# Employee Benefits Report



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529 Plans November 2019 Volume 17 • Number 11


## Will College Savings Plans be Necessary if College is Free?

**Free college tuition is an appealing idea as higher education costs continue to rise. Can the proposals of presidential candidates be counted on?**

The 2020 presidential election is a year away, yet one issue already is grabbing the public's attention. Many candidates are promising student loan forgiveness and free college. If you offer an employer-sponsored college savings plan, you're probably wondering if it will still be necessary.

College costs are a top concern for many families. The College Board says a moderate budget for a public college is about $25,290 per academic year and


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## The High Cost of Living

**Some experts estimate that the average employee needs to save $1 million for retirement. But how much should an employee save for health care expenses during retirement?**

**Many retirees falsely assume that Medicare will cover everything, but that's usually not the case. HealthView Services, a provider of health-care cost projection software, asserts that a healthy 65-year-old couple retiring in 2019 will need almost $390,000 to cover health-care expenses. This amount includes the costs of:**

- **Premiums for Medicare Parts B and D**
- **Dental insurance, which is not covered by Medicare**
- **Out-of-pocket costs for doctor's exams, hearing services and more.**

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$50,900 for a private college. Unfortunately, most households aren't equipped to handle these costs. A Sallie Mae representative estimates that only about 10 percent of families pay the cost of college out of pocket, while the rest borrow or use a combination of resources.

Democrats announced several solutions, all government supported programs. For instance, Candidate Sen. Bernie Sanders would make two- and four-year public colleges and universities tuition- and debt-free. Sen. Kamala Harris proposes making community college free and four-year public college debt-free. Sen. Elizabeth Warren proposed eliminating tuition and fees at public two-year and four-year colleges. Former Vice President Joe Biden suggests streamlining the Public Service Loan Forgiveness program, focusing on teachers.

Republican President Donald Trump made major changes to student loan forgiveness programs, including eliminating taxing student loan discharge for people who qualify for the Death or Total and Permanent Disability clause (this only applies to loans discharged after Jan. 1, 2018, and the provision is set to expire in 2025). Also, the Tax Cut and Jobs Act of 2017 expanded 529 college savings plans to cover K-12 private school expenses.

Parents and students should not rely on promises of free tuition. They should instead continue saving in plans such as the 529 plan. Even if one of these proposals becomes law and pays for tuition and fees, students still should save money for textbooks or living expenses. If a child decides to not attend college, 529 funds can be transferred to different family members or used to pay for graduate school.

## How a 529 College Savings Plan Works

Nearly every state has at least one 529 plan that offers a full or partial tax deduction for residents. Individuals investing in a 529 account in their home state can use the funds to pay for tuition at a qualified school in another state.

There are two types of 529 plans: prepaid tuition plans and college savings plans. Prepaid plans allow investors to purchase tuition at today's cost — enabling them to lock in the cost of tuition. The more popular option, a college savings plan, invests contributions in stocks, mutual funds, and bonds. Because earnings are tied to market performance, investment growth is not guaranteed.

Contributions to a 529 plan are after-tax dollars and grow tax free. This means that distributions are not taxed when the student withdraws the funds for qualified expenses. Qualified expenses include tuition at eligible public or private two-year or four-year institutions; books, supplies and equipment (such as computers and Internet access); as well as reasonable costs for room and board.

In 2019, the most an individual can annually contribute to a plan is $15,000 without incurring a gift tax liability. 529 plans also can be bundled — allowing for a $75,000 contribution in one year rather than over a five-year period for gift tax purposes. Individuals also may fund multiple 529 plans for different children without incurring gift tax consequences, as long as the annual contribution for any one beneficiary doesn't exceed the limit.

**Employees who are banking on staying healthy might be surprised to learn that living longer can increase the amount of money needed for health care costs. The $390,000 estimate above does not include long-term care expenses such as skilled nursing care and rehabilitative services. Average assisted living stays can run $48,000 annually, according to Genworth Financial.**

**To combat this, encourage your employees to start saving now or fund a health savings account, if you offer one, because they will be able to withdraw from it during retirement.**

**Another option is for employees to purchase long-term care insurance which reimburses policyholders for services including bathing, dressing or eating.**

## Employer-sponsored 529 Savings Plans

To encourage employers to offer 529 plans, seven states drive participation by offering employers a state income tax credit or deduction for matching employee 529 plan contributions. States currently participating include Arkansas, Colorado, Illinois, Nebraska, Nevada, Wisconsin and Utah.

For an employee to qualify for tax savings, most states require residents to contribute to their home state's 529 plan. If the employer offers a 529 plan from a different state, the employee could miss out on potential tax savings.

Employees also should know that employer 529 matches are taxed as income and they will owe both federal and state taxes on the contributions. That may change, because federal legislation is pending to exclude employer 529 plan contributions from the employee's gross income.

