Employee Benefits Report

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How to Maximize 401(k) Limits and Savings Strategies

Your employees will be able to save more money in their 401(k) retirement accounts this year. The big question, though, is should they save the annual maximum?

New Contribution Cap

For employer match accounts, the Internal Revenue Service raised the annual contribution cap for 401(k) and defined contribution retirement accounts from $18,500 to $19,000. Defined contribution retirement accounts include 403(b) plans, most 457 plans, and the federal government's Thrift Savings Plans. The catch-up limit on defined contribution plans for employees who are 50

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Wave of the Future: Combined Health and Dental Benefits

Tired of having to purchase employee dental policies separate from health insurance coverage? That practice soon may be a thing of the past.

West Monroe Healthcare, a consulting firm, polled 125 executives from dental plans and health plans about the future of dental coverage. The poll revealed that 96 percent of respondents agreed eventually it will be common to include dental benefits in medical plans. Thirty-nine percent of dental executives surveyed said they plan to work with health insurers to offer combined policies within five years.

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or older remains unchanged at $6,000. That means employees age 50 and older can save as much as $25,000 in their 401(k) plan each year.

An employee can defer $19,000 of pretax earnings. There also is a $56,000 limit (up from $55,000) to how much employee and employer contributions and profit-sharing contributions can be made to defined contribution plans.

Families who qualify can claim a Saver's Credit on their tax return for the amount they save each year. The maximum amount that can be saved annually was increased $1,000 for married couples to $64,000; up $750 to $48,000 for heads of households; and up $500 to $32,000 for singles and single filers. The credit was formerly named the Retirement Savings Contributions Credit. It gives a special tax break to low- and moderate-income taxpayers who are saving for retirement.

To Max Out or to Not Max Out

Many retirement experts advise employees to "max out" their 401(k) contributions. Maxing out means contributing the maximum amount a person is allowed to save annually. This maximum amount does not include employer matching contributions, allocations of forfeitures or any mandatory contributions.

The question, then, is whether your employees should save that much. For example, assume an employee wants to contribute the 2018 maximum to their 401(k) for 30 years and they earned 7 percent returns on their investments. They would have a $1.75 million nest egg — not including matching contributions. While anyone might be thrilled to have that much money, it's a lot to save each year and many people don't need that much.

On the other hand, a 40-year-old with no savings might want to max out their 401(k) contributions.

For most people, contributing 10 percent of their salary to a company's 401(k) or other retirement savings probably is enough if sustained throughout their career.

A study by the Center for Financial Security at the University of Wisconsin-Madison found that employees appreciate it when employers offer financial education as a way to make better financial decisions. According to the study, participants with access to an online financial program in the workplace increased their contributions to retirement accounts by an average of 40 percent.

Two common ways employers can provide financial assistance include offering:

- Managed accounts overseen by professionals or by an automated investment platform. According to *The Wall Street Journal*, managed accounts don't always mean better returns and may not be worth the expense.
- Target-dated funds — passively managed portfolios targeted to a certain year (usually the employee's retirement date). As the employee ages, assets are shifted from risky to more conservative.

Please contact us if we can be of any assistance. ■

The federal government's growing interest in promoting good oral health as a way to improve overall health for Medicaid/Medicare recipients is one of the top reasons observers expect health care policies to one day include dental insurance.

Improved technology, which makes it easier to share information and track benefits and payments, also is fueling interest in combined plans.

It's also much simpler for employers to manage one plan instead of several. In addition, 40 percent of those surveyed think employers want this because it's best for employees — particularly those who have human resource departments equipped to oversee multiple plans.

When it Pays for an Employer to be a Life Insurance Beneficiary

Would your business take a financial hit if a key employee passed away? It's a concern for many employers.

That's why for some employers corporate-owned life insurance (COLI) makes a lot of sense — life insurance purchased by a company on the life of an employee. When the employee dies, the company receives the death benefits. The company remains the beneficiary even after the insured employee leaves the firm — if the company continues to pay the premiums. COLI also may be written on a group of employees.

