

Employee
Benefit
Resources, LLP

Employee Benefits

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conclusions on these topics
should be drawn without further
review and consultation.

Employee Benefit Resources, LLP – Scope of Services

As your organization moves forward into 2004, Employee Benefit Resources, LLP (EBR) would like to emphasize our mission, “To help employers attract, retain, and reward quality employees.” We provide creative ideas to organizations so they can achieve successful results in developing solutions to complex staff and employee benefit issues. In our endeavor to help clients succeed, EBR provides a full spectrum of services.

Human Resources Consulting

EBR assists employers in developing personnel policy manuals, compensation programs, and performance appraisal systems. Other services include salary surveys, management and supervisor training, assistance with recruitment and selection of staff, and development of communication materials.

Employee Benefit Plans

In today’s labor market, a well-designed employee benefit package can be a competitive recruitment tool as well as help retain experienced, quality employees. The professionals at EBR possess the knowledge and experience to ensure compliance with the myriad regulations governing employee benefit plans. EBR designs and, in some cases, administers a variety of employee benefit programs including:

Tax Advantaged Plans

- Cafeteria (Section 125) Plans
- Medical Care Reimbursement Plans
- Dependent Care Reimbursement Plans
- Health Savings Accounts (HSAs)
- Health Reimbursement Arrangements

Providing your employees with a retirement plan that gives them more control and quicker access to their accounts is essential in today’s marketplace. Your company, and your employees, will have a greater sense of comfort about the future with a comprehensive retirement plan in place. EBR specializes in retirement plan design and administration, including:

Retirement Plans

- 401(k) Plans
- ESOPs (Employee Stock Ownership Plans)
- Defined Benefit Retirement Plans
- Davis Bacon Plans
- Profit Sharing Plans
- Age-Weighted Profit Sharing Plans

Daily Valuations via the EBR Daily Plan-It™

- Daily account valuations can be readily accessed via the Internet on our daily valuation system, the EBR Daily Plan-It™, or by using a toll-free number. Through our web and Voice Response Unit (VRU), plan participants obtain important employee benefit information instantly.

Increasing Flexible Benefit Plan Participation

Flexible benefit plans are an important component of an employer's benefit package for employees. A flexible benefit plan (also known as a cafeteria plan or a Section 125 plan) is a popular employee benefit that provides tax savings to both the employer and their employees. In addition to the employer tax savings, flexible benefit plans contribute toward the recruiting and retention of valuable employees.

While many employers have incurred the expense of implementing and operating a flexible benefit plan, low participation may be limiting the benefits realized by the employer (and their employees). Here are some ways to increase participation.

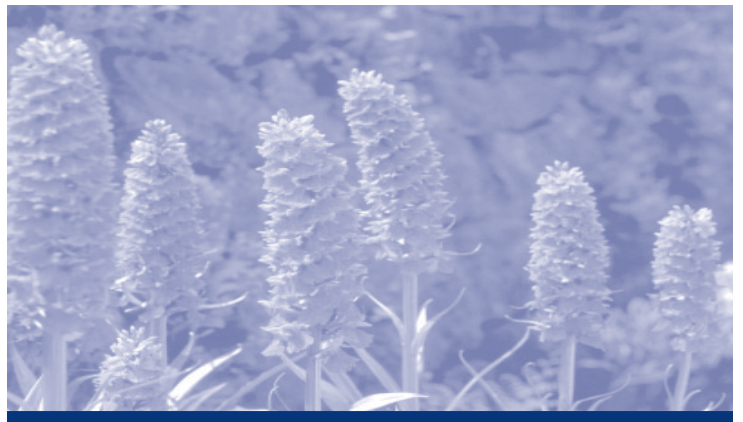
- **Communication and education** are huge factors in maximizing employee participation in your flexible benefit plan (or any benefit). If employees do not know about a benefit, they won't know to enroll. If they are not informed of the features of the benefit, they won't know why they should enroll or why they should increase their existing participation.
- During **employee orientation**, inform new employees of the benefits that you offer – even if an eligibility period must be completed before the employee can enter the plan.
- All eligible and newly eligible employees must receive the plan's **Summary Plan Description** and any Summary Material Modification for subsequent plan amendments. Not only is this a regulatory requirement, it indicates the existence of the plan.
- Conduct **employee education meetings** during your plan's enrollment period at least every two to three years. Employee education meetings provide an opportunity to review the plan, its benefits, how it operates, as well as the advantages and risk associated with the plan. These meetings also allow employees the opportunity to ask questions about the plan or share their experience (co-worker testimonials are very valuable).
- **Timely claim reimbursement** is important to plan participants. Flexible benefit plan regulations require claims to be reimbursed at least every 30 days. Many employers who self-administer their plan do not have the luxury of having an employee who can process

claims more frequently. A Third Party Administrator (TPA) should be expected to reimburse claims within 2 to 3 days of receipt of a claim. Providing fast turnaround increases employee participation.

