MARSH & McLENNAN AGENCY

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BENEFITS NEWS AND VIEWS

IN THIS ISSUE

WORKPLACE HSA PLANS EXPLODING DUE TO COST SAVINGS, EFFICIENCY

Health care costs are stubbornly continuing to rise - and employers are looking for ways to protect themselves and find savings when it comes to providing health insurance for their workers.

Consider: According to the Kaiser Family Foundation, average employer health insurance premiums in 2015 totaled $17,545 per employee - a 61 percent increase over the prior ten years. Employer costs increased from $8,167 to $12,591, while the portion paid by employees increased from $2,713 to $4,955 over the same period.

If left unchecked, these escalating costs will prove devastating to hundreds of thousands of employers. And so they are increasingly turning to high deductible health plans, combined with tax-advantaged health savings accounts that let workers save money tax free for future medical expenses.

Why? Simple: They save money over conventional indemnity plans. The total premium outlay for both workers and employers was $17,545, on average, for family plans, and $6,281 for individuals, for all plan types. But for those workers enrolled in HDHPs, the annual total costs were $15,970 for family plans, and $5,567 for individual plans, according to the Kaiser Family Foundation.

As a result, interest in high deductible health plans as a cornerstone of the employee health plan has exploded over the last ten years, with the percentage of workers with an HDHP rising from 4 percent in 2015 to 24 percent in 2015. The popularity of these plans - and the increased responsibility they place on plan participants to control costs - has been a key factor in reducing runaway price increases in employee health insurance costs in recent years.

Their popularity is expected to continue to grow: According to the Kaiser Family Foundation's 2015 Employer Health Benefits Survey, 40 percent of all employers are considering offering only HDHP/HSAs to their work forces over the next three years.

HOW HDHPs WORK

To qualify as an HDHP, the policy must have a minimum annual deductible of $1,300 for individual policies, and $2,600 for family plans, as well as maximum out-of-pocket limits of $6,550 for individuals and $13,100 for family plans. If one or more plan participants reaches age 55 during the year and at any time thereafter, the maximum contribution is $1,000 higher

Workers covered by an HDHP who meet certain other eligibility requirements can contribute up to $3,350 to a health savings account, while families can contribute up to $6,750 per year. These contributions are pre-tax, and the money in those accounts is invested tax-deferred until the employee withdraws it. Withdrawals for qualified medical expenses are tax-free; otherwise the money is taxed as income upon distribution. Participants under age 65 who make a non-qualified withdrawal from an HSA must pay a penalty of 20 percent.

Employers may make pre-tax contributions to worker HSAs provided they have a cafeteria plan in place providing for such contributions. Employer HSA contributions are not subject to income tax withholding, nor are they subject to FICA, FUTA, or the Railroad Retirement Act.

Matching contributions won't work, due to comparability testing rules (unless made via a section 125 cafeteria plan). Employers are not responsible for reviewing medical expenses paid for via the HSA. That's the employee's responsibility.

EMPLOYERS HAVE UNTIL JANUARY 22, 2017 TO ADOPT NEW FORM I-9

EMPLOYERS: YOU HAVE A NEW FORM I-9, AND YOU HAVE UNTIL JANUARY 22, 2017 TO BEGIN USING IT.

The U.S. Citizenship and Immigration Services (USCIS) released a revised Form I-9, the Employment Eligibility Verification Form. Failure to adopt the new form by the deadline could result in hefty fines and penalties for any employer the agency catches.

Under the 1986 Immigration Reform and Control Act (IRCA), employers must verify employee identity and ensure that employees are legally entitled to work in the United States. The I-9 form is the required method for documenting that you have completed this process for all new hires.

The new form contains a number of improvements over the old one. The electronic version, available by downloading the latest version of Adobe Reader, features drop-down lists and allow users to point-click on calendar displays rather than manually enter dates. The new form also features prompts and checks to help ensure data is entered correctly, on-screen instructions for each field, and streamlined access to the full instructions for the form.

Helpfully, officials designing the revised I-9 form also included an option to quickly erase all fields and start the form over.

Additional changes in the new form include a section to indicate whether you used a preparer or translator, as well as spaces to enter translators and multiple preparers. Preparer/translators also have a supplemental page.

The new form also contains a field for additional information, including E-Verify confirmation numbers, correction notes, and dates of termination of employment.

The full instructions are separated from the form, though easily accessible via the Adobe platform.

Once the I-9 form is completed electronically, the system will generate a QR code.

In recent years, U.S. Immigrations and Customs Enforcement (ICE) officials have been conducting more than 3,000 I-9 employer audits every year. Furthermore, most observers expect enforcement efforts to increase under the pending administration of President-Elect Donald Trump, who campaigned in part on a more hawkish approach to immigration enforcement.

PROCESS

While the form itself has changed, the process remains the same:

- The employee accepts the employment offer, and must complete Section 1 of the I-9 Form not later than the first day of work for pay. The employee must provide the form with Section 1 complete, along with identification and required documents to the employer.
- From there, the employer must complete Section 2 of the form not later than the 3rd business day the employee begins work for pay.
- If the employee's work visa or other authorization expires, employers must then complete Section 3 of the I-9 form.

PENALTIES FOR NON-COMPLIANCE

Penalties for substantive violations, which includes failing to produce a Form I-9, range from $110 to $1,100 per violation, according to the Immigration and Customs Enforcement Agency ("ICE"). In determining penalty amounts, ICE considers five factors: the size of the business, good faith effort to comply, seriousness of violation, whether the violation involved unauthorized workers, and history of previous violations.

WHAT TO DO NOW

HR staffs and hiring managers should download the latest version of Adobe Acrobat Reader, available at get.adobe.com/reader/. You will need the latest version of Adobe to ensure you can download and enjoy all the functionality of the new I-9 form. Once that's done, you can then download and use Form I-9, available at https://www.uscis.gov/i-9.

