

# The Amerisc Corp.

777 Zeckendorf Blvd. • Garden City, NY 11530 • (516) 745-7500

This  
Just  
In...

LIFE INSURANCE

## Life Insurance: The Foundation of a Benefit Program

★ Employees like their benefit programs, according to a survey released in December. A Watson-Wyatt survey of nearly 13,000 employees from a range of U.S. businesses found 61 percent were satisfied with their health plans, 63 percent were satisfied with their pension plans, 76 percent were satisfied with their 401(k) plan, and 73 percent were satisfied with their paid-time-off benefits.

Least employers be tempted to rest on their laurels, however, in another survey released earlier in 2004, employees ranked “better benefits” as the second most likely reason they would leave a job, after “more money.” So why do employees stay in their jobs? Again, the top reason was money (being paid well), but the second was liking their coworkers. (Source: Ajilon Office survey, reported in The CPA Journal.)

★ A recent survey predicted that nearly three-quarters (73 percent) of U.S. employers would likely offer an HSA by 2006. However, the survey, by Mercer Human Resource Consulting, found that companies have been slow to adopt the health savings accounts, although they have been available since January 1, 2004.

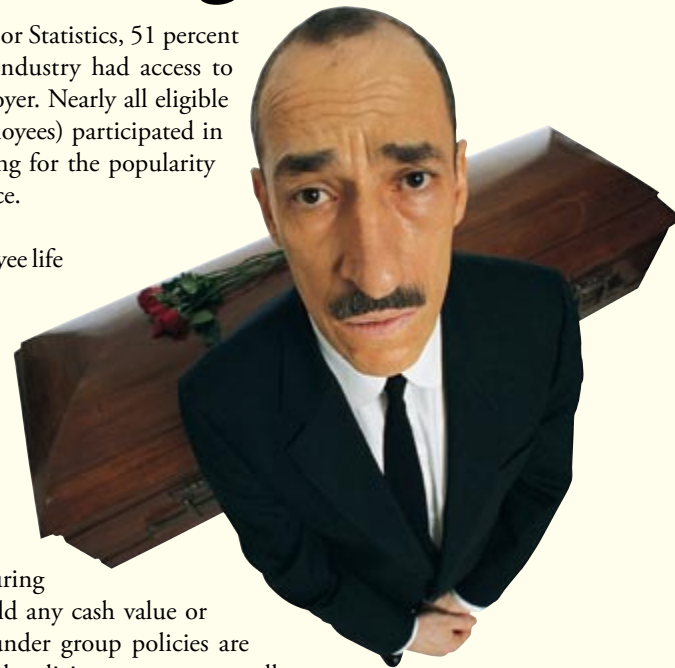
According to the Bureau of Labor Statistics, 51 percent of all employees in private industry had access to life insurance through their employer. Nearly all eligible employees (48 percent of all employees) participated in their employer’s program, vouching for the popularity of employer-provided life insurance.

Most employers provide employee life coverage through group term life policies. Under any true group insurance program, one policy, issued to the employer, covers all employees; covered individuals receive a certificate. Term life policies differ from “permanent” life policies, such as whole life or universal life, in that they provide benefits only if the insured dies during the policy term. They do not build any cash value or redemption value. Policy terms under group policies are usually one year; under individual policies, terms are usually five years or 10 years, or even longer.

Unlike many other group policies, coverage under group life policies often is no cheaper than under an individual policy, at least for a healthy individual. However, group life is written on a “guaranteed issue” basis, which means that eligible employees can obtain the “guaranteed issue” amount of coverage without medical underwriting if they sign up during the enrollment period. This means that all your employees can obtain at least some coverage, even those whose health would make buying individual coverage prohibitively expensive or impossible.

### Tax implications

The IRS allows employees to exclude the cost of the first \$50,000 of employer-provided group term life insurance coverage from income, if the policy is “carried directly or indirectly



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# Commuter Benefits on the Move

IRS Code Section 132(f) allows employers to provide employees certain transportation benefits on a tax-qualified basis. The IRS defines qualified transportation fringes as:

- \* Vanpooling, or transportation to and from the workplace in a commuter highway vehicle that seats at least six adults. Vans may be company-owned and operated, or operated by a public or private entity.

- \* Mass transit benefits, which can include bus, rail or ferry, whether publicly or privately operated.

- \* Parking benefits, including free or reduced-cost parking near the work site or near a commuter station.

Employers may give these benefits directly to their employees (as in parking benefits or rides in company-provided vanpools) or in the form of a voucher or pass. They can also provide cash reimbursement

for employees' transit costs. The IRS considers reimbursement for transportation a qualified benefit when it meets the above criteria and is part of a "bona fide" reimbursement program, where employees provide documentation of qualified work-related commuting expenses.

