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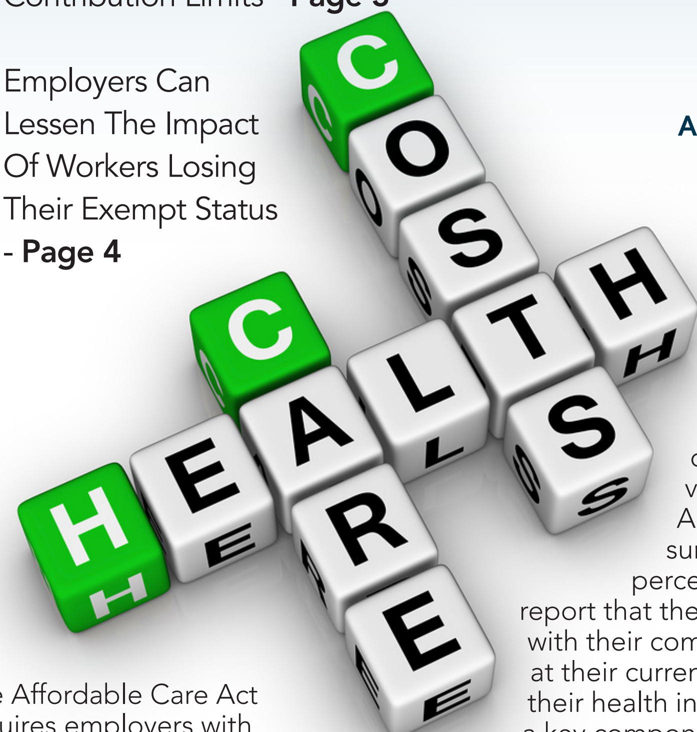
Benefit Insights

July 2016

A Newsletter for Clients and Friends of Insurance Group of Nevada

Group Versus Individual Health Insurance For Small Businesses



The Affordable Care Act requires employers with 50 full-time equivalents or more to provide qualified group health insurance plans to all full-time employees. Otherwise they have to pay significant penalties. But if you are a smaller employer, you still have a choice: You can offer a qualified group health insurance plan to your employees, or you can save on premiums by deciding not to offer health insurance - effectively sending all employees to the individual market for coverage.

Group Insurance

With group insurance, the business is responsible for paying premiums - and must generally pay at least half of the total premium for the plan to qualify as a group health insurance plan.

While not every small employer is able to pay for health insurance for all employees, there's no denying that health insurance is an important part of most companies' employer value proposition. According to a 2013 survey by Metlife, 61 percent of employees who report that they are "very satisfied" with their compensation package at their current employers say that their health insurance benefits were a key component of why they were satisfied. 38 percent of employees surveyed report that their health care benefits were an important part of why they were satisfied with their compensation.

This is, of course, why most large companies offered health insurance to employees even before they were required to by the Affordable Care Act: Quality employees demanded health insurance coverage, and employers had to offer it to recruit and retain the best available talent.

- Your business may qualify for a tax credit. The tax credit is available to businesses with fewer than 25 full-time employees, with average wages of $50,000 per year or less, provided you pay at least 50 percent of the total premium. The tax credit is worth up to 50 percent of the premiums you pay (35 percent if you are a tax-exempt organization). You must purchase the coverage through the Small Business Health Options Program, or SHOP, to qualify for the tax credit.
- The costs of offering a group health insurance plan are 100 percent deductible to the employer.
- Benefits tend to be richer in group plans than in individual plans, with generally lower deductibles available.
- The employer doesn't have to pay the entire cost of the plan. Employees can be responsible for part of the premium.
- Group coverage has more enrollment flexibility: You can start a new qualified group at any time. You and your employees will not have to wait until the next open enrollment period to get new coverage in place. Those on the individual insurance market must generally wait until the Affordable Care Act open enrollment period to initiate coverage, unless they qualify for a 'special enrollment period.'

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Insurance Group of Nevada is pleased to present you with the first edition of our corporate newsletter. We hope the articles in this and future editions will provide insight into an array of financial matters, and we urge you to contact us with questions and comments. Our agency works in the areas of insurance, investment and benefit planning for individuals and corporations. Our goal is to provide excellent service, competitive pricing, and products tailored to meet the special needs of each client.

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What Employers Need to Know About ERISA

ERISA stands for the Employee Retirement Income Security Act of 1974, which was a sweeping federal law that created the Individual Retirement Arrangement (IRA), as well as established a set of rules for pension plans and other employee benefit plans to qualify for preferential tax treatment.

The term "qualified plan" as we use it today, in the pension and employee benefit context, generally means the plan in question meets the requirements for favorable tax treatment under ERISA.

