Employee Benefits Report

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What a 401(k) Administrator Can Do for You

By 2005, private employers sponsored more than 635,000 401(k) plans that covered more than 75 million employees. A well-designed 401(k) plan helps employers attract and keep talented employees, allows them to take a tax deduction for their contributions to employees' accounts, and eases administrative burdens by allowing participants to take their benefits with them when they leave the company. However, if the paperwork involved sounds daunting, relax — a professional can help.

Before establishing a 401(k), you might ask yourself whether your organization has the expertise and staff resources to handle plan setup and maintenance in-house, or whether you need help from a professional. Benefits consultants, financial planners and financial institutions such as insurers, banks or mutual funds often provide this service.

A retirement plan professional can start by helping you decide which type of 401(k) best meets your organization's needs — whether it's a traditional 401(k), a safe harbor 401(k), or a SIMPLE 401(k) plan.

A traditional 401(k) of-

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This Just In…

Employers expect group health insurance costs to rise 9 percent in 2011, according to a survey by Pricewaterhousecoopers. However, brokers in many areas are seeing double-digit premium increases, particularly among employers with high medical claims.

A survey of large employers by Hewitt Associates had similar findings. The Hewitt study attributed only 1 percent of 2011 cost increases to plan changes mandated by the Patient Protection and Affordable Care Act; the remainder of the increase stems from increases in physician and hospital costs. According to Pricewaterhousecoopers, physician and hospital costs account for 81 percent of health insurance premiums.

fers the most flexibility, but requires more administration than other types, including annual "nondiscrimination" testing to ensure that benefits for rank-and-file employees are proportional to benefits for owners/managers. Safe harbor and SIMPLE 401(k)s are exempt from some of the complex tax requirements of traditional 401(k)s and from non-discrimination testing; however, the employer must make fully vested matching contributions to employees' accounts. A retirement plan professional can help you determine which of the plans your organization qualifies for, and which make the most sense for you.

Once you've selected your plan type, you must take certain steps to ensure your plan enjoys a tax-advantaged status:

- Adopt A Written Plan
- Arrange A Trust Fund For The Plan's Assets
- Develop A Record-Keeping System
- Provide Plan Information To Participants

Adopt a written plan — Plans begin with a written document that governs day-to-day plan operations. If you have hired someone to help with your plan, he/she likely will provide it. If not, consider obtaining assistance from the financial institution that will hold participants' accounts. In either case, you are bound by the terms of the plan document.

Arrange a trust fund for the plan's assets — A plan's assets must be held in trust to assure that assets are used solely to benefit the participants and their beneficiaries. The trust must have at least one trustee to handle contributions, plan investments and distributions to and from the 401(k) plan. Since the financial integrity of the plan depends on the trustee, this is one of the most important decisions you will make in establishing a 401(k) plan. If you set up your plan through insurance contracts, the contracts do not need to be held in trust.

Develop a recordkeeping system — Plan sponsors need an accurate recordkeeping system to track and properly attribute contributions, earnings and losses, plan investments, expenses and benefit distributions in participants' accounts. You will also need the information required to prepare the plan's annual federal tax return/report.

Provide plan information to eligible employees — A summary plan description, or SPD, informs participants and beneficiaries about the plan and how it operates. You will need to send it to all plan participants. You may also want to provide your employees with information that discusses the advantages of joining your 401(k) plan. Employee perks — such as pre-tax contributions to a 401(k) plan (or tax-free distributions in the case of Roth 401(k)s, employer contributions (if you choose to make them), and compounded tax-deferred earnings — help highlight the advantages of participating in the plan.

Once you have established a 401(k) plan, you assume certain responsibilities in operating the plan. If you hired someone to help set up your plan, that arrangement also may have included help in operating the plan. If not, you have the important decision of whether to manage the plan yourself or hire a professional or financial institution to take care of some or most aspects of operating the plan. Elements of a plan that need to be handled include:

- Participation
- Contributions
- Vesting
- Nondiscrimination
- Investing 401(k) monies
- Fiduciary responsibilities
- Disclosing plan information to participants
- Reporting to government agencies
- Distributing plan benefits.

Each of these has specific procedures that must be followed in order for your plan to maintain its tax-advantaged status, and to avoid liability for mismanagement of participants' funds.

