

# Benefit Insights

## ***A Look at Healthcare Reform's Impact on Employers***

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act. Along with the Health Care and Education Reconciliation Act of 2010, this legislation will make significant changes to our current health care system.

The Act adds new responsibilities for employers and insurance carriers. While most of the provisions will start in 2014 or later, some provisions are effective right away or within a short period of time after enactment.

### ***Effective 2010***

- **Small-Business Tax Credit.** A tax credit of up to 35 percent of the employer's health care contribution is available for qualified small employers (any employer with no more than 25 full-time employees and average wages of less than \$50,000). This tax credit will increase to 50% starting in 2014 once exchanges are operational.
- **Early Retirees.** A temporary reinsurance program is provided to employers that offer coverage to early retirees between the ages of 55 and 64.
- **Health Plan Changes.** 1) Plans must offer unlimited lifetime benefits and annual benefit limits will be restricted. 2) Pre-ex conditions will be prohibited for children under 19. 3) Recissions are prohibited except in the case of fraud. 4) Plans must cover certain preventive health services at no cost to the insured. 5) Dependent coverage age limit extended to 26.
- **Federal High Risk Pool.** Temporary establishment of a high risk health insurance pool for individuals unable to find insurance elsewhere.

### ***Effective 2011***

- **W-2 Reporting.** Employers must report value of health care benefits provided on employee w-2s, but not as taxable income.
- **Higher Penalty Tax on Non-Qualified Health Savings Account (HSA) Withdrawals.** Non-qualified withdrawals will be taxed at 20% versus the current 10% penalty.
- **Cafeteria Plans.** A new Simple Cafeteria Plan is created through which small employers (less than 100 employees) can easily provide tax-free benefits to their employees without the administrative burden of sponsoring a cafeteria plan.
- **Standardized Definition of Qualified Medical Expenses.** Costs for over-the-counter medications obtained without a prescription will no longer be considered a qualified medical expense.

### ***Effective 2013***

- **Flexible Spending Account Limits.** Annual contribution limits are reduced to \$2,500 per year, with CPI increases available in future years.
- **Itemized Deduction for Medical Expenses.** The Act increases the income threshold for claiming the itemized deduction for medical expenses from 7.5 percent to 10 percent. Individuals over age 65 would be able to claim the itemized deduction for medical expenses at 7.5 percent of adjusted gross income through 2016.
- **Higher Payroll Taxes for High Income Earners.** The hospital insurance tax rate will be increased 0.9 percentage points for wages over \$200,000 for individuals and \$250,000 for those filing jointly.

*continued on page 3*

## ***Welcome to the Century Benefits Group, Inc. Newsletter!***

It is with great satisfaction that we bring this newsletter to you. In this issue and in coming months, we will discuss pertinent Employee Benefits topics which may affect your organization. In order to better serve our clients we have moved to a new office address: 400 White Spruce Blvd. Suite C Rochester, NY 14623 We have also added Charles Beecher to our staff to assist in servicing our clients. Feel free to contact Charles or myself if you need assistance. Also my new email address is [mking@aboutcentury.com](mailto:mking@aboutcentury.com) and Charles is [cbeecher@aboutcentury.com](mailto:cbeecher@aboutcentury.com). Please update your records. Our firm specializes in Group Employee Benefits to include: group health and dental insurance, group life, disability and vision insurance. Group and individual Medicare and Part-D plans, Group 401(k), profit sharing, SIMPLE-IRA, SEP-IRA and defined contributions plans for individuals, non-profits and corporations.



**Century Benefits Group, Inc.**  
400 White Spruce Blvd. Suite C  
Rochester, NY 14623  
Website: <http://www.aboutcentury.com>

**Michael King, CRSP**  
Phone: (800) 458-7805  
Fax: (585) 697-3048  
Email: [mking@aboutcentury.com](mailto:mking@aboutcentury.com)



## **A Look at Healthcare Reform's Impact on HSAs and FSAs**

If your company currently sponsors a flexible spending (FSA) or health savings account (HSA) to allow employees to pay out-of-pocket medical expenses with pre-tax dollars, be prepared for upcoming changes. New health care reform legislation could make these "cafeteria plan" benefits less appealing to employees.

Under the new law, maximum annual FSA contributions are reduced, and there are new regulations affecting how the funds can be used. The intent of the new rules and penalties is to generate revenue which can be used to fund aspects of the health care reform package.

FSAs and HSAs (assuming the employee is covered under a qualified high deductible health plan) allow an employee to contribute tax-free funds that can be used to pay for deductibles, drug co-pays, treatments that are not covered by health insurance, and other qualified medical expenses.

Beginning on January 1, 2013, the annual limit for FSAs will be set at \$2,500. Previously, the IRS had stipulated that employers could establish their own FSA contribution limit, and according to the Center on Budget and Policy Priorities, these limits generally fell into the \$2,000 to \$5,000 range. In 2009, Mercer's National Survey of Employer-Sponsored Health Plans stated that the average yearly employee contribution was \$1,424.

