

In This Issue

In this final issue of the McGraw Wentworth Benefit Advisor for 2000, 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 web site at www.mcgrawwentworth.com.

“Year 2000 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 updates to specific benefit limitations and regulations for 2001.



income to each affected employee's paycheck.

The calculation of imputed income for non-discriminatory plans and for non-key employees covered under discriminatory plans is based upon Table I rates. For key employees in a

discriminatory plan, the calculation also 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 I rates.

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

- *Lowered uniform rate schedule in all age brackets of Table I*

Group Term Life Insurance Imputed Income

Section 79 of the Internal Revenue Code requires employers to report imputed income on the value of company-paid life insurance benefits in excess of \$50,000. Section 79 also has tax implications for company-paid group term life insurance plans if the plan discriminates in favor of key employees.

If you provide company-paid life insurance over \$50,000 for any employees or if you offer a company-paid group term life plan that discriminates in favor of 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

- *Added an age bracket to Table I*
- *Increased potential to create taxable income for employee paid plans even when they are paid with after-tax earnings*

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

- *Change the amounts withheld for FICA purposes*
- *Reprogram payroll systems to accommodate the new age bracket*

Please review Volume Three, Issue 5 of the McGraw Wentworth's Benefit Advisor for more information regarding Section 79, how to calculate any necessary imputed income based on your group life plan's provisions, and for information regarding the changes to Table I that went into effective July 1, 1999. Remember that the changes to the amounts withheld and to the payroll systems should have been made by now.

2001 Medicare Information

The 2001 Medicare Part A deductible and copays and Part B premium and deductible amounts are listed below:

Age Bracket	New Table 1 - Cost per \$1000	Old Table 1 - Cost per \$1000
Under 25 <small>(new bracket, was combined as under 30)</small>	\$0.05	\$0.08
25 to 29	\$0.06	\$0.08
30 to 34	\$0.08	\$0.09
35 to 39	\$0.09	\$0.11
40 to 44	\$0.10	\$0.17
45 to 49	\$0.15	\$0.29
50 to 54	\$0.23	\$0.48
55 to 59	\$0.43	\$0.75
60 to 64	\$0.66	\$1.17
65 to 69	\$1.27	\$2.10
70 and above	\$2.06	\$3.76

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 2000.

Some short-term disability insurance carriers and administrators will issue W-2's directly to claimants who had claims during the year. However, many carriers and administrators provide you with a quarterly or annual report including the in-

formation necessary to issue each employee's W-2. 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.

Legislative Compliance

You need to be aware of several pieces of legislation with which you will need to comply during Year 2001.

Mid-Year Elections Section 125

On March 23, 2000, the IRS issued final and proposed regulations concerning mid-year election changes for cafeteria plans. The final regulations go into effect for plan years beginning on or after January 1, 2001. The new regulations provide for clearer guidance and greater administrative flexibility when it comes to mid-year elections.

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MEDICARE INFORMATION

Medicare Part A Deductible	\$792
Hospital Per Day Copay	
60 to 90 day stays	\$198
90 + day stays	\$396
Skilled Nursing Facility Per Day Copay (after 20 days)	\$99
Medicare Part B Premium	\$50
Medicare Part B Deductible	\$100

Final Regulations

The final regulations provide a detailed list of the events that trigger permissible mid-year changes in an employee's election of cafeteria plans. This is an exclusive list of events. However, based on the regulations, an employer can elect to allow all or any of the events to trigger mid-year changes, but they do not have to allow any of them. The events include:

- *Change of Residence*
- *Change in Employment Status*
- *Change in Number of Dependents*
- *Change in Legal Marital Status*
- *Dependent Satisfying or Failing to Satisfy Eligibility Requirements*

A change in benefit election must be consistent with the status change event that has occurred. In order to allow mid-year changes for designated events, an employer must amend their plan document and outline all permissible changes.

Other change events include:

- **COBRA:** *An election change is allowed if a qualifying event occurs where the employee needs to pay COBRA premiums.*



- **Domestic Relations Order or Qualified Medical Child Support Order:** *When a divorce, legal separation, annulment or change in legal custody occurs, cafeteria plan changes are permitted to conform with the domestic relations judgment, decree or order or qualified medical child*

support order.

