

Technical Advisory

Timely information for the dynamic world of employee benefits

A newsletter presented by the
Employee Benefits Division of
Kibble & Prentice

Winter, 2002; Volume 5, Issue 1

A SEASON OF CHANGE FOR INSURANCE CARRIERS

January 1 of each year is often a time for change, and this certainly will be true for Washington's insurance carriers. With new state laws and consumer demand as motivating factors, some changes have been made to what carriers will be offering in the coming year.

State law is now requiring the coverage of prescription contraceptives on all fully insured plans. For new groups enrolling January 1, 2002 the contraceptive coverage will be effective once enrolled onto the plan. For groups that are not changing carriers, the addition of prescription contraceptives will take effect on the renewal date.

The State Legislature is also requiring group dental plans to provide coverage for medically necessary general anesthesia services provided in conjunction with dental procedures performed in a dental office, which are necessary because the covered person is under the age of seven, physically disabled or developmentally disabled. Groups will also be seeing an increase in Chemical Dependency coverage, with the maximum increasing to \$11,000 every two calendar years.

In addition to mandated changes, carriers are also attempting to answer the demands of consumers and continue efforts toward cost

control.

In response to feedback regarding the percentage three-tier prescription drug copay and the availability of a high deductible, low cost medical plan, **Regence BlueShield** will be making the following adjustments to benefits options:

- ◆ A \$10/\$20/\$40 open formulary option will be available to all new and renewing groups. Previously, this option was available only to Regence BlueShield plans of 51 or more employees.
- ◆ A new closed formulary 50% copay option with a \$2,000 per member, per calendar year benefit maximum.
- ◆ A new \$500 deductible per member closed formulary option after which prescription drugs will be covered at 80% with no out-of-pocket maximum. This deductible is separate from any medical deductible and is not subject to any deductible credit or carry-over provisions of the plan.
- ◆ An annual out-of-pocket maximum of \$2,400 per member per calendar year will be added to the current three-tier standard coinsurance options - \$7/30%/50% and \$12/30%/50%.
- ◆ A new \$1,000 medical deductible option will be available to all new

continued on page 2



Seminars Designed to Target Your Areas of Need

Legislative Update - April 2002

General update on current issues and regulations.

Annual Employee Benefits Survey - Summer 2002

Review results of our annual employee benefits survey and discuss current trends.

Investing in Human Capital - October 2002

Compensation strategies, recruiting and retention, creating a desirable work environment, planning for good (and bad) times.

In this issue:

- 2 Section 79 - Definition of Key Employees
- 2 IRS Issues Rules Against "Double-Dipping"
- 3 Provider Updates
- 4 Section 529 Plans
- 4 Contact the Kibble & Prentice "Tech Team"

A Season of Change

continued from page 1

and renewing groups on 80/80/50 and 100/90/60 Preferred Plans.

First Choice Health Plan (FCHP) will be making some changes to the plan being offered through the Employer's Health Purchasing Co-op. FCHP will be changing its prescription drug copay from the two-tier structure, to the now more common, three-tier structure.

The Northwest Technologies Trust has added a \$10 copay to their Medical Plan 1. The trust will also be increasing the deductibles on Medical Plans 1 and 3. Another change will be the addition of two new plan options. The new options will offer more basic coverage than the three original Technologies Trust plans. Included with the new plans are higher deductibles (\$500 and \$1,000) and 70% coverage for preferred providers.

More plans with more options, some with lower coverage to help control initial out of pocket expense, seems to be the trend for the year. With the insurance industry continuing to be a volatile one, we can expect more changes in the years to come.

Section 79 - Definition of Key Employees

For purposes of Section 79, employer-sponsored life insurance plans are deemed discriminatory if the benefit favors key employees. Under Section 79, employer-sponsored life insurance benefits exceeding \$50,000 are treated as imputed income and are taxable to the employee. Taxes are calculated using Table 1 rates according to the age of the insured. For discriminatory plans, the entire life insurance benefit is taxable as imputed income for key employees.

The criteria for a key employee changed effective January 1, 2002. Prior to the change, a key employee was defined as an employee who at any time during the current or four preceding plan years is:

1. An officer, if annual compensation is greater than \$70,000. The highest-earning 10% of employees shall be treated as officers (at least 3 and no more than 50 individuals).
2. An employee with annual compensation of more than \$35,000 and owning both more than 1/2 percent interest and one of the 10 largest interests in the employer.
3. An owner of more than 5 percent

of the employer.

4. An owner of more than 1 percent of the employer and receiving annual compensation greater than \$150,000.

As of January 1, 2002, a key employee is defined as an employee who at any time during the current plan year is:

1. An officer, if annual compensation is greater than \$130,000, adjusted for inflation in increments of \$5,000. The highest-earning 10% of employees shall be treated as officers (at least 3 and no more than 50 individuals).
2. An owner of more than 5 percent of the employer.
3. An owner of more than 1 percent of the employer and receiving annual compensation greater than \$150,000.

Any employer with a discriminatory life insurance plan should verify that any key employees still meet the criteria under the new definition. Any change in status should be reflected in imputed income calculations beginning January 1, 2002.

IRS Issues Rule Against "Double-Dipping"

The IRS has recently issued a ruling against the practice of employers making tax-free reimbursements to their employees for insurance premiums paid through a pre-tax payroll deduction. This practice is commonly referred to as "Double-Dipping".

