Navigating Employee Benefits: How to Leverage A Comprehensive Benefit Package in Your Company

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Highlights of Today’s Session

• Importance of a Comprehensive Benefit Package
• Trends in Health Insurance and ACA Impacts for Employers
• Overview of Cafeteria Plan Options
• Retirement Plan Update

Why a Comprehensive Benefit Package is Important

Attract and Retain Top Talent in Your Organization
- Competition for talent in organizations is the highest it has been in several years.
- 2015 – Employee’s Market!
- Employees have been placing increased value on benefit packages provided by employers over compensation.
- Diminishing employee loyalty with the Generation Y employees
What Benefit is Most Important to Employees?

Most Important Employee Benefit, 2004 and 2012

- Health Insurance
- Retirement Plan
- Retiree Health Insurance
- PTO
- Life Insurance
- Long-Term Care Insurance


Employer Provided Health Insurance – Changes Ahead

- The Affordable Care Act (ACA) brought significant changes to employers, both large and small, for employer provided health insurance.
- Market reforms added provisions that subject applicable large employers to shared responsibility payments for not offering affordable, minimum value health care coverage to its full-time employees.
- Small employers also impacted by market reforms including:
  - SHOP availability (Small Business Health Options Program)
  - Underwriting methods (all plans)
  - Reimbursement arrangements
Applicable Large Employer Mandate

All applicable large employers (greater than 50 full-time equivalents) who do not offer affordable, minimum value health coverage beginning January 1, 2015 will be subject to a shared responsibility payment.

Penalties to be Aware Of:

1. Subsection “A” Penalty: Health Insurance Not Offered - calculated at $2,000 x Full Time Employees (less the first 80 in 2015, 30 in 2016).

2. Subsection “B” Penalty: Health Insurance Not Affordable – calculated at $3,000 x Each Employee who received subsidy.

Small Employers BEWARE too…

- IRS Notice 2013-54 – Significant implications to small employers
  - Individual Policies: Employers can no longer reimburse employees pre or post-tax for individual premiums.
  - Stand-Alone HRA: Employers can no longer reimburse employees for major medical expenses (prescriptions, co-pays, deductibles) without having a group plan
  - Penalty: $100 x day x employee for noncompliance or $36,500 per employee for violation

Trends in Employer Provided Insurance – 2015 and Beyond

- Small employers generally are not planning on dropping their group plan – less than 1% expect to drop coverage.
- High Deductible Health Plans (HDHP) paired with HSA contributions from both employer and employee are gaining popularity.
  - Consumer Driven Health Care – employer can more appropriately control costs.
  - Employees are more aware of health care costs and spending.
  - Employees benefit from “Triple Tax Savings” on HSAs.
- Adding Wellness Programs.
Cafeteria Plans – Are they right for your Organization?

- What is a cafeteria plan?
  - A cafeteria plan is a pre-tax vehicle established under IRS Code Section 125 that allows employees to make an annual election to pay for benefits on a pre-tax basis including:
    - Employer Provided Group Health Insurance Premiums
    - Medical Flexible Spending Account (FSA)
    - Dependent Care Flexible Spending Account (DCAP)
    - HSA Contributions

Cafeteria Plan – Benefits both Employee and Employer!

- Employee Tax Savings - Employees receive income tax savings on the benefits they are electing.
- FICA Tax Savings - Employers do not pay FICA tax on dollars employees defer.
- Cost Control for Employers – if an employer so chooses, they can elect a fixed amount to be contributed to employee benefits.