Note: You don't have to file Form I-9s with anyone. Simply ensure that you have a completed Form I-9 on file for every individual on your payroll who is required to complete Part 1 of the form. Retain the form for at least three years from the date of hire, or for one year after the employee is terminated, *whichever is later*. You must make the forms available for inspection by any authorized representatives of the Department of Justice, Department of Labor, or Department of Homeland Security.

CONSISTENT PARTICIPATION IS KEY TO AMASSING 401(K) WEALTH

Want to have a successful retirement? Strive to participate in your company retirement plan - and stay in it. A recently released study from the Employee Benefit Research Institute found that workers who were consistent about participating in a single company's 401(k) plan were vastly more successful at accumulating retirement assets than those who were not so consistent.

Key findings from the EBRI study include the following:

- Those individuals who were able to consistently participate in their own company 401(k) plans for four years ending with year-end 2014 were able to grow their account balances by an annualized rate of 15.5 percent.
- The average account balance of those participants was $130,493.
- The median average 401(k) plan account balance for those consistently participating in their company 401(k) plans for the four year period studied increased by an annualized rate of 19.7 percent for the period studied.
- The median account balance of these consistently participating employees reached $56,653 at the end of 2014 - more than tripling the median balance of all participant accounts in the EBRI/Investment Company Institute database.
- About one in five consistent participants owned more than $200,000 in 401(k) assets at current employers. Another 16.1 percent had accumulated at least $100,000 within their employer 401(k) plans.

The study found that the advantage to consistent participants was consistent for all age groups. Account balances reflect both employee contributions and employer matching contributions.

The research is important because previous surveys did not bifurcate their data between consistent participants and those whose contribution records were spotty, for whatever reason. The same was true for short-lived plans from employers who started plans and then who went out of business, for whatever reason. These groups were distorting previous studies and skewing records of average balances downward.

"Looking at average balances for all 401(k) accounts does not reflect the system's full potential for workers building their retirement resources," said Sarah Holden, ICI's senior director of retirement and investor research. "By studying the experience of workers who participate consistently across several years, this study shows more accurately the extent to which steady, paycheck-by-paycheck saving, and compounding investment returns can help workers accumulate a sizable retirement nest egg."

OTHER FINDINGS FROM THE JOINT EBRI/ICI STUDY:

- 401(k) plans, for good or for ill, are stock-heavy. At the end of 2014, some 66 percent of 401(k) assets were invested in equities via stock mutual funds, the equity portion of balanced funds and employer stock. This is a higher equity exposure than plans held at the end of 2007, just before the financial market crisis hit.
- Roughly three out of four 401(k) participants in their 20s had 80 percent stock exposure in their 401(k)s at the end of 2014. This was true for fewer than half of 401(k) participants then in their 20s in 2007. If we were to experience a market decline of similar magnitude, today's group of 20-somethings would be much harder hit than the cohort of a decade ago, now in their 30s. However, those who are in their 30s who held on to broad indexes have made up their losses and then some.
- In contrast, about 27 percent was invested in fixed income securities, including bond funds, money markets, and stable value securities.
- Seven out of ten 401(k) plans included target date funds in their approved offerings, and represented 18 percent of assets.
- Company stock represents only about 7 percent of 401(k) assets as of year-end 2014 - roughly the same level as 2014.

WHEN TO START THINKING ABOUT LONG TERM CARE COVERAGE

Chances are, you are like the majority of individuals who have reached middle age. The primary concerns in your life are paying your monthly bills, making sure your children receive a good education, as well as the all-important goal of saving some money every month for retirement. At this point, it seems a long way off, but do not be deceived; it will be here sooner than you think. You may have heard about long-term care insurance, but you probably dismissed it with questions such as "What is it?" or "Who needs it?".

The answer is that you do, and so does everyone else. You may reply that you already have health insurance. If you do, congratulations; it is hard to get in today's political climate. The problem with most health insurance is that it does not cover what are known as custodial expenses. These expenses arise from custodial care, which is defined as the care needed as a result of the inability to carry out tasks relating to the following daily activities: bathing, dressing, eating, continence, toileting, and transferring.

As people age, many of them find these basic tasks harder and harder to do without some form of help. The need for this type of care necessitates having long-term care insurance, which can provide the monies necessary in order to hire and maintain the proper care needed. This is made even more necessary by the fact that people are living much longer, sometimes twenty or thirty years longer past retirement. Oddly, the fondest wish of these people is to remain independent. Fortunately, they can do so if they obtain long-term care insurance.

The best time to do this is when someone is in their mid-forties, because that time of life is when insurance companies offer the lowest rates and premiums for their policies. Children can also purchase it for their aging parents. If they do not, there are two options left if something goes wrong, both of which are very unattractive. They either have to pay for the cost of their own income, or their parents have to pay for it out of their assets.

When you take into consideration the fact that this care routinely costs $75,000 and up annually, this is a tremendous burden to take on for either the children or the parents. Statistical research reveals that the average retired couple exhausts their savings in a matter of months when paying for care themselves. Even wealthy retirees find their money severely shrunk, which leaves little for their children or grandchildren.

Long-term care insurance from a reputable and trustworthy insurance company can help retirees receive the care they need at a price they can afford both now and twenty or thirty years from now. Buyers must exercise the virtue of prudence when choosing a policy; each one comes with a set of circumstances and options to consider. After taking care of these, they are then free to enjoy the peace of mind that results from an effective long-term care policy.

For more information about Employee Benefits and other solutions from Marsh & McLennan Agency, visit marshmclennanagency.com, or contact your local representative.

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