KIG BENEFITS BRIEF

KAPNICK INSURANCE GROUP

EMPLOYEE'S GUIDE TO UNDERSTANDING THEIR ROTH 401(k)

What is a Roth 401(k)?

Just as its name suggests, a Roth 401(k) combines the features of a traditional 401(k) plan with those of a Roth IRA. It is offered by employers just like a traditional 401(k) plan, but similar to a Roth IRA, contributions are made with after-tax earnings. With a Roth 401(k), you do not get a tax deduction for your retirement savings; however the withdrawals (including the profits made during retirement) are tax free.

In addition, income taxes are paid at your regular income tax rate at the time of contribution with a Roth 410(k) plan. Earnings and withdrawals are not taxed if withdrawals begin after age 59½, and if there has been a five-year lapse from the date of the first contribution to the plan.

Is a Roth 401(k) right for you?

The answer to this question largely depends on what tax bracket you are in today and which tax bracket you expect to be in upon retirement. If you are early in your career, are making a fairly modest salary and anticipate being in a higher tax bracket upon retirement, the Roth 401(k) may appeal to you. This is because you are paying taxes on contributions today at a lower rate and will be able to withdraw that money without paying any taxes later.

Higher paid workers can also benefit from a Roth 401(k) because they are generally locked out of other savings vehicles that accumulate profits tax-free. The Roth 401(k) also allows them to reap the tax-free benefit. In addition, higher paid workers generally do not have access to a Roth IRA because of income limits. The tax-free withdrawals can also help highly paid workers manage their tax situation in retirement.

For workers in their 40s and 50s, the choice to contribute to a Roth 401(k) may not be so easy. With this type of plan, a participant will pay taxes up front when he or she is in a high tax bracket and will then withdraw the money when they are in a lower tax bracket. Those who will be in a lower tax bracket during retirement are probably better off contributing to a pre-tax 401(k). Furthermore, the greater amount of time you have before retirement, the greater the tax benefits are to you because you are exempting more investment earnings from taxation.

Consult with your financial planner before making a decision on whether traditional deferrals or Roth contributions are best for you.

Characteristic	Roth 401(k) Account	Traditional 401(k) Account
Contributions	Employee elective contributions are made with **after-tax dollars.**	Employee elective contributions are made with **before-tax dollars**.
Income Limits	No income level to participate.	No income level to participate.
Maximum Elective Contribution	Aggregate* employee elective contributions limited to $15,500 in 2008 ($20,500 for employees 50 or over).	Aggregate* employee elective contributions limited to $15,500 in 2008 ($20,500 for employees 50 or over).
Taxation of Withdrawals	Withdrawals of contributions and earnings are <u>not</u> taxed provided it's a **qualified distribution** – the account is held for at least 5 years and withdrawals are made: • On account of disability, • On or after death, or • On or after attainment of age 59½.	Withdrawals of contributions and earnings <u>are</u> subject to federal and most state income taxes.
Required Distributions	Distributions must begin no later than age 70½, unless still working and not at least a five percent owner.	Distributions must begin no later than age 70½, unless still working and not at least a five percent owner.

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LEGISLATIVE UPDATE

State Children's Health Insurance Program - SCHIP

Aa state funded program that provides matching dollars for children's healthcare to eligible families.

SCHIP Reauthorization (MiCHILD- Michigan's version)

For more information contact Patrick Pennefather; patrick.pennefather@kapnick.com

Many parents of SCHIP-eligible children have access to employer-sponsored health insurance coverage but cannot afford their portion of the dependent premiums. Some of these parents enroll their children in SCHIP, but many children remain uninsured. Health Insurance agent associations would like to see the process for states to voluntarily use SCHIP dollars to subsidize such employer-sponsored coverage made much simpler. This could be done by removing some current restrictions that have hindered premium-subsidy efforts of private-market employer-sponsored coverage.

Over the past few months, Congress has passed a number of bills related to the SCHIP reauthorization process. Just before the August recess, both the House and the Senate passed very different versions of SCHIP reauthorization legislation. The original House Bill, H.R. 3162 would have significantly expanded the scope of SCHIP, including providing coverage to individuals up to age 25. It included no provisions to reduce crowd-out, it did not include recommendations to improve premium assistance for eligible children who have access to private employer-sponsored coverage, and it would have effectively eliminated the Medicare Advantage program to pay for a portion of the proposed SCHIP expansion. In contrast, the original Senate-passed legislation, H.R. 976, expanded SCHIP in a more limited way and solely through an increase in the federal tobacco excise tax. The Senate bill also included many recommendations regarding improving premium assistance and would have helped reduce crowd-out by phasing out SCHIP coverage of childless adults.