- **Family and Medical Leave Act (FMLA):** *An employee taking a qualified FMLA leave may revoke an existing election and make another election for the remainder of the coverage period as permitted by FMLA.*
- **Health Insurance Portability and Accountability Act (HIPAA):** *Circumstances that allow for special enrollment rights under HIPAA are permissible change events. If a status change is considered a HIPAA "special enrollment" event, then Section 125 will allow a retroactive election.*
- **Medicare/Medicaid:** *Medicare or Medicaid entitlement or loss of Medicare and Medicaid entitlement are change events permitting mid-year coverage changes.*

Proposed Regulation

At the same time the new final regulations were issued, new proposed regulations were also issued. Until they become effective, the new proposed or previously proposed regulations may be relied upon. The new proposed regulations apply the status change events

not only to health and life insurance coverages (as in the final regulations) but also to all qualified cafeteria plan benefits. The proposed regulations also

outline when mid-year elections may be made due to plan cost and coverage changes as follows:

- **Changes in Cost:** *If the cost of a plan benefit increases or decreases, affecting the employee contributions, these*

changes in contributions can be made automatically.

- **Changes in Coverage:** *Mid-year changes are permitted in the case of significant changes in coverage (i.e. coverage is curtailed or increased).*
- **Change in Coverage Under Other Employer's Plan:** *Employees may make election changes mid-year if there is a corresponding open enrollment change made by a spouse or dependent whose plan year is different from that of the employee.*
- **Dependent Care Change in Status:** *The proposed regulations do not create special changes for dependent care FSAs but clarify that changes in cost and coverage permit changes to dependent care FSA elections under certain circumstances:*
 - ⇒ *Mid-year change in dependent care provider, or*
 - ⇒ *Associated change in provider costs so long as the dependent care provider is not a relative*
- **Employer Initiated Changes:** *Employees can change their cafeteria plan elections even if a third party did not initiate the changes to the plan's cost or coverage.*

For more details, please review the Volume Three, Issue 4 [Benefits Advisor](#).

New Final and Proposed COBRA regulations – passed in 1999, the new regulations were effective with qualifying events occurring in plan years beginning on or after January 1, 2000.

For more details and a comparison of the previous regulations versus

the new regulations, please review Volume Two, Issues 4, 5, 6 and 8 of the [Benefits Advisor](#).

The Women's Health and Cancer Rights Act of 1998 - passed October 21, 1998 (commonly referred to as "Janet's 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 and carriers were required to comply with the law effective the first plan year beginning on or after October 21, 1998.

It is important to remember this law requires that employers provide every group plan participant and beneficiary with an annual notice stating the post-mastectomy coverage is available under the plan. The notice is required regardless of whether or not the plan provided the benefits required by this law prior to the law being passed. The notice may be provided with open enrollment materials. This portion of the law went into effect beginning with the next employer mailing on or before January 1, 1999.

For more details, please review the Volume One, Issue 9 [Benefits Advisor](#).

HIPAA Electronic Transmission Standards

On August 17, 2000 the Department of Health and Human Services published the final Health Insurance Portability and Accountability Act (HIPAA) rules concerning administrative simplification and electronic transaction standards. The final regulations outline requirements for health care providers, health plans, and healthcare clearinghouses as they relate to the elec-

INDEXED PLAN LIMITS

PLAN LIMITS	2000	2001
Section 401(k) or SAR-SBP	\$10,500	\$10,500
Section 402(g) maximum pre-tax contribution by employees for elective deferrals	\$10,500	\$10,500
Section 403(b) Plan	\$10,500	\$10,500
Section 408(b)(p)(2)(A)SIMPLE Plan Contributions	\$6,000	\$6,500
Section 457(b)(2) Limit	\$8,000	\$8,500
Section 415 Limit for:		
Defined Contribution Plans	\$30,000	\$35,000
Defined Benefit Plans	\$135,000	\$140,000
Highly Compensated Employees		
Section 414(q)	\$85,000	\$85,000
Section 401(a)(17) Includible Compensation	\$170,000	\$170,000
Annual Excess Distributions-Section 4980(c)(1)(b)	Repealed	N/A
FICA Taxable Wage Base		
Social Security (Tax Rate 6.2%)	\$76,200	\$80,400
Medicare (Tax Rate 1.45%)	No Limit	No Limit

tronic exchange of information and data. The new rules streamline healthcare claims processing, reduce paperwork, save money for all involved in the healthcare system and improve service for providers and patients alike.

All parties affected by the new rules must comply with the final regulations by October 16, 2002. Small health plans (annual receipts of \$5 million or less) must comply by October 16, 2003.

For more details, please review an upcoming [Benefits Advisor](#). It will be published in early 2001.

2001 Indexed Plan Limits

The above chart is a summary of the 2001 indexed plan limits. Please note that limitations for retirement plans for 2001 may be changed pending legislation, if it is passed. The FICA taxable wage base will increase to \$80,400 in 2001.

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