

EMPLOYEE BENEFIT ADVISOR

Quarterly Newsletter

July 2010

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As always we welcome your comments and suggestions regarding this issue of Employee Benefit Advisor. For more information on this publication or on articles or information contained within this publication, please contact your Sales Representative, Account Manager or visit the Mourad Agency web site at www.aemourad.com.

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NEWS & VIEWS

The HIRE Act of 2010

EXECUTIVE SUMMARY

President Obama signed the Hiring Incentives to Restore Employment Act (HIRE Act) on March 18, 2010. The HIRE Act was enacted to foster job growth through immediate tax incentives to employers who hire formerly unemployed or part-time workers. The HIRE Act:

- offers tax breaks to covered employers for hiring qualified individuals in 2010 on or after **February 3, 2010**;
 - gives employers incentives to retain workers for at least one year; and
 - applies to for-profit and not-for-profit private sector employers of any size, as well as public higher education institutions.
- *This Legislative Brief provides an overview of the HIRE Act. Please read below for more information.*

OVERVIEW OF THE HIRE ACT

Payroll Incentives

The HIRE Act was intended to offer a much-needed tax incentive to employers willing to expand their payrolls. Employers who hire qualified formerly unemployed or part-time workers this year (after February 3, 2010 and before January 1, 2011) may be eligible for a 6.2 percent payroll tax incentive. Under the incentive, qualified employers are exempt from their share of Social Security taxes on wages paid to these workers after March 18, 2010. This reduced tax withholding will have no effect on the employee's future Social Security benefits. Employers still need to withhold the employee's 6.2 percent share of Social Security taxes, as well as income taxes. The employer and employee's shares of Medicare taxes would also still apply to these wages.

General Business Tax Credit

For each worker retained for at least a year, businesses may claim an additional general business tax credit, up to \$1,000 per worker, when they file their 2011 income tax returns. In order for an employer to be eligible for this business tax credit, the qualified individual must be employed by the employer for a period of not less than 52 consecutive weeks, and the employee's wages for such employment during the last 26 weeks of the period must equal at least 80 percent of the wages for the first 26 weeks of the period.

Qualified Employers

Private sector businesses, agricultural employers, tax-exempt organizations and public colleges and universities all qualify to claim tax benefits for hiring qualified individuals. Those who do not qualify include household

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employers, other federal, state and local government employers and governmental instrumentalities.

Qualified Individuals

A qualified employer must hire a qualified individual in order to receive the tax breaks and incentives. The HIRE Act defines a qualified individual as one who:

- begins employment with a qualified employer after February 3, 2010, and before January 1, 2011;
- provides the employer with a signed affidavit certifying that he or she was unemployed during the 60 days before beginning work or, alternatively, worked fewer than a total of 40 hours for someone else during the 60-day period;
- was not hired to replace another employee, unless such employee voluntarily quit or was terminated for cause; and
- is not a family member.

The IRS issued a new Form W-11 Employee Affidavit which newly-hired employees can use to certify that they were unemployed or did not exceed 40 hours of employment during the 60-day period ending on their hire date.

How to Claim Benefits

Employers claim the payroll tax benefit on the federal employment tax return they file, usually quarterly, with the IRS (Form 941). Qualified employers will be able to claim the new tax incentive for the first quarter wages paid to qualified individuals on their revised employment tax form for the second quarter of 2010. The IRS is in the process of revising Form 941, although it released a draft revised Form 941. For each worker retained for at least a year, businesses may claim an additional general business tax credit, up to \$1,000 per worker, when they file their 2011 income tax returns. An employer should carefully consider whether it can benefit from the HIRE Act, after consulting with the appropriate human resources, payroll and tax consultants.

IRS Guidance

The IRS issued a set of Frequently Asked Questions (FAQs) in response to the immediate effective date of the law. The FAQs specifically address the payroll tax exemption and how to claim it, qualified employers and qualified employees. One area the IRS clarified in its FAQs, for example, relates to employees laid off in 2009 who have been receiving COBRA premium assistance for which an employer has been taking the COBRA premium assistance credit. The IRS stated that if the employer rehires the employee, the employer can take the payroll tax exemption under the HIRE Act for wages paid to the employee if the employee is a qualified employee.

The FAQ, Form W-11 Employee Affidavit and the draft revised Form 941 may be found on the IRS web site at: www.irs.gov/businesses/small/article/0,,id=220746,00.html

Other Miscellaneous Provisions

The HIRE Act also provides for other miscellaneous business incentives in an effort to increase employment. For example, the HIRE Act includes funding for major transportation projects and extends capital expenditures (up to \$250,000) tax deductions for small and mid-sized businesses.