Even if you do hire a financial institution or retirement plan professional to manage the whole plan, you retain some fiduciary responsibility for the decision to select and keep that person or entity as the plan's service provider. Thus, you should document your selection process and monitor the services provided to determine if a change needs to be made.

Some items to consider in selecting a plan service provider:

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- Information about the firm itself: affiliations, financial condition, experience with 401(k) plans and assets under its control;
- A description of business practices: how plan assets will be invested, if the firm will manage plan investments, how participant investment directions will be handled and fee structure;
- Information about the quality of prospective providers: the identity, experience, and qualifications of the professionals who will be handling the plan's account; any recent litigation or enforcement action that has been taken against the firm; the firm's experience or performance record; if the firm plans to work with any of its affiliates in handling the plan's account; and whether the firm has fiduciary liability insurance.

Once hired, these are additional actions to take when monitoring a service provider:

- Review the service provider's performance;
- Read any reports it provides
- Check actual fees charged;
- Ask about policies and practices (such as trading, investment turnover and proxy voting); and
- Follow up on participant complaints.

For more information on selecting an administrator for your organization's 401(k) plan, please contact us. ■

Enhance Your Benefit Plan with Cancer and Dread Disease Insurance

Cancer now accounts for about 10 percent of all healthcare costs in America. And one in three Americans will receive a cancer diagnosis in their lifetime, according to the American Cancer Society. With many Americans uninsured or underinsured, no wonder the idea of low-cost cancer insurance holds appeal. But is it worth it?

By 2002, 32 percent of employers surveyed by the Society for Human Resource Management offered some type of cancer or dread disease insurance. Today, with more employers adopting high-deductible health plans or cutting coverage altogether, the appeal of limited benefit plans, such as cancer and "dread disease" insurance, is growing.

But do these plans make financial sense? They cover only limited conditions and often carry high deductibles. But today a diagnosis of cancer or other dread diseases often means dealing with a chronic condition rather than a death sentence. People with these conditions often face skyrocketing costs for chemotherapy. In addition, adjunctive therapies, those that ease chemotherapy symptoms, can cost as much as $10,000 per round of treatment. It's no wonder that many people with cancer exhaust even catastrophic insurance policy limits.

The evolution in treatment of dread diseases, coupled with consumer-driven healthcare, demands new products. Current-day dread disease insurance owes its existence to Dr. Marius Barnard, brother of heart-transplant pioneer Dr. Christiaan Barnard. He invented the product to address the financial difficulties heart transplant recipients dealt with.

Modern dread disease coverage bears little resemblance to the cancer insurance marketed in the 1960s and '70s. Dread disease insurance offers coverage for heart attack; stroke; kidney failure; coma; coronary artery bypass; loss of sight, speech or hearing; major organ transplant; paralysis; severe burns; as well as several types of cancer.

The policies fall into two types, lump-sum payment and reimbursement. Under lump-sum payment policies, the beneficiary receives a lump sum for a covered diagnosis according to a policy schedule. Policy face

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amounts range from $5,000 to $100,000, but average around $20,000. Reimbursement policies pay on a per-event basis. Although these policies pay set per diem rates for hospitalization and recuperation time, they often cover items that are not covered by catastrophic health plans. For instance, some policies cover transportation and lodging for family members who transport a patient to see a specialist.

Underwriting is relatively lax for these policies. Workers who can demonstrate being cancer-free for ten years generally can find cancer coverage. Only extreme family histories, such as a parental death by stroke prior to age 60, preclude coverage under a cancer or dread disease policy.

"Sandwich generation" baby boomers appear to be the hot market for dread disease insurance. As they face their own health problems, they are often arranging care for elderly parents. They face hidden health care costs such as private duty nurses, transportation and lodging costs to see specialists, and uncovered, possibly experimental or off-label use of drugs. Aging boomers in particular face heightened risk of stroke and heart attack. Stroke rates for men 45 to 54 run about 2 percent. That figure doubles for men ages 55 to 64.

Dread disease insurance can be another benefit employers can use to help retain valuable baby boomer workers. Employers can offer it as either a paid benefit or voluntary (employee-paid) benefit. As a voluntary benefit, employees who opt to buy coverage enjoy group rates, which might be lower, along with the convenience of payroll deduction payment. For more information, please call us.