Pensions

While employers are not obligated to establish a pension plan for workers (some narrow-margin businesses would find this to be very difficult if it did!), employer-sponsored pensions must meet certain criteria under ERISA to qualify for a full tax deduction for the employer and tax-favored status for the employee, as well. Among these requirements:

- Workers must be vested in their pensions within a certain number of years.
- Traditional pension plans must calculate retiree benefits based on the joint life expectancies of a married couple, and not just on one spouse, unless both spouses specifically waive this benefit (in exchange for a higher initial payout).

ERISA also established funding standards for sponsors of traditional, defined benefit pension plans.

Additionally, ERISA formally established the Pension Benefit Guaranty Corporation - a quasi-government entity that steps in to take over pensions when a given plan becomes insolvent and cannot pay expected benefits. This way, retiree incomes are more secure: If a pension should fail, the PBGC will pay pension obligations, up to a certain monthly amount.

If you sponsor any kind of traditional defined benefit or defined contribution pension, plan, you must file a Form 5500 with the Department of Labor.

ERISA also requires you to provide plan summaries to all plan participants. On request, plan sponsors must provide all participants with calculations of accrued and/or vested benefits earned in their pensions.

ERISA also holds plan investment managers, trustees and sponsors to a fiduciary standard. That's the highest standard of care, fair dealing and utmost good faith recognized under the law.

This high standard imposed on plan sponsors benefits workers, but it also creates an elevated level of risk to the employer in the form of potential liability for failures to live up to that exacting standard. For this reason, many plan sponsors also carry Directors & Officers' Liability Insurance and employment practices liability insurance to protect the company officers and the company itself from liability arising from errors and omissions related to the benefit.

Later amendments to ERISA prohibits employers from discriminating against lower-paid workers. Congress intended the bulk of ERISA's tax benefits to go to lower to middle class employees. Anti-discrimination rules and so-called "Top Hat" rules that prohibit managers from fully participating in plans unless the plan gets sufficient participation from the rank and file.

Health Plans

ERISA provides similar benefits and conditions to medical plans. If an employer wants the benefit of a full tax deduction for medical plans as part of its compensation package, it must offer the benefit to all full-time employees and not just to executives and management.

The well-known COBRA, or Consolidated Omnibus Budget Reconciliation Act of 1985, amended ERISA to require employers to provide workers who leave the company the option of continuing to remain on board with their current health insurance plan for a limited period of time.

HIPAA, or the Health Insurance Portability and Accountability Act of 1986, also amends ERISA to prevent health carriers from discriminating against individuals with pre-existing conditions.

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The Individual Market

Alternatively, smaller employers can go without a group health plan for their employees but in order to remain competitive, they must offer compensation in other forms in order to compete for talent. Typically, this takes the form of higher cash compensation. Employees have the option, of course, to use this extra cash to purchase their own health insurance, but employers cannot require them to do so. You also cannot write off sums spent paying individual health insurance premiums on your employees' behalf.

While every business is different, most businesses soon find that they are better off going with a group insurance plan, rather than leaving employees to the individual market. Individual plans may work well for very small 'mom and pop' companies with few employees beyond the owners themselves. But as your hiring needs grow, the balance of the argument shifts swiftly to offering a full-fledged group health insurance plan.

IRS Announces New 2017 Health Savings Account Contribution and High Deductible Health Plan Limits

The Internal Revenue Service has announced the new contribution limits to health savings accounts for tax year 2017. They also confirmed that the limitations and deductible guidelines on high deductible health plans will remain unchanged for tax year 2017.

Health savings accounts, or HSAs, are tax-advantaged savings accounts that individuals and families can use to save money pretax to fund future medical expenses. However, taxpayers may only contribute to these HSAs if they are covered by a qualified high deductible health plan, or HDHP.

HSA Contribution Limits

The new HSA contribution limit for 2017 is $3,400 for individual coverage. This is an increase of $50 from the 2016 maximum contribution amount.

For family plans, the maximum HSA contribution limit for 2017 is unchanged from 2016 levels, at $6,750.

Taxpayers age 55 and older are eligible for an additional catch-up contribution of $1,000 per year in 2017. That figure is unchanged from 2016. Catch-up contributions may be made at any time during the year in which a health savings account participant turns age 55.

High Deductible Health Plan Maximum Deductibles

For tax year 2017, the maximum deductible for an individual only high-deductible health plan is $1,300.

For family coverage, the maximum allowable deductible for a family high-deductible health plan in 2017 is $2,600. Again, both numbers are unchanged from 2016 levels.

