



Winter 2003



# Employee Benefits

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## In This Issue

Employee Benefit Resources, LLP - Scope of Services

Understanding HIPAA- How the State and Federal Privacy Requirements Impact Us All

GUST Amendment Update

What Can We Do about Health Care Costs that Continue to Rise ?

Retirement Plan Deadlines/2003 Limits

Professional Profile- Linda Kaiser

The EBR Daily Plan-It™ Prospers

Responsive Claims Processing

## Employee Benefit Resources, LLP - Scope of Services

As your organization moves forward into 2003, EBR would like to reemphasize 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. However, benefit plans and the laws regulating them are rapidly changing, becoming much more technical and complex. The professionals at EBR possess the knowledge and experience to ensure compliance with the myriad of regulations governing employee benefit plans. EBR can help you design a benefit package that is valued by employees and the most effective benefit package for your organization. We develop benefit designs for new and existing businesses and assess employee benefits to determine optimal value. 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

Providing your employees with a retirement plan that provides them with more control and quicker access to their accounts is essential in today's marketplace. Your company can receive significant tax savings and your employees will have a greater sense of comfort about their future by providing a comprehensive retirement plan. 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 or by using a toll-free number. Through our Web and Voice Response Unit (VRU), plan participants obtain important employee benefit information instantly.

Employee Benefit Resources 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 2003.

For more information or an appointment with an EBR professional, please contact us at 1.800.765.9429 or 1.406.449.5500. ▲

Employee Benefits is published by Employee Benefit Resources, LLP. The technical information it contains is necessarily brief. No final conclusions on these topics should be drawn without further review and consultation.

# Understanding HIPAA

## How the State and Federal Privacy Requirements Impact Us All

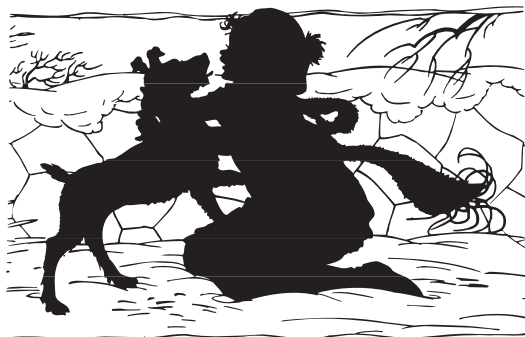
Over the past twelve months, most employers have received a great deal of information regarding HIPAA, the Federal Health Insurance Portability and Accountability Act of 1996, from their insurance carriers, Section 125 Plan administrators, and other related organizations. In order to help clarify some of these mailings, EBR has developed the following summary of what HIPAA is, and what it may mean to your organization.

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. The Federal privacy rules are effective April 14, 2003.

Privacy deals with how, to whom, and why information is used and disclosed, while security relates to how data is stored and accessed.

The privacy provisions of the new rules impact oral as well as written communications. For example, the human resources (HR) staff person at your organization will be able to talk with the health insurance carrier or third party administrator (TPA) about a plan participant's health or insurance concerns only under limited circumstances. Insurance companies, TPAs, and cafeteria plan (Section 125) administrators will almost certainly insist on talking about participant matters only with the participant. The participant will be required to identify himself or herself before discussing protected health information.

In some cases, participants may be able to obtain the HR staff person's help if both the participant and the HR person are on the telephone together. Additionally, if the participant provides written authorization on a case by case basis, there may be exceptions. The rules also preclude a participant's spouse discussing protected information with the health plan provider.



These changes will be startling to employees in most work places. HR staff are accustomed to assisting employees with health plan claims' issues. In addition, they are also accustomed to routing get well cards around the office when someone is out sick or has surgery. The penalties for violating an individual's privacy are so severe, many organizations may choose to avoid the risk from these types of exposure.

Employers will still be able to receive summary or group information from their health plan regarding the claims experience of their group. But the information must be presented so there is no reasonable way to identify a person with the health situation described in the information.

Because most employers receive protected information, each organization will need to designate a "privacy officer" to be responsible for receiving the information. Employers will need to educate all employees regarding privacy requirements and they will need to establish procedures to follow if an employee has a complaint regarding protected information.

The physical security of protected information is another critical issue. Employers must keep information regarding employee health issues locked in a separate file cabinet. This information may not be kept with personnel files. Access to the protected health information must be strictly limited.