Annual limits for HSAs, however, were not affected by the new legislation.

Be aware that some restrictions will become effective more quickly. For example, as of January 1, 2011, FSA and HSA participants will no longer be able to spend the funds on over-the-counter medications unless a physician has specifically prescribed them. Also starting next year, non-qualified withdrawals from HSAs will be subject to a 20% penalty instead of the 10% penalty which is currently applied.

## **Aetna Study Shows CDHPs Can Save Money**

A recent study released by Aetna has demonstrated that people participating in a health savings account (HSA) visit their primary care physicians 15 percent less than average for non-routine visits. They were also shown to have medical costs that were a total of 10 percent less than that of traditional plans.

With HSAs, funds deposited into these accounts are tax-deductible, and the funds can also roll over from one year to the next if they are not spent. Withdrawals from these accounts to pay for qualified medical expenses are tax-free.

HSAs are usually one component of a consumer-directed health plan or CDHP. As part of a CDHP, the HSA is usually

used in conjunction with high-deductible health insurance. This insurance exists to protect individuals against sudden catastrophic healthcare costs. Alternatively, the money withdrawn from the HSA is used to pay for more regular, routine healthcare expenses.

The benefits of utilizing CDHP plans with HSAs are not limited to reducing the number of visits made to primary care physicians. The same study also suggests that HSA participants are more directly involved in their own healthcare. They were 250 percent more likely to research health conditions on the internet to become more educated on their health. HSA participants were also 300 percent more likely to take health assessments than people enrolled in traditional plans.

Individuals with HSAs were also shown to focus more on preventive care. Screenings by HSA users for diabetes and cancers, such as breast cancer and cervical cancer, were much higher. HSA users also saved money by visiting the emergency room far less and using generic drugs more often than name brand medications.

HSAs under a CDHP also provide benefits to employers as well. Over a period of five years, employers that only offered CDHP options to their employees, saved \$18 million dollars per ten thousand members enrolled in the plans.

Whether it is employers who offer them or the employees who use them, HSA plans can save a significant amount of money over more traditional healthcare options.

## **COBRA Subsidy Program Extended a Third Time**

President Obama signed H.R. 4851, also known as the "Continuing Extension Act of 2010" into law on April 15, 2010. Among other items, the Act included another extension of the COBRA premium subsidy program. The COBRA subsidy extension is effective retroactive to April 1, 2010.

Prior to this bill's enactment, COBRA premium assistance had expired on March 31, 2010 when prior extensions ended. This new extension will provide COBRA premium assistance for terminated workers who experience either of two qualifying events. The first qualifying event applies to an involuntary termination of employment up until May 31, 2010. The second event is an involuntary hours reduction followed by an involuntary termination provided the termination occurs between March 1, 2010 and June 1, 2010.

Even though the Act was passed after the previous legislation had expired, the new bill retroactively applies to those who were involuntarily terminated since April 1, 2010.

As with prior extensions, individuals that qualify for premium assistance are eligible for up to 15 months of subsidized premiums.

## Tough Economy Cannot Shake Investor Confidence in 401(k)s

Individual investor confidence in 401(k) plans remains high, even after two years of volatility in the financial markets and, for many, lower account balances that reflect such volatility. This conclusion comes from the results of two surveys from the Investment Company Institute (ICI), one of 401(k) plan recordkeepers and one of individuals. Survey findings validate that 401(k) plans remain a vital and valued part of retirement savings strategy, even during tough economic times.

The ICI recordkeeper survey represents plans covering nearly 24 million participants in 401(k) and other defined contribution plans. Withdrawal and contribution data from the survey indicates that, despite recent financial pressures, most plan participants continued to save in their workplace-based plans, and few made withdrawals. Between January and September 2009—a period of high market volatility and growing unemployment—

- 5.0% of participants stopped making plan contributions.
- 2.6% of participants took any type of plan withdrawal.
- 1.3% of participants took a hardship withdrawal.
- 16.8% of participants had plan loans outstanding.

This activity, though occurring during a period of uncertain economic forecasts and rising unemployment, was in line with previous data. In other words, participants do not seem to be looking to their 401(k) and other types of retirement savings plans as a vehicle for making it through a recessionary period. With regard to plan loans, the survey notes that loan amounts, when measured either in amount or as a percentage of account balance, tend to be small, with participants repay-

ing the loans (with interest) to their accounts, “thereby limiting the negative effects that loans would have on the overall accumulation at retirement.”

Furthermore, most plan participants have not made drastic asset allocation adjustments in response to the account value downturns that many likely experienced during the survey period. Only about 10% changed the allocation of their account balances, and a similar 10% changed the investment direction of new contributions.