Advantages

COLI protects a business from the unexpected death of executives and other employees who are essential to the business' operation and whose absence could result in the loss of revenue and profits. It's also a way for a company to recoup the time and investment it has made in its vital employees. Or it may be used to redeem shares of company stock held by the deceased, such as with a closely held business.

Any money a company receives as the beneficiary is tax-free, as long as the insured employee qualifies as a company director or meets the Internal Revenue Service's definition of a highly-compensated employee. Another financial benefit is that an employer can withdraw some or all of the built-up cash value or borrow against it to purchase employee benefit plans. Plans can be non-qualified executive health plans or deferred compensation plans. An employer also can take out loans through the policy for non-benefit related items.

Unfortunately, premiums paid for the policy are not tax deductible.

The "Mechanics"

If you decide to purchase COLI, you must choose either whole life or universal life insurance. With whole life, you are paid a death benefit and the policy accumulates a cash value, which you can use to withdraw funds or borrow against. Universal life is permanent life insurance with an investment savings element and low premiums, similar to term life insurance.

The premium you pay for coverage includes the death benefit and administrative expenses, plus the savings account, which consists of funds invested in stocks and bonds.

You also must decide what kind of corporate-owned life insurance you need. If you buy key person insurance on someone such as a partner or president, the company would be paid a benefit if that person dies and may also, depending on the policy and the situation, get paid disability benefits.

Another option is split-dollar life insurance, which splits the death benefits between the company and an employee's beneficiaries. With another variation, the employee's beneficiaries receive the death benefit and the company receives the cash value or the amount it paid in premiums — whichever is greater. The company can cover the cost of the entire premium or the employer and employee can share the costs.

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Downside

It probably won't come as a surprise that COLI is controversial. Many people don't appreciate the idea of a business benefiting from the death of an employee.

Also, use of this kind of life insurance was abused in the 1980s and 1990s. Many companies took out policies on thousands of low-level employees without telling them. They justified the practice by claiming that they were using the proceeds to finance the increasing costs of health care and pension obligations.

The practice made headlines in the 1990s when it was reported that Winn-Dixie secretly purchased life insurance, which it referred to internally as "dead peasants insurance," on about 36,000 employees without their permission.

Rules and Regulations

Congress sought to end abuse in 2006 when it passed the Pension Protection Act. The rules regarding corporate-owned life insurance include requiring:

- Employers to provide written notice to employees of their desire to make the company the beneficiary of such a policy and how much the company will receive if they die.
- Written consent from employees before the policy is issued.
- That employers file IRS tax form 8925 at the end of each year. The form reports the number of employees covered by the insurance; the total amount of insurance in force; and whether they have a valid, written consent from each covered employee.

By not following the above provisions, a company with a COLI on an employee or employees will not be able to collect the death benefit if the employees pass away. Please contact us to learn more about COLI and whether it could be useful in your firm. ■

What to Expect From the ACA in 2019

The only thing certain about the Affordable Care Act (ACA) is change. And with a new year comes new compliance deadlines and proposed new rules and regulations. The Trump Administration has signaled its intent to propose legislation to again alter the ACA.

Here's what you need to know about health care coverage in 2019.

Compliance Deadlines

The following are the reporting deadlines for the 2018 tax:

Furnish Form 1095-C to Employees

It's imperative that you give your employees Form 1095-C by the March 4, 2019 deadline so they will have the information they need to complete Line 61 on their individual tax returns. Employees must show whether they or their family members had minimum essential coverage the year before.

You must report the following on Form 1095-C:

- Proof of Minimum Essential Coverage (MEC)
- Employee ID number
- Social security numbers of the employee and dependents (not spouse)..

If you fail to file and furnish correct information on Form 1095-C, you may be subject to a $500 penalty per form.

File Forms 1094-C/1095-C if You are an ALE and Filing by Paper by February 28, 2019

Just as your employees must show they are in compliance with the Affordable Care Act, you need to show that you are in compliance with the Employer Shared Responsibility Mandate — if you are an Applicable Large Employer (ALE). An ALE is a company with 50 or more full-time equivalent employees. The ACA defines a full-time employee as one who works 30 hours or more each week.