In the next few months, health plans will be providing employers additional information regarding the changes employers should expect by April. EBR will also develop guidelines for our clients to use. In addition, EBR will be changing the way it manages inquiries regarding cafeteria plan participants' claims and accounts. In the meantime, employers may wish to begin acquainting employees with the changes they might expect in the future. The longer employees have to become accustomed to the changes, the easier time an organization may have in complying with the rules. ▲

## GUST Amendment Update

The deadline for amending pre-approved plans for GUST has been extended from December 31, 2002 to September 30, 2003. However, some employers needed to adopt a "good faith" amendment for the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) before the December 31, 2002 deadline to avoid violation of the anti-cutback rules.

Please contact your Plan representative at EBR if you have any questions about the extension, or any other issues concerning your retirement plan. ▲

## What Can We Do about Health Care Costs that Continue to Rise?

Rising costs for health care and health coverage combined with increased unemployment have employers and individuals searching for answers regarding coverage. Almost 15% of all Americans lacked health insurance in 2001. Some of the specific concerns include:

- Why do health coverage costs continue to increase?
- How can I, as an employer, continue to provide health care related benefits to my employees?
- What can I, as an employee, do to reduce my out-of-pocket expenses?

Here are some points to consider in each of these areas.

### Escalating Drug Costs

Drug costs are expected to increase another 20% this year. As a result, companies are asking workers to pay a growing share of the cost. Many companies plan to increase the co-payment amounts up to \$50.

Companies continue to work with Pharmacy Benefit Managers (PBMs) to lower costs and shift more of the expense to employees. PBMs are trying to manage costs by using tiered systems to increase co-pays and urging employees to fill prescriptions by mail.

According to a national health trend survey report, the average prescription drug trend rate is 22.1%. Last year's trend rate was 19.6%, providing evidence of the continued escalation in prescription drug costs. Factors such as general inflation, mandated benefits, and changes in product mix, technology, and utilization are all components of trend. Drugs are now 20% - 25% of some plans' total costs.

### Double-Digit Health Care Costs

Other factors contributing to higher health care costs include: an aging population ... baby boomers are more aggressively using medical services; consumer pressure ... more and more patients are requesting sophisticated medical technology, screenings for a variety of diseases; and expensive brand medications ... due in part to increased advertising.

In addition, outpatient care costs are increasing. Nationally, outpatient costs rose 11.2% last year.

### Innovative Ways to Reduce Costs

There are some things that can be done to help mitigate the rising costs. Employers may want to rethink contribution and cost sharing strategies for both medical and prescription drug plans - how much will the employer contribute towards the health insurance premiums?

Will the health plan benefit design be changed to increase deductibles, the maximum out-of-pocket amounts, or participant co-payments. Will the employer continue to contribute towards coverage for dental, vision, or other expenses?

Medical Reimbursement Plans, may help to lower costs and achieve tax savings. Through Medical Reimbursement Plans, employers choose to self-insure a portion of employee benefits in return for reduced premium costs under their fully insured benefits. For example, if an employer is able to reduce their health plan's premiums by increasing the plan's maximum out-of-pocket limit from \$1,000 to \$2,000, the employer may be willing to self-insure an employee's applicable medical costs between \$1,000 and \$2,000. The employer only incurs an expense when an employee exceeds \$1,000 of medical costs and submits a claim. The reimbursement amount is a business expense to the employer and is not taxable to the employee. Medical Reimbursement Plans may be designed to supplement fully insured benefits as described above, and may also be designed as a stand-alone benefit. For example, a plan could be designed where the employer would reimburse up to \$250 of the out-of-pocket dental expenses incurred by individuals (employees and/or dependents) covered under the employer's health plan.

Section 125 plans also provide a tax savings option for employees and employers. Employees may pay qualifying medical, dependent care, and insurance premium expenses using pre-tax dollars under a Section 125 plan. At a minimum, an employer may wish to establish a premium only Section 125 plan which would allow employees to pay out-of-pocket health plan premiums on a pre-tax basis. Employees do not pay federal (and where applicable, state) income taxes or FICA taxes on amounts withheld under a Section 125 plan.

