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Ideas and Information for Human Resources Professionals

Health Care Reform

IRS Sheds Light on Credit for Employer-sponsored Health Coverage

Most of the regulations regarding the Patient Protection and Affordable Care Act are still under construction by federal agencies. The IRS, however, has hurried guidance concerning a provision that is actually good news for many companies -- the small-business tax credit.

The tax credit, which is available immediately, is granted to companies that pay at least half the cost of single coverage for their employees, have fewer than 25 full-time-equivalent (FTE) employees and pay wages averaging less than $50,000 annually. In 2010, the smallest employers -- those with 10 or fewer FTEs and paying annual wages of $25,000 or less -- will receive the biggest break: 35 percent of premiums paid.

According to the law firm Ivins, Phillips & Barker, the IRS addresses a number of credit-related questions that stem from the language of the health care reform legislation in its recent Notice 2010-38. They include:

Coverage of adult children: The IRS states that medical care for an employee's child who has not turned 27 as of the end of the taxable year is excluded from gross income, even if the employee does not claim this child as a dependent on his or her taxes. Reimbursements for health care for an employee's child under age 27 from a health savings account also are nontaxable. In addition, while some insurers are already starting to expand

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In This Edition

In Brief

RETIREE CLAIM PROGRAM

The Department of Health and Human Services has posted a draft application for companies that wish to participate in the federal government's coverage to employees' adult children, the law does not require coverage until Jan. 1, 2011, for calendar-year plans, the notice states.

FSAs: Employers can allow employees to increase their pre-tax contributions to their flexible spending accounts to help cover expenses for their adult children under age 27. However, a plan amendment likely will be required because FSAs generally only cover employees' children who are declared as dependents by the employees. Because the health care reform law extends coverage to adult children who are not dependents, the typical plan will need an amendment, the law firm advises.

In a separate publication released in late May -- Notice 2010-44 -- the IRS clears up more murky issues, according to an *Employee Benefit News* report. Clarifications include:

State tax credit: An employer's tax credit will not be reduced by a state tax credit or subsidy, except in limited situations to prevent credit abuse. The IRS points out that an employee will receive the full federal credit as long as the credit doesn't surpass the employer's net contribution to health coverage. About 20 states offer some sort of health insurance tax credit to employers.

Dental/vision: Employers can receive credit for dental and vision plans, as well as traditional medical plans. However, an employer's dental and vision plans still must meet the requirements that apply to medical health coverage -- including paying 50 percent of the premium for single coverage.

Although up to 4 million businesses are expected to be eligible for the credit, critics say it's far from a free lunch, primarily because it does not address the rising cost of health insurance.

"As long as costs keep going up, the credit is going to become less valuable," Bill Rys, tax counsel for the National Federation of Independent Business, told *Kaiser Health News*.

The tax credit also might become a victim of its own success. Companies that save money through the credit and decide to expand their workforce might make themselves ineligible, according to a new report by the National Center for Policy Analysis (NCPA).

As a company hires more workers, it runs the risk of surpassing the 25-worker/$50,000 wage limit set by the law, the NCPA points out. Even if a company doesn't

reimbursement program for retiree health care claims. The program, part of the recent health care reform legislation, will partially reimburse employers for claims made by retirees who are at least 55 years old but not eligible for Medicare, as well as retirees' covered dependents, regardless of age. The $5 billion in reimbursements will be distributed on a first-come, first-served basis. The draft is available at: http://www.reginfo.gov/public/do/PRAViewDocument?ref_nbr=201005-0938-012

The final application is expected to be available by the end of June.

GROUP RATES JUMP

Small and mid-size employers are seeing significant increases in health insurance rates at renewal, according to a new poll of benefit advisors. The Council of Insurance Agents & Brokers notes that 86 percent of polled brokers reported rate increases for small accounts (50 or fewer employees). More than half of those were between 11 percent and 20 percent. Brokers said 58 percent of mid-size accounts (51 to 500 employees) are seeing hikes between 6 percent and 15 percent.

EFAST2 ADDITON

The Employee Benefits Security Administration has announced that service providers that manage the filing process for plans can get their own signing credentials and submit the electronic Form 5500 filings for the plan. The service provider must confirm it has written authorization from the plan administrator to submit the gain jobs, it could pass the salary mark if it raises wages or hires a high-earning employee.

"The tax credit is supposed to offset part of the burden of a new employer mandate to provide health insurance for their employees," Pamela Villarreal, co-author of the report, said in a PRNewswire release. "However, as firms grow, they will be penalized if they hire more workers or raise employee wages."