LEGISLATIVE INSIGHT

2010/2011 Health Savings Accounts/High Deductible Health Plans Limits Released

The IRS has released the limits for HSAs and HDHPs for 2010/2011.

	<u>2010/2011</u>
HDHP Minimum Deductible Amount	
Individual	\$1,200
Family	\$2,400
HDHP Maximum Out-of-Pocket Amount	
Individual	\$5,950
Family	\$11,900
HSA Statutory Contribution Amount	
Individual	\$3,050
Family	\$6,150
Catch-Up Contributions (age 55 and older)	\$1,000

Communicating Health Care Reform

The recently passed health care reform legislation is causing confusion as both employers and employees struggle to understand its many provisions and wait for additional legal guidance regarding how the provisions will go into effect.

Employers may be reluctant to communicate about health care reform with their employees until they have more clarity, but being proactive is the best way to relieve employee concern and prepare them for what is to come. Employers should consider the following communication strategies:

- Inform employees that management is working with benefits experts to understand the law and its impact on the company, but that many provisions do not go into effect now.

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- Encourage employees to submit questions related to the legislation, and have management provide as many answers as possible.
- Educate employees now on the changes going into effect for plans starting on or after Sept. 23, 2010:
 - Requiring dependent coverage up to age 26
 - Prohibiting pre-existing condition exclusions for children
 - Banning lifetime dollar limits
 - Restricting annual dollar limits
 - Prohibiting coverage cancellation
- Keep employees informed as more changes take effect and more guidance is issued.
- Thoroughly communicate any changes in your benefits plans, and explain how your plans are affected (or not) by health care reform.

- cancellation date accordingly. The group will remain in a canceled state.
- There's no time limit on applying late premium payments related to the grace period. That is, whether a payment is received five days or five months after cancellation, BCBSM will apply it according to the new policy and won't refund it.
- The Blues will refund any premium payments received from canceled groups that relate to coverage periods **after the grace period**.
- BCBSM will modify group correspondence that relates to the final cancellation notice to convey the late payment policy.
- Group reinstatement guidelines do not change.

This policy change results in a positive outcome for groups in this situation. If they are applying late premium payments to the grace period, claims during the grace period will be paid rather than rejected.

RX CORNER

New Rules for OTC Drugs and Health Accounts

Another component of the health care reform law addresses eligible expenses under health flexible spending accounts (health FSAs), health reimbursement arrangements (HRAs), health savings accounts (HSAs) and Archer medical savings accounts (Archer MSAs). The law now defines qualified medical expenses to include only medication that is prescribed, with the exception of insulin.

Essentially, this means that over-the-counter (OTC) drugs are no longer acceptable expenses for any health account. This provision goes into effect for tax years beginning after Dec. 31, 2010.

Example;

- A customer group is paid to May 1, 2010, with a 30-day grace period.
- The group doesn't submit appropriate premium payment for May and falls into the delinquency process.
- The group automatically cancels for non-payment on June 2, 2010, with a May 1, 2010, cancellation date.
- The premium for the month of May is received on June 5, 2010.
- BCBSM applies the premium to May and adjusts the paid to date accordingly.
- The group remains in a cancelled status.

Current Cancellation Policy

Because BCBSM is pre-paid health care, **all** premiums must be paid in full **and** as billed on or before the due date. Failure to do so may result in cancellation of group coverage. Termination of coverage may be due to non-payment or non-sufficient funds, failure to meet participation requirements or failure to meet group eligibility criteria.

BLUE CROSS UPDATES & CHANGES

Groups Cancelled For Non-Payment Will Not Receive Premium Refunds

BCBSM is changing their policy on handling payments from groups that have been canceled for non-payment.

Beginning July 1, 2010, group premium payments received following a cancellation for non-payment won't be refunded to the group. The Blues are making this change as a cost-savings measure.

Features of the New Policy:

- BCBSM will apply any late premiums they receive after cancellation that relate to the 30-day grace period and advance the related paid-through date and

Cancellation for Nonpayment:

- If a group's premiums are more than 30 days past due, BCBSM may immediately terminate coverage retroactive to the date in which premiums were paid in full.
- A group is delinquent when the required payment hasn't been received by the due date.
 - Group conversion coverage may be available, if applicable, when group coverage is terminated due to nonpayment.
- Groups that are cancelled for nonpayment aren't eligible to re-enroll for 12 months following the date of cancellation, nor are they eligible for reinstatement.