Most of us are smart shoppers when it comes to groceries, automobiles, or household items. With rising health care costs, we need to be smart health care shoppers too. Education becomes more critical as costs continue to rise. Help employees manage their prescription benefits by encouraging them to get a copy of the formulary, the list of drugs in their plan, and share it with their doctor. Encourage employees to learn about less expensive drug options including generics and talk to their physicians. If your plan has a mail order option, let employees know that there are typically cost savings by using mail order.

## What Can We Do about Health Care Costs that Continue to Rise?

Some companies provide a 90-day supply and charge a co-pay for a 60-day supply. Help employees manage their medical benefits by encouraging them to understand their coverage and read their benefit plan. In addition, encourage employees to review all provider and hospital bills to insure accuracy, become an informed health care consumer, and to call their physician for advice if they do not believe an office visit is necessary.

### What Lies Ahead?

Unfortunately, most health insurance experts and economists expect that higher premiums in the

upcoming year, combined with affects of the economic slowdown, could result in more overall loss of coverage - the magnitude of which is really not predictable. The revolution is not over yet. Our best hope to is to continue to educate employees and employers and continue to develop novel approaches to mitigate the increase in health care costs.

Employee Benefit Resources, LLP (EBR), a sister-entity of AZ & Company, provides assistance in benefit package design, insurance product consulting, development of medical reimbursement and cafeteria plans, employee benefit education, and self-funded health plan consulting. For more information, visit [www.ebrworld.com](http://www.ebrworld.com) or call 1.800.765.9429. ▲

## Retirement Plan Deadlines / 2003 Limits

### Annual Dollar Limits

Based on IRS cost of living adjustments, the Internal Revenue Code (IRC) limits for 2003 are as follows:

- Maximum elective deferral limit under IRC §402(g) for 401(k), 403(b), and 457 plans - \$12,000 catch-up contribution limit is \$2,000
- Maximum annual compensation limit used to determine benefits - \$200,000
- Maximum annual addition limit under defined contribution plans - the lesser of 100% of pay or \$40,000
- Maximum annual payout under defined benefit plans - \$160,000 at age 62 or older
- Compensation limit for determining highly compensated employees - \$90,000
- Social security taxable wage base - increased from \$84,900 to \$87,000

### Deduction Limit

- **Deduction Limit** - 25% of covered compensation, plus elective deferrals under a 401(k) plan.

### Contribution Deposit Due Dates

- **Employee Deferrals** - Under Department of Labor (DOL) deadlines, employee deferrals must be deposited to the trust *as soon as administratively feasible*, but no later than the 15th business day of the month following the month they are withheld from the employees' pay. The DOL has been very clear in defining their policy and interprets "as soon as administratively feasible" to be as soon as the contributions can be reasonably segregated from the

employer's general assets. This means that the deposit of employee deferrals and loan payments withheld should coincide with the employer's remittance of FICA and FIT withholding to the appropriate agencies (i.e. within two to three days after the pay date to coincide with the federal tax withholding deposit requirements).

- **Employer Contributions (Pension, Profit Sharing and Matching)** - Unless otherwise dictated by the plan document, employer contributions must be deposited to the trust by the filing/due date of the employer's tax return, including extensions. For pension plans where the employer contribution is set by a formula, the contribution must be paid by the filing/due date of the employer's tax return, including extensions, but no later than 8 1/2 months after the employer's fiscal year end. Safe harbor matching contributions to a 401(k) plan that are calculated on a payroll period basis must be deposited at least quarterly.

### 401(k) Safe Harbor Plan Notices

- Annual written notice of the safe harbor provisions must be provided to eligible employees within a *reasonable time* (30 - 90 days) before the first day of the plan year. For calendar year plans, the 2003 notice must be posted by December 1, 2002.

### Annual 401(k)/401(m) Discrimination Testing

- The required annual nondiscrimination testing for 401(k) plans must be completed within 2 1/2 months after the end of the plan year to avoid the 10% excise tax assessed by the IRS on excess contributions.

