACA regulations will have a major effect on how health services are delivered and how people obtain medical coverage. One of the most affected groups will be retirees.

Health care cost increase rates have slowed, but almost 60 percent of employers know they will be targeted by the 2018 health care reform excise tax if changes are not made to current benefits. In order to avoid the tax, more than 80 percent of employers plan to make changes and control costs.

About 60 percent of companies plan to change their programs or actions, and almost 40 percent plan to reduce subsidization for dependents and spouses of covered workers. Nearly 30 percent plan to implement spousal surcharges or waivers. Some employers will also place more costs on the shoulders of their employees. Almost 15 percent plan to increase employee premiums in the near future by at least five percentage points. However, slightly more than 40 percent plan to increase employee premiums by less than five percentage points.

Although the majority of employers understand and appreciate the value of affordable health care, they must take steps to control costs and increase workers' accountability to live healthier. More than 75 percent of employers feel that health benefits are the key to employee value propositions over the next several years. Although more than 30 percent of employers plan to evaluate their plans immediately, about 40 percent plan to have this done in the next few years.

Another detail this survey found was that a strong growth of account-based health plans is expected. These plans, which are commonly abbreviated as ABHPs, will likely be offered by 80 percent of employers soon. Enrollment in these plans continues to rise significantly. In 2006, the enrollment numbers were only in the single-digit range. However, that number is expected to grow beyond 30 percent in the next several years. The survey also found that more than 25 percent of employers plan to add telemedicine to their plans in the next several years, which shows that health care delivery is also evolving. To learn more about how the PPACA works or what steps to take next, discuss these issues with an agent.

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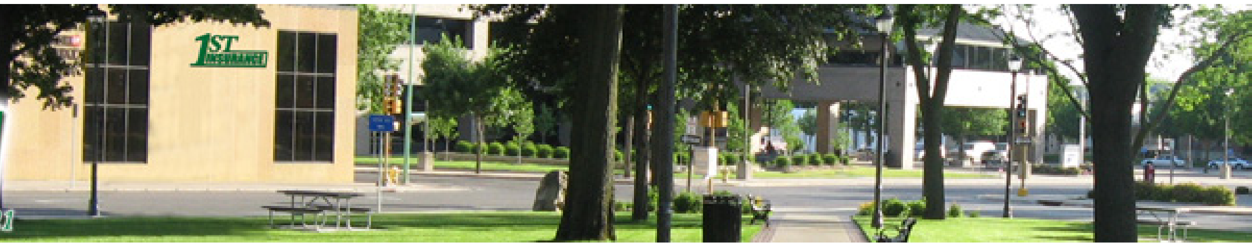
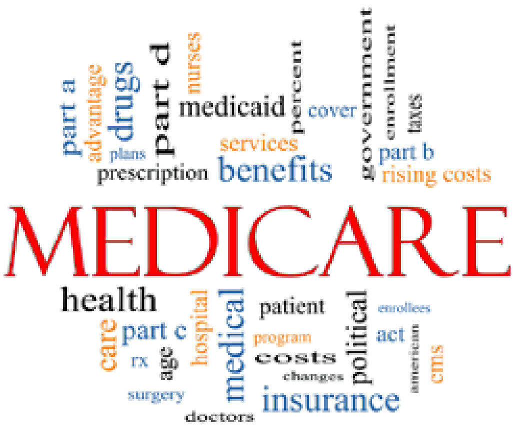


Why Consumer-Driven Health Plans are Gaining Favor



The overall satisfaction level of people enrolled in consumer-driven medical plans is rising. However, the level is declining among people who have traditional plans. This finding was the result of a recent research project. While consumer-driven plans' popularity rose, traditional plan members were still more likely than HDHP or CDHP enrollees to be happy with their benefit offerings and deductibles.

This research also shows that some of these heightened satisfaction trends for consumer-driven plans may be fueled by people who are upset about paying more upfront for traditional plans. The survey was used to examine issues with consumer-directed health care, which includes the costs of care, insurance prices, health care satisfaction and medical plan satisfaction. It also covered the reasons why people choose certain health plans and where they gather information concerning health care plan options. In addition to this, the report includes earlier findings to provide a timeline of results.

From the overall trends, researchers found several other interesting details, which include the following:

- With respect to care quality dissipating between traditional plan enrollees and those enrolled in CDHP plans, differences were discovered early in the project. The satisfaction rates were higher for those who had better access to health care providers regardless of their coverage.
- People who were enrolled in HDHPs and CDHPs were not as likely as people enrolled in traditional plans to recommend their plans to others. In addition to this, they were less likely to show a desire to keep their current health plans when presented with the opportunity to switch providers.

With health insurance facing changes in the future, it is important for employers and consumers to take these issues into consideration. There are plenty of affordable health plans. However, not all plans are optimal for every person. For example, a person who has a chronic illness as a preexisting condition may benefit from a much different plan than a person who has a history of staying healthy and has no chronic illnesses.