After much political wrangling during August and September, at the end of September, just before funding for all of SCHIP was set to expire, the House and Senate both passed a revised version of the

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"SARAH SAYS" - Health Management Issues

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Two for the price of one...

When implementing an employee wellness program, you may want to consider extending the programs to the spouses as well. Recent studies have shown that when one spouse makes healthy changes, the other is likely to do the same. Yale researchers concluded, after studying more than 3,000 married couples, that people were about five times more likely to quit smoking, 50% more likely to start exercising, and 80% more likely to have their cholesterol measured if their spouses did. Though some previous research suggested that men are more often the beneficiaries of the "spillover effect", in this study husbands and wives influenced each other equally.

So, if you'd like your employees to follow a healthy lifestyle, consider involving spouses to encourage healthy behaviors.

Sarah's Health Tip: Preventing Illness At Daycare

- Teach your child, if old enough, to wash his hands after using the bathroom
- Keep your child home if he is sick
- Breast-feeding your baby can help strengthen her immune system
- Daycare centers should have strict policies and employee training on ways to reduce germs
- Diaper changing or disposal should never occur near food preparation
- All employees and children should be required to have regular immunizations

Celebrate Spring....
get out and take a walk!

In This Issue:

Legislative Update continued

original Senate Bill, H.R. 976. This legislation was very similar to the original Senate-passed SCHIP measure, and it also contained many premium assistance provisions. Furthermore, this original compromise measure did not contain any cuts to the Medicare Advantage program, but instead funded the measure completely through an increase in the federal tobacco tax. President Bush immediately announced his intent to veto H.R. 976, since he felt that it represented too great of an expansion of government into the health care system. While both Houses of Congress passed this measure with wide margins of bipartisan support, only the Senate did so with a veto-proof majority.

On September 29 the President signed legislation to avoid a government shut-down and extend funding at current levels to a variety of federal programs slated to expire on September 30, including SCHIP through November 16. Then he vetoed H.R. 976 and the House and Senate spent two weeks attempting to garner enough votes to override the veto. However, as expected, their effort failed in the House and on October 18 the veto of H.R. 976 was sustained. The next week the House majority put forward and passed a new version of SCHIP compromise legislation, H.R. 3963 by a vote of 265 to 142. While this was a clear majority with bipartisan support, again it was not enough to sustain a presidential veto. The White House issued a strongly worded statement opposing the latest version and so the political drama surrounding SCHIP will repeat itself again.

Several suggestions have been provided to Congress to improve the SCHIP bills for our benefit client's interest:

• Completely eliminating cost-sharing requirements other than plan premiums from the five-percent rule. Current law prohibits cost-sharing for children in families under 150% of FPL, and cost-sharing is limited to 5% of family income for families with incomes that exceed 150%. Unfortunately, cost-sharing is defined to not only include premiums, but also co-payments, deductibles and co-insurance. The compromise bills did not eliminate cost-sharing from the five-percent rule, but instead allowed the states to subsidize employee cost-sharing as part of premium assistance, as well as allowed them to serve as the secondary payer for plans that did not meet the original SCHIP benchmark requirements. The compromise provisions would allow many more employer plans to qualify for premium assistance than would qualify under current law, but the best thing would be to remove cost-sharing from the five-percent rule completely.

• Eliminating language that specifically excludes benefits provided under a flexible spending arrangement or a Health Savings Account from the definition of employer coverage that qualifies for premium assistance.

• Eliminating language that requires employers to contribute 40% of the employee's premium for the plan to be eligible for premium assistance participation. Overly specific requirements can hinder employer eligibility and can make the employer-review process unnecessarily burdensome for states.

• Making premium assistance compliance simpler and more consistent for employers by allowing employers (particularly larger employers operating in many states) to use a single national notification form for premium assistance, rather than a state-specific form.

• Making the special enrollment time frame for premium assistance eligible children consistent with HIPAA. The most recent compromise bills provided a 60-day period for individuals who lose or become eligible for Medicaid or SCHIP programs to request enrollment in an employer group health plan. In contrast, time frames for requesting special enrollment due to a HIPAA qualifying event is 30 days.

• Requiring that SCHIP-eligible individuals with access to qualified employer sponsored coverage must participate in premium assistance if it is determined to be more cost-effective. In the compromise bills, participation was voluntary and left up to the parent.

