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INDUSTRY SPOTLIGHT: VOLUNTARY BENEFITS - CRITICAL ILLNESS

Over the past 5 years, critical illness insurance sales have increased from an estimated \$20 - \$25 Million in 2000 to about \$159 Million in 2006. This growth can be explained in part by the general realization that the odds of surviving a critical illness today are quite high and growing. However, there is still a widespread lack of understanding and appreciation of just how much value these products provide and how they might fit into a benefits package.

People often make the mistake of assuming critical illness is simply a modern alternative to traditional indemnity cancer insurance. While critical illness products typically do protect against the financial hardships associated with surviving a cancer diagnosis, they also cover illnesses such as heart attack, stroke, kidney failure, paralysis, and major organ transplant. Policies can be purchased alone or as a rider on a life policy. For example, it is quite common to see a critical illness rider attached to 10-year or 20-year term life policies. As a stand alone health policy it may be sold as an individual contract or on a group platform.

While critical illness insurance is still new to the U.S., it has been sold and received very well in many countries for some time,

most notably in Europe. The basic logic behind the product is that even employees with robust employer-provided medical and disability coverage will be forced to absorb additional un-reimbursable costs. In addition to offsetting actual expenses, critical illness is designed to mitigate everything from illness-related costs like home health care providers, lodging, and travel, to general financial needs such as lost income, mortgage payments, childcare, or tuition.

Perhaps the primary reason these products are so well established worldwide and are growing in popularity in the U.S. is because they do such a good job of addressing the peripheral financial implications of surviving a serious illness, allowing the insured to focus on what's most important—getting well.

INTEGRATED SOLUTIONS FOR SMALL BUSINESS OWNERS

Small business owners have unique needs in the case of a disability that extend far beyond replacing just their own income. Many owners have need for income protection but don't realize how income protection plans can be integrated together for the sake of their business. Individual disability plans can be integrated to provide cost effective protection for both the business owner and the business.

Benefit Planning

Group Short Term (STD) and Long Term Disability (LTD) can help protect personal income in the event an employee or business owner becomes disabled and is unable to return to work immediately. But there are some benefit limitations. LTD is typically an employer-provided benefit and if there is a disabling event, any benefit received is therefore taxable. The LTD benefit is also typically based on salary, so if the individual also has other incentive based income, such as bonuses or commission, there may be a gap this protection. Finally, for the highly compensated executive, this gap can be widened further if the maximum monthly benefit of the LTD plan is lower than required to meet their needs. An individual Disability Insurance (DI) policy can supplement the group coverage and provide a higher level of income replacement.

Risk Management Planning

Business Overhead Expense (BOE) insurance can help address the business owner's obligation to pay business expenses if they become too sick or hurt to work. This coverage reimburses the business for general overhead expenses necessary to keep the business up and running while the insured is unable to work. This coverage also provides benefits directly to





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the business so the owner can use personal benefits for personal needs.

Succession Planning

Disability Buy-Sell insurance ensures business succession in the event the business owner suffers a more permanent, long term disability. The Buy-Sell Agreement is the legal document that spells out what happens in the event of retirement, death, or disability of a partner. Disability Buy-Sell insurance is used to fund the agreement in the event of a disability.

By combining, DI, BOE, and Buy-Sell insurance, a small business owner can create an integrated solution that will address their personal and business needs.

IRS PUBLISHES MOST COMMON 401(K) MISTAKES

The Internal Revenue Service (IRS) has released a list of eleven of the most common mistakes made in 401(k) plan administration, and how plan sponsors can correct or avoid those errors. Plan sponsors should address the following eleven questions to avoid plan errors:

1. Has your plan document been updated within the past few years to reflect recent law changes?
2. Are the plan's operations based on the terms of the plan document?
3. Is the plan's definition of compensation for all deferrals and allocations used correctly?
4. Were employer-matching contributions made to all appropriate employees under the terms of the plan?
5. Has your plan satisfied the nondiscrimination tests?

6. Were all eligible employees identified and given the opportunity to make an elective deferral election?
7. Are elective deferrals limited to the amounts under Internal Revenue Code section 402(g) for the calendar year? Have any excess deferrals been distributed?
8. Have you timely deposited employee elective deferrals?
9. If the plan was top-heavy, were the required minimum contributions made to the plan?
10. Were hardship distributions made properly?
11. Have you filed a Form 5500 series return, and have you distributed a Summary Annual Report to all plan participants this year?

The complete checklist can be found on the IRS website (www.irs.gov) in the Retirement Plans section. The agency first uses a table to summarize the potential mistakes, and then shows how to identify, correct, and avoid them altogether. Each component of the table is linked to a more detailed explanation.

Contact your plan consultant if you have questions about your plan or any of the items identified here.

BENEFITS COMPLIANCE FAQ

Question: We are compiling our Open Enrollment packages. What notices should we include?

Answer: There are several required notices that must be included in a group health plan's enrollment materials. There are also notices that must be distributed on

an annual basis, and including them in the Open Enrollment package would fulfill the distribution obligation.

The required notices are:

- » General Notice of Pre-existing Condition Exclusion (must be distributed in enrollment material);
- » Notice of Special Enrollment Rights (must be distributed in enrollment material);
- » Notice of Privacy Practices (must be distributed to new participants and once every three years);
- » Women's Health and Cancer Rights Act (WHCRA) Notice (must be distributed to new participants and annually)
- » Uniformed Services Employment and Reemployment Rights Act (USERRA) Notice (notice must be posted OR distributed to employees), and
- » Disclosure Notice to Medicare Part D Eligible Individuals (must be distributed to Medicare-eligible individuals in enrollment material and annually prior to November 15; distribution to all plan eligible individuals is recommended).

The following items must be distributed within 90 days of participation:

- » Initial/General COBRA Notice (should be addressed to new participant and spouse, if applicable);
- » Summary Plan Description (SPD) with the Newborn's and Mother's Health Protection Act (NMHPA) Notice.

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