Employer Tax Savings Example

<table>
<thead>
<tr>
<th>Cafeteria Plan Benefit</th>
<th>Employee Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Insurance Premiums – Family</td>
<td>$5,500</td>
</tr>
<tr>
<td>Medical FSA</td>
<td>$2,550</td>
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<tr>
<td>Dependent Care</td>
<td>$5,000</td>
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<tr>
<td>Total Pre-Tax Deferral</td>
<td>$13,050</td>
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<tr>
<td>FICA Tax Rate</td>
<td>7.65%</td>
</tr>
<tr>
<td>Estimated Employer Savings per Employee</td>
<td>$998.33</td>
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</tbody>
</table>
## Cafeteria Plan Requirements
- Must be executed through a qualified cafeteria plan document.
- Must complete annual nondiscrimination testing on benefits.
- Non-eligible individuals:
  - Self-Employed Individuals
  - Partners
  - More than 2% Shareholders of an S-Corp
  - Members of LLC
- IRS and HIPPA Requirements for properly administering benefits

## Cafeteria Plan Contribution Limits - 2015
- Health Flexible Spending Account (FSA) - $2,550 for 2015.
- Dependent Care Flexible Spending Account (FSA) - $5,000.
- Health Spending Account (HSA):
  - Single Coverage: $3,350 (+ $1,000 if over 55)
  - Family Coverage: $6,650 (+ $1,000 if over 55)
  - Only available for individuals enrolled in a HDHP

## Retirement Plan Options for Employers
- SEP – Simplified Employee Pension - self employed or as employee
  - Available to any size business
  - No filing requirements (i.e. Form 5500)
  - Only equitable, pro-rata employer contributions that are 100% vested
  - Contribution is discretionary
- SIMPLE IRA – savings incentive match plan for employees
  - Available to small business only, less than 100 employees
  - No filing requirements (i.e. Form 5500)
  - Mandatory 100% vested contributions equal to a matching contribution of 3% of compensation or 2% non-elective contribution
  - Employees may contribute
Retirement Plan Options for Employers

- 401(k) and 403(b) plans
  - Available to any size business
  - Has annual Form 5500 filing requirements
  - Greater flexibility in contributions
  - Both employer and employee contributions with higher limits
  - Employer contributions can be on a vesting schedule

- ESOP – Employee Stock Ownership Plan
  - Employer makes contributions of employer stock to the plan
  - Annual Form 5500 filings requirements
  - Must be annually valued by independent appraiser
  - Can be used as “exit strategy” for departing owners
  - Corporation is “employee owned” based on shares contributed to Plan

Leveraging 401(k) Plans – Increasing Employee Savings

- Impact to Employers for Low Participation
  - Failed Annual Nondiscrimination Tests
    - Returned Deferral and Match to Owners and other HCEs
  - Cost of Delayed Retirement of Employees
    - Estimated cost to employers is between $10,000 and $50,000 per year, per employee, for each year retirement is delayed

- Indirect Effect of Financial Stress on Employees
  - Productivity, Attendance, Health Costs, Turnover
  - According to Financial Finesse, 67% workers reported financial stress in lives

Leveraging 401(k) Plans – Automatic Enrollment Features


Effects of Opt-In or Opt-Out Methods: Organ Donation

Leveraging 401(k) Plans – Stretch the Match

• XYZ Corporation currently offers match of 100% on the first 4% - Employees only need to save 4%

• What if the match was changed to 50% of 8% of compensation? Match still 4% - employees now must save 8%

• What about 100% on the first 2% and 25% on the next 8%? Match still 4% - employees now must save 10%

• By stretching the match, employer is encouraging employees to increase their contribution by 4-6%.

Plan Annual Limits

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<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td>Annual Compensation</td>
<td>$265,000</td>
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<tr>
<td>Elective Deferrals</td>
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<tr>
<td>Catch-up Contribution</td>
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<tr>
<td>Defined Contribution Limits</td>
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<td>IRA Contribution</td>
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<td>SEP Minimum Compensation</td>
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<td>SEP Maximum Contribution</td>
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<tr>
<td>SEP Maximum Compensation</td>
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<td>SIMPLE Maximum Contribution</td>
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<tr>
<td>SIMPLE Catch-Up Contribution</td>
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<td>$2,500</td>
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Questions?

Thank You.

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