These plans have been widely marketed as a way for employers to avoid taxes by having the employee pay the insurance premiums on a

pre-tax basis. For example, if the employee insurance premium is \$300 per month, the employee pays a net cost of \$232.05 when accounting for the pre-tax savings of \$67.95. Since the employer is reimbursing the \$232.05 instead of paying the \$300 insurance premium, the employer savings is \$67.95. In addition, the employer is also saving the additional money that would go to matching FICA taxes.

Under Rev. Rule. 2002-3 (Dec. 21, 2001), the IRS has established that any reimbursements by the employer for pre-tax payroll deductions to the employees are constituted as taxable wages for purposes of federal income tax and FICA.

A copy of the rule is available at: <http://ftp.fedworld.gov/pub/irs-drop/rr-02-3.pdf>

Provider Updates

At Kibble & Prentice, we are aware of the serious nature of these situations and will continue to provide updates to our clients as we receive them. If you have any questions, please contact your account manager at Kibble & Prentice.

Regence BlueShield

Regence Blue Shield has come to an agreement to retain the Tacoma Anesthesiologists as members of its Provider Network.

Last fall, the anesthesiologists group gave the state's largest insurance carrier notice of their plans to terminate its relationship effective January 1, 2002. Regence had initially planned to continue paying at the PPO level for anesthesia services, while continuing to negotiate with the anesthesiologists. While Regence would have continued to pay at the PPO level, payment would have been limited to the "allowable amounts" contained in the current agreement. This contingency would have potentially led to patients being balanced billed by the anesthesiologists.

Both parties quickly came to resolution with Regence agreeing to reprocess any claims incurred during the negotiation period. Any patient's out-of-pocket expenses should be limited to the copayment, coinsurance or deductible amounts of their specific benefit plan.

AETNA

Swedish Health Systems is currently in contract negotiations with AETNA. At this time, one member of Swedish Health Systems (SHS) - Providence Medical group - has terminated their contract effective January 1, 2002. Any clients with affected employees have been contacted. All other SHS providers plan on terminating their AETNA contracts effective February 20, 2002. Anyone with AETNA coverage utilizing SHS providers should be aware of the potential impact if a new contract is not signed.

Any members currently under treatment by a Providence Provider may complete a "Transition of Care Form", which will allow affected members to complete their current course of treatment with their terminated provider. To obtain a copy of this form, please visit the AETNA website at www.aetna.com or call your local AETNA customer service office.

We will continue to update all affected groups as new information is received. Questions? Please contact your account manager at Kibble & Prentice.

Premera Blue Cross

Premera Blue Cross is also experiencing problems with anesthesiologists terminating their contracts throughout Washington State. As with Regence, Premera is working with anesthesiologists to resolve this issue. In the meantime there is a potential for high out of pocket costs if the provider is not contracted with Premera.

Currently, Premera will reimburse at the following levels for non-participating providers: clients with 1-50 employees 50% of allowed charges, clients with 51+ employees, 60% of allowed charges. (Note: these benefit levels are outlined in your Premera contract.)

Section 529 Plans

With the estimated cost of college approaching \$258,000 for the class of 2022, more parents and grandparents are turning to a new plan instituted by the government to provide “special” savings accounts for the future education of their children. These plans, called 529 College Savings Plan (after the IRS section 529 code that created them), are the wave of the future for tax-deferred investments. Plans differ from state to state and between mutual fund carriers (though a person is not restricted to just their state’s plan), but the underlying thread remains the same with all plans:

- ◆ High contribution limits (much higher than educational IRA’s)
- ◆ Income tax benefits (including gift and estate tax benefits)

When a 529 Plan is set up, the beneficiary must be named and the goals of the plan must be established from the beginning. The investment features of the plan are “locked-in”; if you choose an aggressive style, it will stay aggressive as determined by the

mutual fund company that you choose. Federal law mandates that you make only one investment selection for the life of the account. In most cases, the account owner may choose between three different styles (aggressive, moderate or conservative) and then the number of years before the money is needed. To give an example: an initial investment of \$2,500 followed by \$500 per month, in 18 years at a 9% annualized rate, would give the student \$280,732 for college.

The expenses must be used for qualified college expenses. There are provisions in most plans that allow the transfer of balances to “direct” relatives, but plans differ from state-to-state.

As stated, these plans differ widely between states, it is best to consult an investment advisor to learn more about each state’s plans and their advantages and disadvantages.

Contact Kibble & Prentice’s Investment Division for more information.

Contact the Kibble & Prentice Employee Benefits Tech Team

Would you like to obtain future copies of this newsletter by e-mail? If so, send us your name, phone number and e-mail address and we will add you to our e-mail list in time for the next mailing!

The Kibble & Prentice [Technical Advisory](#) editors and writers are Aaron Rubardt, Patrick Rosenberry and Nikolai Brown.

They can be reached at 206-441-6300 or 800-767-0650. You may also contact them via e-mail at techteam@kpc.com.

TIMELY INFORMATION FOR THE DYNAMIC WORLD OF EMPLOYEE BENEFITS

Ideas??

If you have questions or ideas for future issues of the [Technical Advisory](#) we would like to hear from you! Please call or e-mail us at techteam@kpc.com.

[Technical Advisory](#) is a publication of Kibble & Prentice. The articles presented herein are for information purposes and should not be construed as legal opinion.



Kibble & Prentice

Kibble & Prentice

600 Stewart Street,
Suite 1000
Seattle, WA 98101
Phone: 206-441-6300
or
800-767-0650

www.kpc.com