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PROPERTY & CASUALTY



Focus on Safety and Health to Benefit Your Business

Addressing safety and health issues in the workplace can save you money and add value to your business. Recent estimates from the Occupational Safety and Health Administration (OSHA) place the business costs associated with occupational injuries at close to \$150 billion – that is nearly 3 percent of gross domestic product (GDP). Those expenditures come straight out of your company's profits and affect your bottom line, as workers' compensation only covers about 27 percent of costs of injury or illness. To emphasize the importance of safety and health programs in your workplace, educate employees on how occupational injuries directly affect them.

When workers stay healthy, the direct cost savings to your business includes:

- Lower workers' compensation costs
- Reduced medical expenditures
- Smaller expenditures for return-to-work programs, including job accommodations for injured workers
- Fewer faulty products
- Less money spent for overtime benefits

Safety and health programs also lead to reductions in indirect costs because of:

- Increased productivity
- Higher-quality products
- Increased morale
- Better relations between management and employees
- Reduced turnover
- Better use of resources

Employees and their families benefit from safety and health programs because:

- Lack of injury helps employees maintain a steady income
- Injuries do not hinder family life
- Good health leads to less stress

Simply put, protecting employees properly is crucial to the economy, our communities, fellow workers and families. Safety and health programs allow your employees to prosper and your business to thrive.

Assuming you are committed to safe and healthful work practices, OSHA pledges to work with you to prevent loss. However, you have to hold up your end of the bargain – educate your employees on required OSHA practices and teach them to value safety by setting a positive example.

Your employees are an investment, and as with any investment, it is in your best interest to protect them. Focusing on safety and health will benefit your business in the short term as well as help you avoid possible losses in the future.

PRODUCT

Group Disability Insurance

Disability insurance has become an increasingly valuable part of a comprehensive employee benefits package. Not only does disability insurance fill the gaps in financial protection offered by other programs like Social Security, but it is also a highly sought after component of a competitive benefits package for employers who need to attract and retain talented employees. And while employees appreciate the peace of mind they receive as their income replacement benefits are being paid, employers can use the resources offered by insurers to manage time and productivity losses and find the most effective ways to return employees to work.

Employer-Sponsored Disability Insurance

Employer-sponsored disability insurance coverage is an important benefit for every employee. For most workers, the ability to earn a living is their most significant financial asset, and a lengthy period of disability can be devastating. Employers can help protect against that risk by providing group disability income insurance — a group insurance product that provides income replacement benefits to an employee should he or she become sick or injured and unable to work.

Disability insurance protects workers and their families against financial catastrophe by helping them meet daily expenses — bills, mortgages, and other expenses — and maintain their standard of living. Disability insurance replaces a percentage of pre-disability income if an employee is unable to work due to illness or injury for a specified period of time. Employers may offer short-term disability coverage, long-term disability coverage, or integrate both short- and long-term disability coverage.

Short-term disability coverage

Short-term disability (STD) coverage provides disabled employees with a specified percentage of pre-disability income — typically 60 percent — once their sick leave has been exhausted. The duration of STD coverage varies, but is typically not more than six months.

Conditions that may trigger payment of STD benefits include pregnancies, strains, sprains, and minor surgeries.

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These conditions typically resolve quickly and employees usually are able to return to work before the benefits are exhausted.

Long-term disability coverage

Long-term disability (LTD) insurance provides income to workers whose earnings are interrupted by lengthy periods of disability. Long-term disability benefits usually begin when sick leave and short-term disability benefits are exhausted, and typically replace about 60 percent of pay. LTD benefits can continue for anywhere from five years to the remainder of an individual's life. LTD is generally considered protection from the effects of a catastrophic illness or injury, but claims are often a result of common ongoing medical conditions that worsen overtime (e.g., heart disease, hypertension, and diabetes).

Why Provide Disability Insurance?

Disability insurance is both an employee benefit and a health and productivity tool. The rehabilitation and management tools available from most insurers can yield significant savings to employers. While helping your employees avoid financial disaster, disability insurance also helps you mitigate the indirect costs of disabilities, such as finding replacement workers and the costs incurred by time and productivity losses. These problems are amplified for small businesses where the absence of just one key employee can have a lasting impact on productivity and can even impact the continuation of day-to-day operations.

Issues to Consider

Benefit Selection and Funding

Ideally, employers should offer an integrated STD and LTD package. This allows for claims experts to be involved early and find the best ways to return a person to work as quickly as possible. One insurer can provide the early intervention offered with STD benefits and the protection of LTD. This coverage can be fully paid by the employer, cost-shared with the employee, or offered as an employee-paid, voluntary benefit. Employers often fund a basic plan to protect employees, and employees may then purchase supplemental coverage to better address their individual needs.

Coordination of Benefits

Larger employers often provide a disability program that coordinates STD and LTD benefits with other health and welfare benefits, such as group health insurance and workers' compensation. Smaller companies with little or no human resources personnel simply need a quality plan that works well along the entire continuum of the disability—from effective employee communication and customer service to easy integration with other benefits.

