McGraw Wentworth

BENEFIT Advisor

Volume Two, Issue 9 January 2000

In This Issue

In this final issue of the McGraw Wentworth Benefit Advisor for 1999, we will review a year-end checklist for group benefit programs. This review will include topics such as legislative compliance, taxable consequences of group term life insurance, W-2 filing requirements for disability payments, Medicare costs, and the year 2000 indexed plan limits.

Each Benefit Advisor is designed to:

- ***Provide information on specific technical, tax or legislative issues affecting employee benefit plans.***
- ***Offer analysis as to the impact that those issues have on your plans.***
- ***Establish the framework for us to work with you in determining the action steps necessary to bring your plans into compliance.***

We look forward to your comments and suggestions regarding future issues of the Benefit Advisor. You can reach us by contacting your account team or by utilizing the Feedback Forum on our interactive web site at www.mcgrawwentworth.com.

1999 Year End Checklist

Priorities for Group Benefit Professionals

Group benefit plan sponsors have a number of reporting, disclosure and testing requirements that must be addressed each calendar year. This technical bulletin is designed to serve as a reminder of these requirements and to provide you with information regarding Year 2000 updates to specific benefit limitations and regulations.

Group Term Life Insurance Imputed Income

Section 79 of the Internal Revenue Code requires employers to report imputed income on the value of the company-paid life insurance benefits in excess of $50,000. Section 79 also taxes company-paid group term life insurance plans if they discriminate in favor of key employees.

If you provide company-paid life insurance over $50,000 for any employee or if you offer a company-paid group term life plan that discriminates in favor of certain key employees, you must calculate the imputed income or value of the excess coverage. The imputed income value of the life insurance needs to be added as taxable income to each affected employee's paycheck.

The calculation of imputed income for nondiscriminatory plans and for non-key employees covered under discriminatory plans is based upon Table I rates. On the other hand, for key employ-

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A note to our clients and friends:

McGraw Wentworth normally prepares and releases its year-end reminders prior to the end of each calendar year. We apologize for the delay in releasing our 1999 year-end checklist.

ees in a discriminatory plan, the calculation requires a copy of the insurer's table of premium rates, which is used to determine the group composite rate. You will need to perform several calculations on this rate table to determine if the actual cost is greater than the Table 1 rates. Please review the seventh issue of McGraw Wentworth's Benefit Advisor for more information regarding Section 79 and how to calculate any necessary imputed income based on your group's life plan provisions. In addition, please refer to the Federal Legislative Compliance section of this Benefit Advisor, as well as the seventh issue of McGraw Wentworth's Benefit Advisor for information regarding the changes to Table I rates effective July 1, 1999.

Year 2000 Medicare Information

The following Medicare 2000 table lists specific deductible, copay and premium amounts related to Medicare Parts A and B for January 1, 2000-December 31, 2000.

Short Term Disability W-2 Forms

If you offer a company-paid short-term disability plan, W-2's need to be issued for all employees who received benefits under the plan in 1999.

Some short-term disability insurance carriers and administrators will issue W-2's directly to claimants who incurred claims during the year. However, many carriers and administrators simply provide you with a quarterly or annual report which includes the information necessary for you to issue the W-2's to such claimants.

Check with your short-term disability carrier or administrator to determine how they handle W-2 issuance. If you are responsible for issuing the W-2, make sure your payroll vendor is aware that each disability claimant will have additional compensation that will need to be included on the W-2.

Medicare 2000

Medicare Part A Deductible	$776.00
Hospital Per Day Copay 60 to 90 day stays 90 + day stays	 $194.00 $388.00
Skilled Nursing Facility Per Day Copay (after 20 days)	$97.00
Medicare Part B Premium	$45.50
Medicare Part B Deductible	$100.00

Legislative Compliance

You need to be aware of several pieces of legislation to be in compliance with during the year 2000.

New Final and Proposed COBRA regulations – Passed in 1999, these new regulations will be effective with qualifying events occurring in any plan year beginning on or after January 1, 2000. The following information outlines some of the areas addressed by the final and proposed regulations:

Final Regulations:

- **Inquiry from a health care provider during the election period:** A complete response to an inquiry from a health care provider regarding a qualified beneficiary's right to coverage (as it pertains to the election or grace period) is required.

- **Deductibles and Limits:** A plan is required to take into account only those expenses incurred before the qualifying event by family members who are part of the resulting family unit after the qualifying event (differs from the 1987 proposed

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regulations).

● **Coverage dropped in anticipation of divorce:** When a covered employee discontinues coverage of a spouse in anticipation of a divorce or legal separation, the plan must make COBRA coverage available to the spouse effective on the date of the divorce or legal separation. However, COBRA does not need to be extended prior to the date of the divorce or legal separation.