With everything changing, it is important for consumers and employers alike to know what options are available to better evaluate which choices are best for individual circumstances. To learn more about what plans and coverage inclusions are available, discuss these concerns with an agent. Agents will be able to provide the most up-to-date information and helpful recommendations based on various circumstances. Now is the time to start considering plan changes or additions.

FSA Salary Reduction Capped at $2,500, Starting January

Changes are coming to flexible spending accounts. Under the Patient Protection and Affordable Care Act (PPACA), a new $2,500 limit will be imposed on salary reduction contributions to health flexible spending arrangements, commonly known as FSAs.

FSAs are popular perks that allow employees to divert income on a pre-tax basis to an account that they can use to buy certain services, including health care. They are particularly useful for employees who have regular health expenses that they incur each year, since they allow them to buy these needed health services with pre-tax dollars.

Under current law, salary deferral contributions to these arrangements were unlimited by the tax code. Employers had the discretion to set caps wherever they wanted. The new $2,500 limit applies to all FSA plan years beginning after December 31, 2012. Congress currently intends to adjust the cap each year along with the cost of living, beginning with plan years beginning in 2014. The cap is one-size-fits all, no matter how many dependents you have.

The cap only applies to salary reduction contributions to health FSAs. It does not apply to the worker's contributions, nor does it apply to health reimbursement arrangements, HSAs, child or dependent care assistance programs, etc. The caps are specific to health flexible savings arrangements.

Earlier this month, the Internal Revenue Service issued a clarification on how the new caps will affect existing plans. Notice 2012-40 establishes that the new caps don't apply on plan years beginning this year or last year.

If your plan has a grace period, salary contributions that aren't spent during the formal plan year don't count against the next years' contributions, according to the notice. The cap only applies to new contributions, not hangover balances from plan year 2012. However, the 'use it or lose it' provisions of FSAs still apply - balances left unused after the employer-designated grace period, which can last up to two and a half months after the end of the plan year, are forfeited.

The IRS also assured employers that if an employer accidentally allowed a contribution greater than $2,500 in a new plan year, in violation of the cap, it would not necessarily result in the IRS disqualifying an entire Section 125 plan. Employers just have to pay the excess back to the employee and include the overage in the employee's taxable income for the year.

If the plan year is less than 12 months, the $2,500 cap is prorated accordingly.

Workplace Group Life Insurance - A Valued Benefit

It's a call every business owner dreads: An employee's spouse calls you tearfully on a Monday morning. One of your workers won't be there anymore - he was killed in a car accident over the weekend. The next question she may have is this: "Was there any life insurance in place from work?"

It's entirely within your power to answer her "yes." And then go on to say, "Your husband loved you. Your photo is on his desk. You're going to be ok."

What Is Employer Group Life Insurance?
Employer group life insurance provides your workers an easy, convenient way to provide valuable life insurance protection for their loved ones at an affordable price - in some cases without regard to their medical condition or medical histories. Employees can sign up at work, doing the paperwork along with the rest of their benefit paperwork.

Advantages to You, the Employer
By adding life insurance to your list of employee benefits, you are sending a message to your work force that you care about their families, and intend to help make sure that your workers' families are taken care of should the worst happen.

In certain circumstances, the premiums for up to $50,000 of term life insurance coverage are deductible as a business expense. It's not a huge amount, by life insurance standards. But it means a widow can spend some time at home with children, or provide her (or him!) with some breathing room to pick up the pieces and move on.

Group underwriting means all your employees can have access to this valuable benefit. Policy issuance is guaranteed for this kind of coverage (governed by Section 7702 of the Internal Revenue Code). You won't have to look at an employee and tell them no, they don't qualify.

If you want to offer additional coverage, or if your employees need more coverage, you can offer additional protection for your employees on a voluntary payroll deduction basis. This means additional protection for your workers' families. Your employees sign up for this voluntary coverage. You deduct the premiums from their paychecks each month, and forward a consolidated premium in a convenient list bill.

Advantages to Employees
These days, people are used to getting their insurance coverage from work. Workers who have access to workplace life insurance plans are less likely to put off getting much needed coverage on the side.

Group underwriting can help make coverage more affordable for employees with medical issues that make it difficult or impossible to get affordable life insurance on their own.

Some policies are portable: If the employee leaves the company, he can take the coverage with him. This is crucial for people who have developed health conditions that would make them uninsurable prior to leaving the company.

For many of these plans, there are no upcharges for preexisting conditions.

Disadvantages
Workplace life insurance policies frequently offer only a limited amount of coverage. This is especially true of guaranteed issue policies. Also, depending on the policies and carrier, group-underwritten workplace life insurance policies can be less portable than other kinds of life insurance policies. Your agent can work with you and your employees to combine a workplace group insurance policy and additional coverage on a voluntary basis to provide the best possible package, protection and value for your employees.