# What a State-Run Retirement Plan Would Mean to Your Company

**There are many ways to save for retirement but most Americans aren't doing it. Many states are considering legislation that could make retirement savings easier.**

Americans are not saving enough for retirement. According to Northwestern Mutual's 2019 Planning and Progress Study, 15 percent of Americans have no retirement savings. Seventeen percent only have between $1 and $75,000 — which falls short of the $1 million some experts recommend.

Some state legislators think they have the solution and are focusing on employers.

More than 30 states have considered legislation that would establish a state-run retirement plan. Although only 10 states have passed legislation that would provide for some form of state-facilitated or mandated retirement program for private companies that do not sponsor their own qualified retirement plans. Those states are California, Oregon, Illinois, Maryland, Connecticut, New Jersey, New York, Washington, Vermont and Massachusetts. Of those 10 state programs, only Illinois, Maryland and Oregon are actively operating at this time. California's CalSavers program is scheduled to start in 2020.

California employers who have 100 employees or more must be in compliance with the program by June 30, 2020. The deadline for employers with five or more employees is June 30, 2022.

All four states — California, Illinois, Maryland and Oregon — require companies with certain minimum numbers of employees (between 1 and 25, depending on the state) that don't have employer-sponsored retirement plans to:

- Automatically enroll their employees in a retirement savings program.
- Deduct a set amount from each employee's check (generally 5 percent of compensation). However, employees can opt out of the program.
- Transfer those salary deferrals to a Roth IRA program set up by the state for this purpose.

Employers who fail to comply with these state-mandated programs could be subject to penalties.

Observers estimate that the CalSavers program will make retirement plans available to an additional 7.5 million California employees.

### Some Concerns

However, the results have not been quite what participants expected. Oregon's plan, OregonSaves, enrolled more than 50,000 employee participants in 2018, but the average account balance was less than $500, well below the national average 401(k) account balance of $85,000, according to Cerulli Associates, a research and consulting firm.

There are several key differences between these state-sponsored and employer-sponsored plans.

For instance, a state-sponsored plan uses one investment firm, while an employer-sponsored 401(k) utilizes a wide range of investment firms which offer several investment options at various risk levels.

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Another key difference is that state-sponsored retirement plans carry a $6,000 annual salary deferral limit compared to the 2019 $19,000 annual salary deferral limit (or $25,000 if age 50 or over) of employer-sponsored 401(k)s and $13,000 ($16,000 if age 50 or over) for SIMPLE IRAs.

Most state-sponsored retirement plans use after-tax dollars, so employees will not get to use the pre-tax benefit. Also, state-sponsored plans do not have an employer-matching contribution feature, which can quickly boost employees' savings.

Finally, employers who choose to offer a state program will be responsible for performing certain administrative tasks, whereas with a 401(k) plan, that work usually is handled by a plan administrator.

NAIFA, an organization representing insurance and financial advisors, argues that access to retirement plans is not the problem. They say that the marketplace already offers consumers a robust variety of retirement options. Instead of states spending money on programs, NAIFA would rather states analyze why people aren't saving enough before enacting solutions.

Still, government's interest in these types of plans continues. The Senate is now reviewing proposed Secure Act legislation, which would make it easier for small businesses to collaborate to offer 401(k) plans. That legislation is currently awaiting consideration by the Senate.

If you operate in a state which offers a state plan and are trying to decide whether an employer-sponsored plan would be a better fit for your employees, contact us to determine what plan is best for you.

# What's Behind the 2020 Health Insurance Premium Hikes?

**Founding Father Benjamin Franklin famously said, "… in this world nothing can be said to be certain, except death and taxes." If he were alive today, he certainly would have added "and annual health insurance premium increases."**


As an employer, you know that your health insurance costs will be higher every year. That's because actuaries base annual health insurance premiums on a variety of factors:

- Inflation
- What they predict medical claims and administrative costs will be based on the health of the insured individuals or groups.
- New federal and state laws, rules and regulations.
- The cost of developing new medications and medical technologies.

The price hikes do add up. According to the National Business Group on Health, the total cost of worker health benefits is expected to increase 5 percent in 2020, reaching a high of $15,000 per employee.

Here are some of the factors affecting rates and premiums in 2020.

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### Risk Pool Composition

A health insurance risk pool is a group of people whose medical costs are combined to calculate premiums. Pooling risks allows the higher costs of those who are not healthy to be offset by the relatively lower costs of those who are healthy. Usually the larger your company is, the more predictable your risks will be and the more likely your premiums will be stable.

Beyond a pool of employees, risk pool composition also is affected by the overall marketplace composition. For 2020, experts expect fewer enrollees because of policy changes, such as the elimination of the individual mandate penalty and expanding the availability of Short-Term Limited Duration Insurance (STLDI), Association Health Plans (AHPs); and Health Reimbursement Arrangements (HRAs).