- **Periodic reminders and communication** of the flexible benefit plan are important. Communication throughout the year reminds participants of qualifying expenses, and to submit claims as well as to incur expenses prior to the end of the year so that monies are not forfeited. Periodic information also reminds non-participants of the qualifying expenses and what they may be missing.
- **Measuring your plan's participation.** Plan participation can be measured in two ways – the percentage of eligible employees participating and the dollar amount being sheltered. Plans with fewer than 20% of eligible employees participating have substantial room for improvement. Plans with more than 30% of eligible employees participating may be considered successful, but there always seems to be room to increase the amount of compensation participants are sheltering under the plan.

Ongoing communication and employee education are proven methods of increasing plan participation. If you would like assistance in developing employee communication materials or providing employee education, please contact Jim Dole at EBR.

We would also appreciate the opportunity to review your flexible benefit plan or employee benefit package design with you. Jim is also available to discuss plan design and implementation if you do not currently offer a flexible benefit plan and would like more information on this valuable employee benefit. ▲



Health Savings Accounts Pique Interest of Employers and Individuals

Health Savings Accounts (HSAs) caught the eyes of the nation last December when President Bush signed the Medicare Prescription Drug Improvement and Modernization Act of 2003. The concept of a savings account (similar to an IRA) used to pay medical expenses interested many individuals, while employers were attracted to HSAs as an option for reducing their health insurance premium costs. Since then, individuals and employers have searched for HSA providers, and insurance companies and benefit consultants have looked to government agencies for answers and guidance.

What is a Health Savings Account (HSA)?

An HSA is a new tax-advantaged savings account established to pay for medical expenses incurred by individuals, their spouse, or dependents. Contributions to an HSA by an employer are not included in the individual's taxable income and individual contributions are tax deductible. However, the participant must also be enrolled in a high deductible health insurance plan.

Earnings in the HSA accumulate tax-free and distributions from the account used to pay for medical expenses are also tax-free. Employers and employees may contribute to an HSA. If an employee contributes to the account through a cafeteria plan, the contribution is tax free for income and social security tax purposes.

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Who is Eligible for an HSA?

The following requirements must be met in order to be eligible to contribute to an HSA:

1. An individual must be covered by a High Deductible Health Plan (HDHP);
2. An individual may not be covered by any other non-HDHP that covers expenses covered by the HDHP, except for certain permissible benefits;
3. An individual must not be entitled to Medicare benefits; and

4. An individual may not be claimed as a dependent on another person's tax return.

What is an HDHP?

An HDHP is a medical plan that meets certain deductible and out-of-pocket maximum requirements. There are also a number of other requirements that the plan must satisfy.

- For individual coverage, a health plan may be considered a HDHP for 2004 if it has a deductible of at least \$1,000 and a limit on annual out-of-pocket expenses of \$5,000 or less.
- For family coverage, a health plan may be considered a HDHP for 2004 if it has a deductible of at least \$2,000 and a limit on annual out-of-pocket expenses of \$10,000 or less.

Certain coverages such as dental, vision, and preventive care may be provided without jeopardizing the HDHP status of a health plan. Since there are a number of additional requirements, we recommend you check with your insurance provider to determine if your plan qualifies.

What are the Contribution Limits?

- The monthly limit for 2004 is 1/12 of the lesser of: the HDHP deductible, or \$2,660 for individual coverage, or \$5,150 for family coverage. For a married individual with family coverage, the limit is an aggregate limit. If both individuals have family coverage, the family coverage with the lowest deductible must be used to determine eligibility for an HSA.
- In addition to the above limit, an additional contribution of \$500 may be made to the account if the account holder is age 55 or older at the end of the year.

Money can be withdrawn from an HSA for purposes other than medical expenses, however the individual will be subject to income tax plus a 10% penalty on the amount withdrawn.

HSAs are portable. When an employee changes employers, the contribution and earnings belong to the account holder, not the employer.

Health Savings Accounts Pique Interest of Employers and Individuals

Recent Developments

On March 30, 2004, **the Treasury Department and the IRS** issued additional guidance regarding HSAs. This information was of particular interest to insurance carriers designing health plans to meet the HDHP requirement. This guidance included:

- Clarification of preventive care benefits which may be provided under an HDHP before the plan deductible is met. Allowed preventive benefits include annual physicals, immunizations, and screenings, but do not include treatment of existing conditions.
- An explanation that separate prescription drug benefits (i.e. a drug card) with a deductible less the HDHP limit are not allowed in conjunction with an HDHP. Such prescription drug coverage would

exclude an individual from establishing an HSA. However, such coverage will be allowed prior to 2006, allowing individuals covered by such a benefit to contribute to an HSA.

- Because many individuals have encountered difficulty identifying an HSA provider, relief has also been provided allowing medical expenses incurred prior to the set up of the HSA, but after January 1, 2004, to be reimbursed under an HSA provided the HSA is established prior to April 15, 2004.