Code sections 6055 and 6056 of the ACA requires ALEs to provide information about whether they offered affordable minimum essential health coverage (MEC) and enrollment in minimum essential health

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coverage for eligible employees.

You may file this form by paper or electronically if you have fewer than 250 employees.

Failure to file complete and accurate Forms 1094-C by the deadline will result in penalties equal to $250 per form, not to exceed $3 million per year.

File Forms 1094-C/1095-C if You are an ALE and Filing Electronically. Monday, April 1, 2019

Any employer with 250 or more employees must file electronically. By the way April 15 is Tax Day when Individual tax returns are due. Employees should include healthcare coverage information on their individual returns.

The Changing Landscape

The Trump Administration proposed a rule change that allows large employers to make tax-free contributions to employees who purchase less expensive *short-term health plans*.

Short-term health plans, which are structured like major medical health plans, can provide coverage and save consumers about 50 percent or more when compared to ACA plans. However, they also offer fewer benefits than plans sold on the federal and state Marketplace Exchanges. In addition, the plans are not compliant and individuals with pre-existing conditions can be denied coverage. The premiums, however, are substantially lower.

The proposal would revise the Obama Administration's 2013 rule that allows employers to make a tax-free contribution to employees' premiums for qualified ACA plans that cover pre-existing conditions and include coverage of essential health benefits. Short-term plans were not included in the rule and would not receive tax benefits.

The 21st Century Cures Act in 2016 allowed small employers to get tax deductions for contributing to employee premiums for short-term plans. If the Administration's proposal is approved, then large employers also would get the tax deductions.

The Administration already acted to make short-term plans more appealing. It expanded the duration of the plans from 90 days to nearly 12 months, with renewal options to extend coverage to three years.

Observers say the decision to extend coverage periods makes short-term plans a viable alternative to COBRA plans. COBRA allows employees to remain on the employer's health insurance plan when they leave the company. However, COBRA plans can be expensive.

Short-term plans also could be a good option for new employees if the company has a 90-day waiting period before health care coverage goes into effect. The plans also can help early retirees who are not yet eligible for Medicare.

According to a senior Administration official, this rule change would empower "workers and employers to make their own decisions with more options." Detractors worry that employees will not realize that these plans — while cheaper — do not cover the 10 essential health benefits required by the ACA, and they have coverage gaps.

Another factor affecting short-term plans is the Administration's new guidance allowing states to give subsidies to customers of short-term and association plans, which could lower the cost of the plans even more.

Employers also can take advantage of another Trump Administration change: Association Health Plans (AHPs). AHPs allow small businesses, including the self-employed, to band together by geography or industry and obtain health care coverage using the same bargaining power as large employers.

Please contact us if you need further clarification of any of these items.

New AHP Resources Now Available

Employers interested in forming Association Health Plans (AHP) to purchase health care benefits for their employees have a resource to help with federal regulations and guidelines.

The U.S. Department of Labor (DOL) added compliance assistance information to its Employer.gov website: https://tinyurl.com/ycnu7r9v.

AHPs give small businesses the ability to purchase insurance in the large group market with the same leverage to negotiate prices and benefits as large companies. To form an AHP, small employers must be in the same business, trade, industry or profession or have a principal place of business in a region not exceeding the same site or metropolitan boundaries. Owners who don't have employees also can join AHPs for their own and their family's health coverage.

AHP rates should be lower because AHPs don't have to follow certain Affordable Care Act (ACA) rules and regulations. This gives associations more flexibility when developing plans. Certain core ACA services, including mental health care and newborn care, could be left out of coverage to lower costs.

AHPs are employee welfare benefit plans under the Employee Retirement Income Security Act of 1974 (ERISA). They must:

- Meet standards of conduct for plan sponsors and employers managing group health plans.
- Meet health care continuation coverage provisions under COBRA.
- Comply with health care protections provided in the Health Insurance Portability and Accountability Act (HIPAA); the Patient Protection and Affordable Care Act; the Mental Health Parity and Addiction Equity Act; and other group health plan laws.

New compliance materials include:

- Rules to set up and manage new AHPs.
- Compliance assistance resources covering establishing and managing an AHP.

For information about the best group plans for your AHP, contact your broker.

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