• Specifying that income-eligible children who already have access to employer-sponsored coverage be immediately eligible for SCHIP premium assistance.

There are some that predict Congress and the president will not be able to come to terms, and that they will simply continue funding the program at current levels through continuing resolutions into the new year. Kapnick Insurance Group will continue to monitor the process and keep our clients informed.

STRATEGIES FOR SUCCESS

It's Not About the Money

Workers Most Value Health Insurance and Job Security

According to a recent poll by the Center for State and Local Government Excellence, American workers ranked the following benefits and characteristics in terms of importance when choosing a job:

1) **Health Insurance**
2) Job Security
3) Clear Policies and Procedures
4) Retirement or Pension Plan
5) Flexible, Family-Friendly Workplace
6) Quick Decision-Making
7) Talented Managers
8) Promotion Potential
9) Creative/Stimulating Environment
10) Pay

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MARKETPLACE UPDATE

Lower Drug Spending, Consumerism and Wellness Decelerate Growth Rate of Health Benefit Expenses

Unlike health plan premium forecasts, medical cost trends reflect the underlying numbers for actual medical costs by plan design. They are used by private insurers and employers to compare health plan costs year after year, ultimately to set premium levels and design the benefit packages that will be offered to employees in the fall.

According to "Behind the Number: Health Care Cost Trends for 2008" provided by the Pricewaterhouse Coopers Health Research Institute (HRI), private insurers are anticipating an average increase in medical costs by 9.9% for preferred provider organizations (PPOs), 9.9% for health maintenance organizations (HMOs) and 7.4% for consumer-directed health plans. This compares to increases of 11.9%, 11.8% and 10.7%, respectively, in the prior year. For 2008, the HRI has identified four major trends driving the deceleration of health care cost increases:

Slower spending growth for prescription drugs.
This trend is being driven by a convergence of factors including the introduction of fewer blockbuster drugs, acceptance of tiered formularies which is driving increased use of generic drugs, and transition of some drugs to over-the-counter status. As one indicator of slower growth, the percentage growth in per capita spending on prescription drugs has now dropped below the percentage growth in national health expenditures for the first time since the mid-1980s.

Increased transparency and cost-sharing with employees.
It's clear that health care's movement into consumerism is real and affecting medical costs. Increased transparency and broader cost-sharing are cornerstones of health care consumerism that are making consumers more price sensitive, more willing to invest in preventive care, but also more demanding of greater information and value for their money.

Total-health-management approach to benefits.
Employers are finding that individuals who lead healthier lifestyles typically are more productive, file fewer medical claims and have lower medical costs. Thus, an increasing number of U.S. employers are investing in wellness programs and developing incentives for employee adoption of healthier lifestyles. Typically employers have received a $3 to $1 return on their investment in this area.

For further interest regarding any survey results and benchmarking please contact your Kapnick Insurance Group Benefits Consultant for more information @ 888.263.4656

HR CONNECTION

Military Family Leave Act

Notice from the U.S. Department of Labor, Employment Standards Administration, Wage and Hour Division

On January 28, President Bush signed into law the National Defense Authorization Act for FY 2008 (NDAA), Public Law 110-181. Section 585(a) of the NDAA amended the FMLA to provide eligible employees working for covered employers two important new leave rights related to military service:

(1) New Qualifying Reason for Leave. Eligible employees are entitled to up to 12 weeks of leave because of "any qualifying exigency" arising out of the fact that the spouse, son, daughter, or parent of the employee is on active duty, or has been notified of an impending call to active duty status, in support of a contingency operation. By the terms of the statute, this provision requires the Secretary of Labor to issue regulations defining "any qualifying exigency." In the interim, employers are encouraged to provide this type of leave to qualifying employees.

(2) New Leave Entitlement. An eligible employee who is the spouse, son, daughter, parent, or next-of-kin of a covered service member who is recovering from a serious illness or injury sustained in the line of duty on active duty is entitled to up to 26 weeks of leave in a single 12-month period to care for the service member. This provision became effective immediately upon enactment. This military caregiver leave is available during "a single 12-month period" during which an eligible employee is entitled to a combined total of 26 weeks of all types of FMLA leave.

Additional information on the amendments and a version of Title I of the FMLA with the new statutory language incorporated is available on the FMLA amendments website at: http://www.dol.gov/esa/whd/fmla/NDAA_fmla.htm.