Responses from plan participants given in the individual investor survey bear out the conclusion that participants recognize 401(k) plans as a retirement savings vehicle and not as a source of funds to tide them over before then—

- 93% said that 401(k) plans help them think about the long term, and not just their current financial needs.
- 85% cited the immediate tax savings earned from plan participation as a big incentive to participate.
- 40% said they probably wouldn’t save for retirement if it weren’t for their participation in their workplace plan.
- 73% expressed confidence that their workplace 401(k) plans will help them to meet their retirement goals.

Though stock market declines have provoked some discussion as to whether 401(k) and other participant-directed retirement plans offer the best means for individual savings for retirement, the sentiment expressed in the individual investor survey, coupled with the actual experience documented in the recordkeeper survey, confirm the vitality of these plans and their important role in retirement savings.

### *continued from page 1...A Look at Healthcare Reform’s Impact on Employers*

#### **Effective 2014**

- **Employer Coverage Mandates.** Employers with 50 or more employees who do not offer employee health coverage will pay \$2,000 annually for each full-time employee, excluding the first 30 full-time employees. The penalty is increased to \$3,000 for any full-time employee receiving a federal tax credit for coverage, because his or her employer health coverage is considered “unaffordable.” Coverage is considered “unaffordable” where the employee contributes more than 9.8 percent of his or her income, or the employer contributes less than 60 percent of the actuarial value of the plan.
- **Insurance Exchanges.** Exchanges are created at the state level starting in 2014, where individuals and small employers can shop for health coverage. Initially, the exchanges would be available to individuals and small groups (less than 100 employees), unless the state opts to cover only groups with up to 50 employees. Starting in 2017, states could open the exchanges to larger groups.

- **Wellness Programs.** Employers can offer larger rewards, up to 30% of the cost of coverage, to employees for participation in a wellness program or for meeting certain health-related goals.
- **Individual Tax Credits.** Credits are available for people with incomes up to 400 percent of the poverty level for insurance purchased through an exchange.
- **Health Plan Changes.** 1) Insurers cannot refuse to issue coverage on any individual due to pre-existing conditions. 2) Higher rates cannot be charged to any individual based on health status, gender or other demographic factors. 3) Coverage cannot be non-renewed or dropped because an individual participates in a clinical trial.

#### **Effective 2018**

- **High Value Plan Excise Tax.** A nondeductible excise tax of 40 percent is imposed on any health insurance plan with combined annual employer/employee premiums exceeding \$10,200 for individual coverage and \$27,500 for family coverage. The tax would only apply to premiums in excess of the threshold.

---

## **IRS Health Care Tax Credit Available for Small Businesses**

The recent health care legislation signed into law by President Barack Obama contains a Small Business Health Care Tax Credit that will help small businesses with the cost of providing their employees with health care. The tax credit's benefits are available immediately for the 2010 tax year.



According to the Congressional Budget Office, small businesses are expected to save an estimated \$40 billion by 2019, due to the Small Business Health Care Tax Credit. The tax credit is effective retroactive to January 1st, 2010 and covers up to 35 percent of a small business's premiums, with the rate increasing to 50 percent on

January 1st, 2014.

While non-profit organizations are eligible for the credit, they will receive a lower percentage. Tax exempt organizations will be able to receive up to a 25 percent tax credit in 2010, which will be raised to 35 percent in 2014.

The tax credit has broad eligibility, covering 4 million small businesses. Any business that pays at least 50 percent of

employee health care costs, employs the equivalent of 25 or fewer fulltime workers (allowing eligibility for companies with 50 part-time workers), and pays an average employee salary of \$50,000 or less (not including owners and their family members) will be eligible for the Small Business Health Care Tax Credit.

The maximum credit of 35% is available for small businesses with 10 or fewer fulltime workers and an average salary of \$25,000 or less. For businesses that pay employees between an average of \$25,000 and \$50,000, the tax credit gradually phases out. The gradual phase out also applies to businesses that employ an equivalent of 10 to 25 full time workers (20 to 50 part time workers).

Businesses are able to claim the credit for a total of six years. They will be eligible to claim the credit for four years, from 2010 to 2013, and then any two years after the 2013 date.

To keep businesses from abusing the system by picking a high-cost plan, the Small Business Health Care Tax Credit will only be eligible for the average health insurance cost of the state where the business is located. This information will be provided by the IRS at a later date.

For more information, refer to the IRS website at <http://www.irs.gov/newsroom/article/0,,id=220809,00.html?portlet=6>.

---

**Century Benefits Group, Inc.**  
400 White Spruce Blvd. Suite C  
Rochester, NY 14623  
Website: <http://www.aboutcentury.com>

**Michael King, CRSP**  
Phone: (800) 458-7805  
Fax: (585) 697-3048  
Email: [mking@aboutcentury.com](mailto:mking@aboutcentury.com)