Short-Term Limited Duration Insurance (STLDI) is sometimes called temporary health insurance and is designed to help bridge gaps in health care coverage during transitions. These plans are not Affordable Care Act (ACA) compliant plans.

The ACA restricted the use and duration of short-term plans. However, the Trump administration implemented a new policy in 2019 that allows anyone to apply for a short-term plan and not pay a penalty for not being an ACA-compliant. It also allows a single plan to extend up to 36 months. There are, however, nine states that don’t allow short-term plans — New York, New Jersey, Massachusetts, Rhode Island, Vermont, California, Colorado, Hawaii and Washington.

Although employers do not sponsor short-term plans, the expansion of these plans could affect the premiums you pay for group coverage. Short-term coverage generally is only available to consumers who can pass medical underwriting and is therefore much less expensive than ACA-compliant coverage. People most interested in these plans are usually those who don’t need full, extensive health coverage. The exodus of younger and healthier individuals from the risk pool can increase premiums for everyone.

Also, short-term plans often are favored by employees who have lost their jobs since these plans are an affordable alternative to COBRA coverage.

**Association Health Plans (AHPs)** allow small businesses, including people who are self-employed, to band together by geography or industry to obtain health care coverage at the same rates as large employers.

The Trump Administration broadened the ability of AHPs to be treated as large groups, and decided to allow self-employed individuals to join AHPs, giving more small employers access to lower rates. However, the future of these plans is uncertain. A March 2019 ruling by the Washington, D.C. Circuit Court prevents AHPs from enrolling new working owners or taking advantage of the broader eligibility criteria. The Administration is appealing the ruling.

**Health Reimbursement Arrangements,** also called Health Reimbursement Accounts or HRAs, were designed to give employees, who have traditional health insurance, an easy, tax-advantaged way to be reimbursed for their out-of-pocket medical expenses and personal health insurance premiums. Regulatory changes, taking effect January 1, 2020, give employees the option to purchase individual market coverage with HRA funds. They also could create an HRA to be used to purchase benefits such as STLDI, dental or vision coverage. These rules only apply to employers meeting certain conditions.

Some observers are concerned that employers who have some unhealthy employees will shift them to individual plans and premiums in the individual market could increase.

**Elimination of the Individual Mandate.** The goal of the Affordable Care Act individual mandate was to encourage all Americans to get health insurance in a way that maintains a stable risk pool. Lower-income individuals received subsidies to purchase coverage.

However, the Tax Cuts and Jobs Act eliminated the individual mandate financial penalty beginning in 2019. Experts expect premiums to increase because unsubsidized lower-cost healthy individuals are more likely to forgo ACA coverage — which will shrink the risk pool.

The health insurance provider (HIP) fee is paid by insurers and the cost is passed along to insurance buyers. The fee was suspended in 2019. The total amount of the 2020 HIP fee is not known at this time. If there is no HIP fee moratorium in 2020, insurers may include the cost in their 2020 premiums, which may increase premiums 1 to 3 percent.

Please contact us if you have questions about the pricing of your health care plan. ■

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# On the Road Again – But With Insurance

## Do you know the many benefits of travel insurance?

One way to ensure their lives are easier is by providing business travel insurance. While travel insurance policies vary, they usually include:

- Cost of emergency medical evacuations and repatriation coordination. Evacuation from another country can cost hundreds of thousands of dollars. Evacuation for security reasons also can be expensive.
- Reimbursement for essentials while the airline searches for lost luggage.
- Medical and dental costs, including locating local medical facilities. This is important if employees travel outside the United States since their health insurance might not be valid in other countries. Some health coverage might only operate on a reimbursement basis. This means the employee must pay for treatment out of their own pockets and wait for reimbursement by their insurance company.
- Trip cancellation coverage for non-refundable expenses when a trip is canceled for a covered reason, such as death in the family or illness.
- Travel delay coverage provides some money for unexpected hotel, dining and transportation when travel is delayed for a covered reason.
- Baggage coverage provides some reimbursement when luggage is irretrievably lost, damaged or stolen.


Business travel insurance also can provide emergency travel assistance services, such as locating alternative flights, tracking lost luggage and finding local medical care. Sometimes it can provide business-specific services and obtaining business equipment, translators, drivers and special event tickets.

Your business can pay for the coverage outright or employees can purchase coverage on a per-trip basis and be reimbursed. If the employee purchases the coverage, they should buy it right after making the first trip payment. This timing is important because some benefits, including pre-existing medical condition waivers; canceling for any reason and canceling for work reasons; only apply if the policy is purchased 10 to 15 days from when the trip deposit was made.

Please contact us for more information.