Tax Savings & Employer Matching Increase Plan Participation

In today's world, most workers are heavily dependent on their employers for retirement contribution plans. A recent survey by Fidelity Investments showed that 19% of enrolled workers had no other retirement plans or savings outside of their employer's plan. James MacDonald, President of Fidelity Investments, said that this research is beneficial for their analysis of how Americans use 401(k) plans to reach their retirement goals. He also stated that the research provides a clear picture of workers' actions in workplace plan participation during economic uncertainty. The same company conducted a survey in the first quarter of 2011. From the 1,000 working participants who were interviewed, 92% said they felt it was important or very important to turn down company matching contributions. In addition to this, 90% of the workers said the retirement plans were a good tax-deferred source of savings. Although not all employees had the financial ability to contribute more, 54% said they would if they could.

Importance Of Matching
Although economic problems continue, Fidelity found that almost 10% of plan participants increased their contribution amount during 2011's first quarter.

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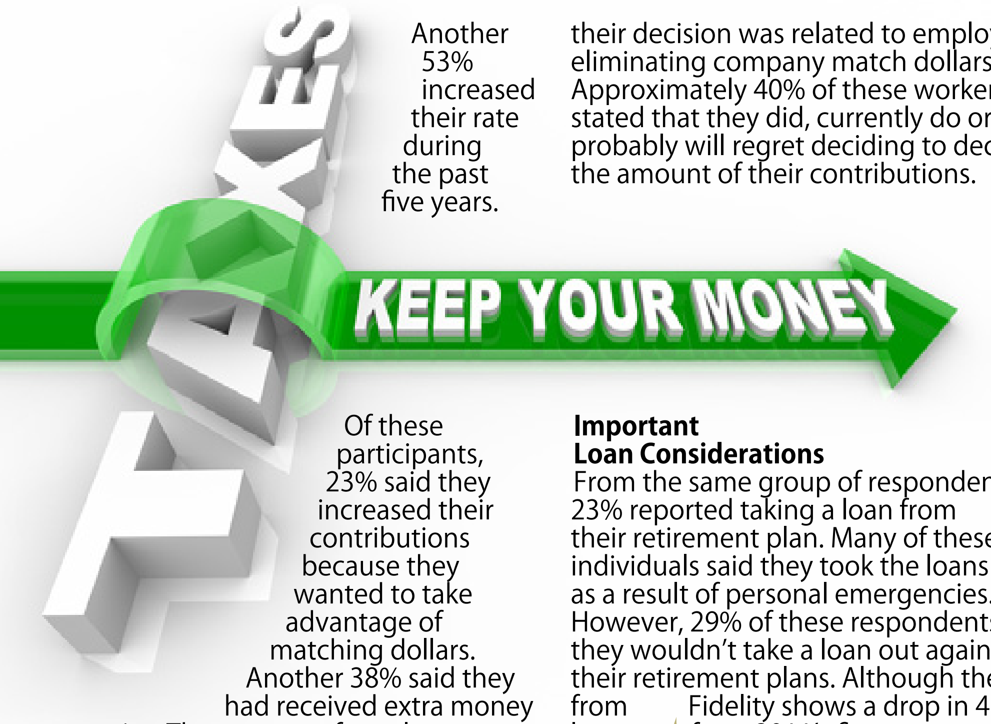

Another 53% increased their rate during the past five years. Of these participants, 23% said they increased their contributions because they wanted to take advantage of matching dollars. Another 38% said they had received extra money or a raise. The amount of employees who reported decreasing their plan contributions in the workplace was 23%. From this group, 46% said they needed extra money. Another 9% said their decision was related to employers eliminating company match dollars. Approximately 40% of these workers stated that they did, currently do or probably will regret deciding to decrease the amount of their contributions.

Important Loan Considerations

From the same group of respondents, 23% reported taking a loan from their retirement plan. Many of these individuals said they took the loans out as a result of personal emergencies. However, 29% of these respondents said they wouldn't take a loan out again from their retirement plans. Although the data from Fidelity shows a drop in 401(k) loans from 2011's first quarter, the company stresses the importance of contacting a professional before obtaining a loan.

This is because there are several factors that most plan participants may not be aware of. Tax implications are a potential risk. In addition to this, fees, repayment schedules and the potential of losing investment gains are all important factors to consider. Professionals are able to collect data from each individual, determine their risk based on that data and help them make a more informed decision. Most plan sponsors require loans to be repaid within 60 days if the participant is laid off or leaves the company. Both of these actions could also create a tax bill and considerable fee.

In order to gain more plan participants, employers and sponsors need to create a 401(k) structure that includes employer contributions. Although participants may contribute without matching dollars, the amount of contributors is much more likely to be higher with matching. There are many other important factors to consider with 401(k) plans. Analysis is an important part of deciding which parts of a plan work and which ones need to be changed.

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