High-Deductible Health Plan Maximum Out-Of-Pocket Amounts

High-deductible health plans are subject to maximum amounts that covered individuals and families may be required to pay out of pocket for covered medical services. The maximum out-of-pocket levels apply to deductibles paid, copays, coinsurance costs and other fees. Premiums, however, are not included in the maximum out-of-pocket cost rules.

For individual plans, the maximum out of pocket cost for HDHPs is capped at $6,550.

For family plans, the maximum out of pocket costs for HDHPs is capped at $13,100.

Again, both numbers are unchanged from 2016 levels.

Nonqualified Expenses

While assets in HSAs enjoy tax-free growth if used for qualified medical expenses, the IRS charges a substantial penalty of 20 percent for any funds you withdraw prior to age 65 for any other reasons, unless the participant is totally or permanently disabled. This 20 percent is in addition to any income tax you may owe on the amount withdrawn.

Adult Children

If you cannot claim a child on your individual tax return as a dependent, you generally cannot include them as family members for the purposes of administering a health savings account or high deductible health plan. That means you cannot spend HSA money on health services for adult children who are no longer dependents without being subject to taxes and penalties for nonqualified expenses.

Generally, once a child turns age 19, he or she may be considered a dependent only under the following circumstances:

The individual has had the same principal residence as the covered employee for 181 or more days during the year, has not provided more than one half of his or her own support during the tax year, and is not yet 19, or if a student, not yet 24, or is permanently and totally disabled.

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Impact On Benefits

In most cases, the new changes should not affect health, vision and dental benefits. Most salaried workers spend enough hours at work to qualify for benefits. If they do not, companies may amend their policies in accordance with regulations. Company benefits may be affected by the new rule if no internal changes are made. Vacation days, PTO, disability insurance and other perks are often more generous for salaried workers in some companies. If there are differences between the benefits offered to salaried and hourly workers, consider changing the company policy to a yearly earning threshold instead of exempt or nonexempt status. Retirement benefits may be affected by overtime and bonuses. Each company must evaluate how their specific plans will be affected by the new change.

Possible Changes Or Cuts

Employers should make any possible changes to keep their valued workers and make them feel appreciated. However, the new rule is likely to negatively affect some businesses. In many cases, salaried workers spend more than 40 hours working each week. If 50 percent of the company's workers spend 50 hours per week at work and suddenly become nonexempt, the company will have to shell out more money to pay overtime. This creates a need to make cuts somewhere. Most companies must choose between cutting staff and cutting benefits. If the workers cannot be spared, the benefits are the prime target. Employers may have to remove some perks or benefits and modify others, which would be a negative change for workers.

A good benefits package is one of the best ways to attract and retain top talent. It is important to explore options before making any decisions about cuts and changes. To learn more about these options and better solutions, discuss concerns with an agent.

Employers Can Lessen The Impact Of Workers Losing Their Exempt Status

With the Department of Labor's new overtime rule, employers across the United States will have to tell several exempt workers about a big change. The salaries of many exempt workers do not meet the DOL's new overtime requirements, which will bring changes to hour and wage calculations. Experts said that workers' expected emotional responses will range from feeling angry to feeling under-appreciated. For many decades, there has been a distinction of superiority associated with exempt or salaried status. The challenge for employers will be to explain that the new changes are not a demotion of importance but rather an easier way to stay accountable to the DOL for hours and pay.

The new overtime rule will raise the salary threshold for exempt workers to $47,476. It was $23,660 before the new rule. For employees whose prior threshold was $100,000 for classification as highly compensated, the new threshold is $134,000. There are no duty tests associated with the changes. Employers have the choice of raising an affected worker's salary to help that individual keep exempt status or reclassifying the worker and removing exempt status. The challenge does not stop there. In addition to reclassification, employers must face the task of teaching nonexempt workers how to track their work hours, breaks, travel and other applicable events throughout the workday.

Communicating Changes

Communicating changes will be difficult and requires a soft approach. Consider these helpful tips for reducing negative reactions:

Emphasize the benefit of receiving extra pay for overtime hours.

Set up a system that allows a salary with hour tracking and overtime pay for affected workers.

Address any hour changes that may affect a worker's previous schedule or work pattern.

Emphasize that the status change does not reduce the worker's importance or roles.

Another challenge to consider with this new rule is the use of company property. If a salaried worker enjoys the benefits of using a company computer, phone or vehicle, those privileges may end if a corporate business does not change its own rules. By amending company rules to allow workers to keep these privileges, employers can soften the impact of the change. Taking away privileges along with exempt status will make employees feel like they have lost their importance within the company.

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