Plan Components

A variety of key plan components have a direct impact on how claims will be paid and on the cost of the plan.

Waiting or "Elimination" Period

A plan's *waiting* or *elimination period* is the period between disability onset and the point at which disability benefits become payable. STD benefits may have different waiting periods for disabilities stemming from illnesses, versus disabilities caused by injuries (e.g., a 7-day waiting period for illness versus no waiting period for injuries). A typical waiting period for STD benefits is 15 days but these vary, usually dependent upon the employer's sick leave plan. Waiting periods for LTD plans usually start 30 to 180 days after the disability occurs. All coverage should be coordinated to ensure that long-term disability benefits start immediately after any sick pay and short-term disability benefits have been exhausted.

Definition of Disability

Short-term disability plans typically provide income when an employee is unable to work in his or her "own occupation" due to injury or illness.

Long-term disability plans provide income when an employee is unable to work in his or her "own occupation" or unable to work in "any occupation" for which the person is suited by education, training, and experience. Typically, plans use the "own occupation" standard for an initial period—usually two years (longer periods are available)—with occupation protection covered to age 65 for certain industries or classes of employees.

During the "own occupation" period benefits are paid if the person cannot perform the essential work functions of the occupation in which the person was employed when he or she became disabled. The "own occupation" period can then be followed by the more broad "any occupation" standard. Under this standard, a plan would continue to pay benefits only if the person was unable to perform any job functions for which he or she might be qualified based on education, experience, or training.

Residual or Partial Disability

Residual or partial disability benefit provisions provide for a disability plan to make reduced benefit payments for employees who are able to return to work, but on a part-time or otherwise limited basis due to reduced capacity. The partial payments offset earnings loss while the employee makes the transition back to full-time employment.

Income Replacement

Plans typically replace 50 to 60 percent of income, although many carriers now offer up to 80 percent of income replacement. A typical weekly maximum benefit for STD policies is \$1,000, while LTD policies may provide up to a \$10,000 monthly benefit. Plans should be structured to balance financial assistance in a time of great need with incentives for the employee to return to work.

Benefit Integration

Most group plans assume that disability benefits or payments from other sources (SSDI, workers' compensation, etc.) may be paid to the employee and

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thus policies should be constructed so that the amount payable can be reduced by the amounts payable by other sources. This provision is vital to ensure that return-to-work efforts are not compromised because the disabled worker earns more while he or she is disabled than while actively working.

To learn more about Group Disability Insurance please contact your Sales Representative.

LIVE WELL, WORK WELL

Manage Fatigue During Work

Tips to stay energized and alert.

Between hectic schedules, stress and difficulty sleeping, many people find themselves fatigued during the workday. Fortunately,



there are steps you can take to reduce your fatigue levels and stay more alert at work.

Risks of Fatigue

Symptoms of fatigue include moodiness, drowsiness, loss of energy, and lack of motivation and concentration. These are not ideal qualities to display at your job. Not only does fatigue make you less productive and less personable, it can also cause a serious safety risk if you work in a hazardous position.

For a Quick Energy Boost

Consider these suggestions for a quick and easy boost when you're feeling tired at work:

- Eat a snack that includes complex carbohydrates and protein (like an energy bar or half a peanut butter sandwich on whole wheat bread). Avoid sugar, which will make you crash later.
- Get moving. A short walk can be very energizing.
- As much as your job allows, try to vary your day when fatigue sets in.
- Have a mini-meditation session at your desk – it can help you calm down but also feel more alert.

Lifestyle Changes

To fight fatigue long-term, incorporate these healthy changes into your life:

- Eat nutritiously. Healthy food and portion sizes will help you stay energized. Don't skip meals or overeat, and always start your day with breakfast.
- Limit your caffeine to one or two drinks per day. Drink plenty of water to keep your body hydrated.
- Exercise regularly. This will increase your energy levels and also help you sleep better at night.
- Manage your stress, which will help you sleep better and feel less drained.

- Avoid smoking, which lowers your energy level.

Improve Your Sleep Habits

Fatigue is generally caused by poor quality or inadequate sleep. Try these tips:

- Aim for seven to eight hours per night, even if that means rearranging your schedule.
- Create a good sleep environment (appropriate temperature, noise level and lighting).
- Try to go to bed and wake up the same time each day, including weekends.
- Limit caffeine, alcohol, big meals and rigorous exercise close to bedtime.

Did You Know...?

Fatigue can be linked to an underlying medical problem, psychological condition or sleep disorder. You may want to see your doctor to check if that is the case for you, especially if the above tips do not alleviate your fatigue.