EBR continues to interpret and monitor HSA guidance as it becomes available and will be implementing HSAs this summer. Watch for more information on the EBR website at www.ebrworld.com. If you are interested in determining if an HSA is right for your employee benefit package, call one of our benefit consultants for assistance. ▲

Pension Implications Under the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA)

The Uniformed Services Employment and Reemployment Rights Act (USERRA) was signed into law in 1994, with amendments in 1996, 1998, and 2000. Although USERRA has been around awhile, it is even more important today based on current military events. USERRA protects employment and benefit rights of Americans who are absent from civilian jobs to serve in the uniformed military branches.

USERRA addresses employment and benefit rights, including qualified pension plan requirements. USERRA qualified pension plan requirements cover employee rights, eligibility and vesting, contributions, reentry into the employer's qualified plan upon return from military service, and how to make up benefits. In addition, USERRA addresses employee loans and repayment schedules and distributions. Disclosure requirements are also required under this Act.

Employers need to be aware of these provisions since USERRA applies to virtually all employers, including federal, state, and local governments and their agencies. If you would like additional information regarding USERRA, please contact your representative at EBR. ▲



Professional Profile



Karen Ford, trust accounting specialist, has been with EBR since the fall of 2003. Ford works in the pension department doing accounting for defined contribution and defined benefit plans. She received her B.A. in accounting from Carroll College,

Helena, Montana, and has been a CPA for 19 years. She started her career at the State of Montana Legislative Auditor's Office and worked in the accounting profession in Texas, South Carolina, and California, spending the last six years in San Diego.

She likes reading, exercising, and spending time with her husband and son. ▲

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Employee Benefit Resources, LLP Scope of Services

HIPAA Compliance

Over the past twelve months, most employers have received a great deal of information regarding HIPAA, the Federal Health Insurance Portability and Accountability Act of 1996, from their insurance carriers, Section 125 Plan administrators, and other related organizations. HIPAA, along with privacy statutes enacted in various states, requires employers to enact extraordinary measures to secure information related to health plans and employee health issues. Our consultants at EBR can assess your HIPAA compliance needs and provide you with the necessary policies and procedures.

EBR is confident that we can help you find the right employee benefit and human resource solutions for your business. We look forward to helping your organization succeed throughout 2004. ▲

Additional Trading Partner Options Available via the EBR Daily Plan-It™

In addition to our trading platform relationship with AST Trust Company of Phoenix, Arizona (formerly known as Security Trust Company), we have added First Trust Company of Denver, Colorado and Davidson Trust Company of Great Falls, Montana to the list of trading partners with whom we can provide daily valuation services. These platforms enable us to offer clients (in coordination with an investment advisor) a selection of over 5,000 mutual funds for plan investment options.

Depending on the funds that are selected, revenue sharing from the fund companies may be available, which in turn reduces the costs of administering a retirement plan.

Our daily valuation system, **EBR Daily Plan-It™**, provides participant access (via phone and Internet) for account information, investment transfers, and distribution requests.

An increasing number of employers are choosing to offer daily valued services in which the plan participants may access account information 24 hours a day. These plans are referred to as "daily valued" because the share prices of the investment funds in the plan are updated on a daily basis. Transactions including contributions, distributions, and investment transfers are processed at the time actually executed at the investment company, so employee accounts are current every day. The employer decides what information the participants can obtain. Available options include:

- account information, by dollars and/or shares.
- ability to transfer amounts between investment funds.
- ability to request a participant loan or distribution.
- investment performance information.
- other general information, such as frequency of payroll or who to contact for payroll information, as requested by employer.

The process of changing from the traditional annually valued plan to a daily valued plan involves coordination between the employer, EBR, and the investment representative. If you are interested in setting up a daily valued plan, or converting your current plan to a daily valued plan with EBR and one of the trading partners mentioned above, please contact Laurie Harmon at EBR. ▲

IRS Provides Guidance on Pension Plan Expenses

The IRS recently issued guidance stating that a pension plan will not be imposing a loss in benefit to plan participants if it allocates a reasonable, pro-rata share of the plan's administrative expenses to former employees. This corresponds with the recent change in the Department of Labor's (DOL) position regarding the allocation of plan expenses.

Revenue Ruling 2004-10 gives the employer the option of allocating a pro-rata share of plan expenses to former employee participants' accounts, including administrative fees, distribution fees, and expenses related to Qualified Domestic Relations Orders (QDROs) and hardship/in-service distributions. The Ruling states that a plan may utilize a pro-rata allocation method but does not address a per capita (fixed dollar charge) method for allocating expenses.

Employers need to be aware if they choose to apply the per capita method of allocating expenses, they need to demonstrate that the method is nondiscriminatory and reasonable. The nondiscrimination rules test former employees separately from current employees.

This ruling will allow employers to reduce their costs without impacting current employees. However, if the employer chooses to allocate plan expenses to former employees (but not to current employees), they may need to amend their plan document. At a minimum, participants must be notified of the change.

If you would like additional information regarding this particular IRS ruling, please contact your representative at EBR. ▲

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