Health Savings Accounts

Government Holds Limits Steady as HSA Popularity Keeps Growing

With the cost of living flat, the IRS is not changing the 2011 maximum contribution limits for health savings accounts (HSAs).

A *Business Insurance* report notes that the IRS will carry over the 2010 maximum HSA contribution limits of $3,050 for single coverage and $6,150 for family coverage. The IRS also is maintaining the minimum deductible at $1,200 for single coverage and $2,400 for family coverage. Maximum out-of-pocket expenses, including deductibles, remain at $5,950 and $11,900 for single and family coverage, respectively.

A new report by America's Health Insurance Plans (AHIP) reveals that that about 10 million Americans are enrolled in HSAs -- a 25 percent jump since 2009. Thirty percent of those with an HSA were in the small-group market, the study found. States with the most people covered by HSAs were California (1 million), Ohio (651,000), Florida (639,000), Texas (637,000), Illinois (575,000) and Minnesota (361,000).

As the popularity of consumer-driven health plans (CDHPs) -- which often include HSAs -- has ballooned, employers have started to look for ways to help their employees get the most out of their coverage. A new survey by Workscape found that more than 75 percent of large employers with CDHPs offer decision-making tools for their employees. In addition, sixty-one percent of small-group employers offer tools, which include web-based resources, cost calculators and plan comparison

filing, and the administrator must manually sign a paper copy of the completed filing, which must be saved as a PDF and attached to the EFAST2 filing.

A FEW MORE DAYS TO COMPLY

Many plan sponsors face an Aug. 2 deadline to file their Form 5500 returns, according to the IRS. Plan sponsors must file on the last day of the seventh month after their plan year ends. For those with calendar-year plans, that deadline is Aug. 2 because July 31 is on a Saturday this year.

WORK AS HEALTH HUB

More than 62 percent of polled employers said the workplace must play a key role in helping to foster a healthier workforce, according to a new Workforce Management poll. Almost 75 percent of employees say they would be more willing to adopt healthier habits if their co-workers did as well, while 60 percent said they'd be encouraged if company executives led healthy lifestyles.

GOING VOLUNTARY

The rough economy has prompted many employers to take a close look at voluntary benefits as a way to shore up their overall compensation package, a new study shows. A recent poll by Colonia Life & Accident Insurance Co. found that nearly 60 percent of advisors said their clients have added voluntary benefits options for employees. Nearly half the respondents said their clients shifted more benefit costs to the workers.

tools.

Simply having a CDHP tool available isn't enough for some employers, the Workscape survey finds. Nearly a quarter of respondents offer incentives to encourage employees to actually use the CDHP tools when making decisions about their health care. Enticements include gift certificates, cash, premium reductions and contests.

Recruitment and Retention

As Hiring Heats Up, Employers Take Another Look at Value of Benefits

The U.S. job market appears to be on the verge of a summer sizzle, and employers are banking on employee benefits to recruit and retain top talent, a set of surveys shows.

Nearly half (49 percent) of employers polled by Dice Holdings said they will add up to 10 percent more employees in the second half of 2010 compared with the first six months of the year. Twenty-eight percent expect their hiring to increase between 11 percent and 20 percent.

As the hiring picture begins to improve, some employers are turning their attention to hiring -- and keeping -- the best people. To strengthen their retention footing, more than a third of employers say they are boosting benefits and incentives as a way to keep their top employees, according to a new poll by NuView Systems Inc. Only 15 percent said they were relying on pay raises and bonuses to keep their star employees in the fold.

Employers polled in a separate Workscape study also revealed their commitment to benefits as a recruitment/retention tool. Two-thirds (66 percent) of employers said employer-sponsored medical benefits are critical to their recruitment and retention efforts, and 46 percent expect they will consider benefit increases as the economy recovers.

However, one-fifth of respondents said they weren't planning on doing anything to shore up retention, the NuView poll revealed. Also, Workscape found that while

71 percent of employers fear they will face retention problems as the job market improves, few expect those problems to arise in 2010.

Still, experts say retention could become a big challenge, especially considering the hard knocks that employees have absorbed during the recession, including pay freezes, benefit cuts and furloughs.

In fact, the Bureau of Labor Statistics reported that the number of workers voluntarily quitting in February surpassed the number being fired or laid off for the first time since October 2008. That trend likely will continue, according to research by Right Management, which found that 60 percent of workers said they aim to leave their current job as soon as the hiring market improves.

"Employees feel disengaged with their jobs, which is going to lead to a lot of churn as we come out of the recession," Brett Good of Robert Half International, an executive recruiting firm, told *The Wall Street Journal*.

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(617) 244-3737 • Paul.Rooney@ebscapstone.com
One Gateway Center • Suite 650 • Newton • Massachusetts • 02458