HR insider bulletin

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HARDMAN BENEFIT PLANS
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New 'Dependent' Criteria

WFTRA Legislation Revises Definition

The Working Families Tax Relief Act of 2004 (WFTRA) establishes new definitions for "qualifying child" and "qualifying relative" for Internal Revenue Code Section 152, effective January 1, 2005.

The unified definitions apply to the dependency exemption, the child tax credit, the earned income credit, the dependent care tax credit, and head of household filing status.

While the goal was to simplify things for taxpayers with children, WFTRA has created some headaches for employers who use the code definition of tax dependent to determine dependency exemptions for employer-provided health plans and dependent care assistance plans (DCAPs), according to the Alexander Hamilton Institute (AHI).

To have dependent status as a "**Qualifying Child**," an individual must:

- Be the employee's child, stepchild, sibling, stepsibling, grandchild, niece, nephew, adopted child, or a qualified child;
- Reside with the employee for more than six months;
- Be under age 19, a full-time student under the age of 24, or permanently disabled with no age limit; and *(Continued on back)*

2005 Healthcare Landscape

Plan Options Reflect Cost-Control Initiatives

While annual cost increases for employer-sponsored health programs show signs of easing slightly, employers next year can expect to pay about another $582 per employee for healthcare coverage, or an 8% increase in costs, according to the 2005 Towers Perrin Health Care Cost Survey. Even though it's the first significant break in the five-year string of double-digit increases that have hammered employer-sponsored plans starting in 2000, employers should not be distracted into thinking that the cost problem has gone away.

Two years ago, Eastbridge Consulting Group predicted a world in 2020 where employers will have given up on making the benefits decisions. Instead, they will simply provide the funding and let the employees figure out how to use that money. According to CBS Marketwatch.com, the United States will likely continue on a path of encouraging individuals to purchase their own health insurance, and health savings accounts may emerge as employers' coverage of choice now that President George W. Bush has won re-election.

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Education, Personalized Counseling

Employers Encourage 401(k) Participation

Financial education is rapidly becoming an emerging employee benefit. The rise of defined contribution plans—primarily 401(k) plans—has shifted decision-making responsibility from employers as plan sponsors to employees as plan participants. Partly because employees realize pensions aren't the secure retirement fund they once were and that they have more personal responsibility for their financial well-being, many plan sponsors are focused on increasing the number and quality of financial education programs offered by their plan providers and vendors.

Approximately 30 to 40% of employees are not participating in plans that could theoretically fund their entire retirement, according to the *Employee Benefit Plan Review*, even though about 29% of employers provided individual investment advice and general financial education this year, according to the Society for Human Resource Management. However, an Ernst & Young survey, *The Role that Financial Education Programs Play in Influencing Participant Behavior in 401(k) Plans*, found that when more personalized counseling programs were added, participants took more responsibility for their financial well-being. ■

Dependent Definition. . .

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- Receive more than half of his/her support from the employee.

To have dependent status as a "**Qualifying Relative**," an individual must:

- Not be a qualifying child;
- Bear a special relationship to the employee and share the employee's residence as a member of the household;
- Receive more than half of his/her support from the employee; and
- Have gross income under $3,100 in 2004 (changes annually).

AHI notes that an adult dependent, such as a same-sex domestic partner, can still be considered a tax dependent if he/she has income in excess of the limitation.

On the other hand, DCAPs are not specifically excepted from the income limitation. If an employee's infirm parent is receiving a pension over $3,100 and is a dependent in elder care, the individual no longer is a "qualifying relative" as of January 1, according to AHI.

Actions Needed

Employers should alert employees as to how the changes may affect their dependency exemptions for DCAPs and allow them to undo their election, if necessary.

AHI says that eventually health plan documents and summary plan descriptions that use the tax code's definition of a dependent will have to be changed to permit coverage to continue for current dependents who fall within the definition of qualifying relative but have income in excess of the limits. ■

2005 Healthcare . . .

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According to Gary Claxton of the Kaiser Family Foundation, many employees will be offered some sort of higher-deductible plan with a savings account option, which can take the form of a health reimbursement account (HRA) or a health savings account (HSA).

In addition to the consumer-driven healthcare approach, other employer cost-saving initiatives include alternative therapies such as acupuncture, chiropractic, and massage therapy to help curtail rising medical costs and to help recruit and retain employees. In the most comprehensive assessment to date of alternative medicine in the U.S., the Center for Disease Control found that 36% of adults are using some sort of "complementary and alternative" therapy, such as herbal supplements, deep-breathing exercises, meditation, yoga, and diet-based therapies as a result of the growing body of research supporting the effectiveness of some of these treatments.

Other employer initiatives include employee credits to purchase voluntary products and tiered pricing systems based on employees' salaries. ■

. . . . Bulletin Briefs . . . .

- *Employers May Offer Savings Bonds via Payroll Deduction*

Virtually all employers can now allow employees to purchase U.S. Savings Bonds through payroll deduction via the U.S. Treasury Department's TreasuryDirect account system. If an employer's payroll system allows voluntary deductions, employees can opt to have a portion of their pay transferred into their TreasuryDirect accounts to purchase electronic savings bonds (Series I or EE). An employee may open an online account at www.treasurydirect.gov. Amounts can range from $25 to $30,000.

- *Family-Friendly Benefits Impact Corporate Culture, Retention*

Recruiting employees is easier for a firm that has attractive benefits and that reveals respect for its employees through its culture, according to The Families and Work Institute's *National Study of the Changing Workforce*. Studies show that absenteeism is reduced when employees have flexible workplaces. Employees with flexibility don't need to make excuses, and they experience less stress. Employees who have supervisors who are open to and supportive of employees' needs report better mental health and less negative spillover from job to home. According to the study, a company's reputation can benefit when others see how it treats its employees. ■

HAPPY HOLIDAYS

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