This Just In…

Ninety percent of companies surveyed expect to lose the grandfathered status of their health plan by 2014, according to Hewitt. The Patient Protection and Affordable Care Act exempts grandfathered plans from having to comply with only certain provisions of the law. Plans lose their grandfathered status by reducing benefits, significantly raising copayments and/or deductibles or changing carriers.

Employers told surveyors they would most likely lose grandfathered status because of plan design changes (72 percent) or changes to subsidy levels (39 percent). They also cited consolidation of health plans (16 percent), changes to carriers (16 percent) and union negotiations (15 percent) as additional reasons.

Disease Management: Worth the Investment?

Disease management has grown into an estimated $2.5 billion industry. But lately it's been taking some hits. What exactly is disease management, and is it effective in controlling health care costs?

A 2009 RAND study for the state of Massachusetts concluded that disease management could increase employer and government healthcare costs by more than $6 billion with little spending reduction in return. A study of Medicare patients in 2008 found disease management did not reduce hospitalizations, emergency-room visits or death from chronic disease among the 200,000 study participants.

So what accounts for disease management's popularity among employers and insurers? As healthcare costs increase, employers are willing to try new techniques to control them. However, as with any investment, what works in one situation or for one individual might not work for another. To make sure your investment in disease management pays off, consider the following guidelines:

Identification and early intervention. Only a small fraction of patients with major chronic conditions are responsible for the majority of healthcare costs. Through early patient identification, education, nursing support and care coordination, disease management can help avoid or minimize complications and improve the employee-patient's quality of life. In some instances, this can translate into lower healthcare costs.

More diseases, more people. Until recently, most disease management programs covered just a few major chronic conditions — usually heart disease, asthma and diabetes. Now many programs cover a dozen or more ailments, including depression and other mental illnesses.

What all these diseases have in common is that they require lifelong management and account for about half of all health care costs, according to American Healthways, the nation's largest disease management provider. By keeping these patients as healthy as possible, disease management creates a win-win situation, since as health improves, savings improve.

Costs. A Hewitt survey found that almost two-thirds of employers say that disease management has helped control their health-care expenditures, with an approximate 2-to-1 or higher return on investment. Cost depends

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expenditures, with an approximate 2-to-1 or higher return on investment. Cost depends on which conditions are covered, how the program is structured, and whether fees are based on the total number of employees or the number of enrolled participants. Average annual costs range from $5 to $12 per employee/per condition, according to Watson Wyatt consulting.

Employers that are successfully using disease management are identifying the most prevalent and high-cost conditions among their employees. By examining their health insurance and pharmaceutical claims and evaluating their employee population (through a health risk assessment), employers can design programs that cover the most costly ailments.

Evaluation. A successful program depends on regular evaluation. A successful program will not only save money, but improve quality of life among employees with chronic conditions.

For more information on disease management, please contact us.

Prepare for New Healthcare Reporting on W-2s

For tax years beginning after December 31, the Patient Protection and Affordable Care Act requires all employers that provide health coverage to calculate and report the cost of that coverage on employees' W-2 forms. This amount will not be included in employees' taxable income. The law requires employers to report this information so the IRS can track the value of so-called "Cadillac" health plans, which will be subject to a 40 percent excise tax beginning in 2018.

Employers must report the value of the following employer-sponsored benefits, whether provided through a fully insured or self-insured plan:

- Major medical coverage
- Amounts received under health reimbursement arrangements (HRAs)
- Employer contributions to a health savings account (HSA) or Archer medical savings account (MSA)
- Employer-provided Medicare Advantage plans
- The value of treatment from on-site medical clinics, except for "de minimis" care
- Limited benefit plans

Employees' salary reduction contributions to health flexible spending arrangements (FSAs) are exempt, as are stand-alone vision or dental insurance, long-term care insurance, hospital indemnity and cancer or "dread disease" coverage (if the employee pays with after-tax dollars), and accidental death and disability insurance.

Employers must calculate the value of coverage using rules similar to those that apply to calculating COBRA continuation coverage premiums. Although most employees will need their W-2s for 2011 in January 2012, employees who leave your employ before that can request their W-2s early. Therefore, all employers should be prepared to report this information on W-2s no later than February 1, 2011.

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