● **Core and Non-core coverage:** Eliminates the rule that requires plans to offer core coverage only when the plan provides a package of core and non-core coverage.

Proposed Regulations:

● **Part-time employees:** A part-time employee counts as a fraction of an employee (calculate by dividing the number of hours a part-time employee works by the number of hours required for that employee to be considered full time).

● **Health flexible spending accounts:** Proposed regulations clarify situations where COBRA does not have to be extended to an FSA participant.

● **Business reorganizations:** Proposed regulations give guidance on coverage in the event of a corporate transaction such as a sale of stock of a subsidiary.

● **No longer disabled:** When a qualified beneficiary is no longer disabled, termination of COBRA for all qualified beneficiaries entitled to an extension due to the disability of the qualified beneficiary is allowed.

For more details and a comparison of the previous regulations against the new regulations, please review Volume Two, Issues 4, 5, 6 and 8 of the Benefit Advisor.

The Women's Health and Cancer Rights Act of 1998 - *passed October 21, 1998* (commonly referred to as "Janet's Law"): This law requires medical plans (employer-sponsored, insured or self-funded, HMO plans and individual health plans) to provide specific benefits to women following a mastectomy. The required coverage includes services related to reconstructive surgery following a mastectomy. Employers were to comply with the law effective the first plan year beginning on or after October 21, 1998.

It is important to remember that the law requires that employers provide every group plan participant and beneficiary with an annual notice stating that post-mastectomy coverage is available under the plan. The notice is required regardless of whether the plan provided the benefits required by this law prior to the law being passed. The notice must also be provided to all new enrollees of the plan.

For more details, please review the Volume One, Issue 9 Benefit Advisor.

New IRS Regulations

Effective July 1, 1999, the IRS issued new regulations revising the Table I rates of Section 79. The new regulations modify the Table I rates and provide guidance to employers that offer group term life insurance to their employees. The three key changes based on the new regulations are as follows:

● Lowered uniform rate schedule in all age brackets of Table I

● Additional age bracket to Table I

● Increased potential to create taxable income for employee-paid plans even when they are paid with after-tax earnings

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Notable Thought

If you want to test your memory, try to recall what you were worrying about one year ago today.
--Rotarian

These changes were effective July 1, 1999, however employers have until the last pay period of 1999 to make the following adjustments:

- Changes to amounts withheld for FICA purposes
- Reprogramming of payroll systems to accommodate the new age bracket

For more details, please review the Volume Two, Issue 7 Benefit Advisor.

Year 2000 Indexed Plan Limits

The IRS has announced the 2000 limits on inflation-indexed benefits. The McGraw Wentworth chart of maximum limits subject to inflation indexing has now been amended to include the newly announced 2000 limits as well as the existing 1999 plan limits. Among other things, the chart shows limits under sections 415, 403(b), 401(k), and 457, as well as the Social Security wage base and the Social Security and Medicare tax rates.

The chart in the next column is a summary of the 2000 indexed plan limits.

Table I

Five Year Age Bracket	New Table 1 - Cost per $1000	Old Table 1 - Cost per $1000
Under 25	$0.05	$0.08
25-29	$0.06	$0.08
30 through 34	$0.08	$0.09
35 through 39	$0.09	$0.11
40 through 44	$0.10	$0.17
45 through 49	$0.15	$0.29
50 through 54	$0.23	$0.48
55 through 59	$0.43	$0.75
60 through 64	$0.66	$1.17
65 through 69	$1.27	$2.10
70 and Over	$2.06	$3.76

Indexed Plan Limits

Plan Limits	1999	2000
Section 401(k) or SAR-SBP	$10,000	$10,500
Section 402(g) maximum pre-tax contribution by employees for elective deferrals	$10,000	$10,500
Section 403(b) Plan	$10,000	$10,500
Section 408(b)(p)(2)(A)SIMPLE Plan Contributions	$6,000	$6,000
Section 457(b)(2) Limit	$8,000	$8,000
Section 415 Limit for:		
Defined Contribution Plans	$30,000	$30,000
Defined Benefit Plans	$130,000	$135,000
Highly Compensated Employees		
Section 414(q)	$80,000	$85,000
Section 401(a)(17) Includible Compensation	$160,000	$170,000
Annual Excess Distributions-Section 4980(c)(1)(b)	Repealed	Repealed
FICA Taxable Wage Base		
Social Security (Tax Rate 6.2%)	$72,600	$76,200
Medicare (Tax Rate 1.45%)	No Limit	No Limit

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