## Professional Profile



**Linda Kaiser (CHC)** has been an account manager and human resource consultant with EBR since 2001. Linda specializes in conducting organizational reviews which enable organizations to achieve maximum productivity, streamline operations, and assist leadership in effectively

developing and managing employees. Linda also works with organizations to recruit and retain the very best employees. In addition, Linda conducts leadership and employee training seminars related to issues facing Montana employers including: Team Based Leadership, Effective Delegation, Coaching for Improved Performance, Performance Management, Making Meetings Work, Managing Workplace Conflict, and Stopping Sexual Harassment Before It Starts. In addition, Linda has extensive leadership experience in human resources, marketing, and program management. Linda is a Certified Health Consultant and has her B.S. degree from Montana State University. ▲

## The EBR Daily Plan-It™ Prospers

Our daily valuation system, EBR Daily Plan-It™, provides participant access (via phone and Internet) for account information, investment transfers, and distribution requests for daily valued plans. This service has been offered for over 2- years, and has numerous satisfied customers.

A quote from a plan sponsor, "I am very pleased and impressed with how all this is going...the reports are all excellent, as is the service. Thank you."

Our trading platform relationship with Security Trust located in Phoenix, Arizona enables us to offer clients (in coordination with an investment advisor) a selection of over 3,600 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 the plans.** We offset our fees on a dollar-for-dollar basis for any revenue received from the mutual funds you choose. This can provide a significant savings to you and your employees. We have converted clients to the EBR Daily Plan-It™ in the past year that have recognized a net reduction in fees of as much as 30-35% due to increased efficiencies and revenue sharing.

**EBR Daily Plan-It™** gives participants their account information updated each evening with the closing price of the funds in their account, and same day/late day mutual fund trading. Additional services offered include the following:

- Quarterly participant statements, mailed within 15 business days of quarter end
- Periodic payroll/contribution processing
- Processing of investment transfers
- Annual Report, compliance testing, and Form 5500 filing
- The Security Trust Company (STC) serves as Plan Trustee, if desired

Providing your employees with a retirement plan that provides them with more control and quicker access to their accounts is essential in today's marketplace. Your company can receive significant tax savings, and your employees will have a greater sense of comfort about their future, by providing a comprehensive 401(k) retirement plan.

Please contact Laurie Harmon at 1.800.765.9429 or 1.406.449.5500 if you would like further information on the EBR Daily Plan-It™. We look forward to hearing from you. ▲

Continued from Page 4

## Retirement Plan Deadlines / 2003 Limit

Excess contributions distributed within the first 2 1/2 months following the end of the year are taxable to the recipient in the year of deferral. Excess contributions distributed after 2 1/2 months following the end of the plan year are taxable to the recipient in the year distributed.

- Excess elective deferrals (deferrals in excess of the 402(g) limit noted above) must be distributed by April 15<sup>th</sup> following the close of the participant's taxable year to avoid double taxation. If the excess elective deferrals are distributed by April 15<sup>th</sup>, the excess is taxable to the recipient in the year of deferral. If the excess is distributed after April 15<sup>th</sup>, the excess is taxable to the recipient in *both* the year of deferral and the year of distribution.

## 5500 FILINGS

- The 5500 filing is due 7 months after the end of the plan year, or 9 1/2 months if an extension, Form 5558, is filed. ▲

# Responsive Claims Processing

**EBR** continues to receive praise from plan participants regarding how fast their cafeteria plan claims are processed. To quote one of our plan participants,

“I just wanted to say how impressed I am with your turnaround time. On Tuesday, September 25<sup>th</sup>, I mailed a request for reimbursement for the balance remaining in my flex plan. I received the check today, September 28<sup>th</sup>. This happens every time I have submitted a request. I really appreciate your prompt response. Thanks for such good service!”

– MSU Bozeman Participant

To ensure all of our processing clients continue to receive prompt service, EBR has developed the following guidelines to help streamline claim processing.

- Notify EBR of any participant’s name or address change.
- All claims must be submitted with a signed claim form.
- Each line of the claim must be supported with

documentation indicating the date of service, the procedure, the dollar amount associated with the procedure, the name of the person for whom the service was performed, and the name of the service provider. The *explanation of benefits statement* provided by the insurance company typically details this information clearly and concisely.

- Unacceptable documentation includes: balance forward statements, cancelled checks, copies of cancelled checks, or copies of money orders.
- In the case of dependent care expenses, monthly orthodontia payments, and a variety of other recurring payments, EBR can often set up automatic monthly claims. This eliminates the need to submit a new claim each month.

In summary, contact EBR if you have any questions regarding the validity of a claim, or the necessary documentation to support it. We strive each and every day, to provide our participants with the fastest claims processing available anywhere. ▲

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