Effective January 1, the IRS increased the maxi-

- \* They encourage safety. Unintentional motor vehicle occupant (MVO) accidents account for more accidental deaths than any other cause for people ages 1-65. Those who ride public transit are much less likely to die while commuting than those who drive themselves to work.

### FATALITY RATES PER 100 MILLION PASSENGER-MILES

Highway vehicles	0.89
Regional/commuter rail	0.03
Rail rapid transit	0.47
Light rail transit	0.23
Bus	0.07

MVO accidents also rank as the fourth leading cause of nonfatal injuries treated in hospital emergency rooms for people between ages 25-54. For those ages 55-64, MVO accidents jump to the third leading cause of emergency room-treated injuries.

- \* They promote health. Public transit riders tend to walk more, improving their physical health.

- \* They save on income taxes. Employees participating in qualified commuter benefits program can contribute pre-tax dollars to an employer-administered commuter benefit account. If employers provide qualified benefits directly (as in the form of a voucher or pass), employees receive them income tax-free. However, the IRS recently specifically prohibited "double-dipping," or providing employees tax-free reimbursement of parking expenses already paid out of a salary reduction account.



### Commuter benefits help employers

*“Providing commuter benefits helps both employers and employees.”*

mum monthly benefit by \$5, to \$105. (Parking benefits are limited to \$195 per month.) The first increase in three years, it makes commuter benefits even more attractive.

Providing commuter benefits helps both employers and employees. Consider the following facts:

### Commuter benefits help employees

- \* They save money. The Bureau of Labor Statistics found a typical household spends 18 percent of income on driving costs—more than it spends on food. Commuter benefits can ease this burden, particularly among lower-income city dwellers.

- \* They reduce parking costs. Single-passenger vehicles account for three-quarters of all trips to and from workplaces. When employees use mass transit, you need fewer parking spaces, reducing your real estate and construction costs.

- \* They increase your applicant pool. A survey by Xylo, a human resource management product vendor, found that 80 percent of employees valued commuter benefits. Depending on where your workplace is located, subsidizing mass transit could expand your pool of potential employees, particularly in low-wage or service jobs.

- \* They make employees more productive. The average commuter now spends an average of 62 hours per year in traffic congestion, according to the Texas Transportation Institute. Employees who use mass transit arrive at the job less stressed than those who have battled rush-hour traffic.

- \* They reduce your health insurance costs by promoting safer modes of transport. Safer transport means a decrease in fatalities, injuries and lost work time.

# Rules Change on Nonqualified Deferred Comp Plans

**O**ur December issue discussed the use of nonqualified plans to enhance pensions for highly compensated executives. If any of your nonqualified plans defer income, you need to be aware of the American Jobs Creation Act of 2004, enacted in late October. This omnibus act primarily created tax incentives for businesses; however, it provides tax penalties for nonqualified deferred compensation plans that do not meet the requirements outlined in the Act.

The Act generally applies to all nonqualified deferred compensation plans, but does not affect stock option plans or employee stock purchase plans, or bona fide vacation leave, sick leave, compensatory time, disability pay or death benefit plans. It clarifies tax treatment of nonqualified deferred elections by outlining the following requirements:

- ✱ **Deferral elections.** Participants must make any deferral elections no later than the close of the preceding taxable year (or at another time if regulations so provide). If it is the participant's first year of eligibility, he/she must make a deferral election within 30 days of becoming eligible to participate. In the case of performance-based compensation for services performed over a period of at least 12 months, the election must be made no later than six months before the end of the period.

- ✱ **Distributions.** The law clarifies how participants can take distributions from the plan. Valid reasons for distributions include separation

from service, death, change in control of a corporation, occurrence of an unforeseeable emergency, or disability of a plan participant. The law defines an "unforeseeable emergency" as "a severe financial hardship to the participant resulting from an illness or accident of the participant, the



*RULE CHANGES* – continued on Page 4

*If any of your nonqualified plans defer income, you need to be aware of the American Jobs Creation Act of 2004, enacted in late October.*

*COMMUTER* – continued from Page 2

- ✱ They save taxes. As qualified benefits, employers can exclude transportation fringe benefits from an employee's wages, even if they provide them in place of pay. This helps employers reduce costs—instead of giving pay raises, they can give transportation benefits. These amounts do not count as wages, reducing your employment taxes.

- ✱ They enhance your reputation. By providing benefits for using mass transportation, you enhance your company's image as a positive workplace, while taking a proactive approach to reducing the country's dependence on imported oil and reducing pollution.

- ✱ They are easy to administer. Unlike other qualified benefit programs, Section 132(f) transit plans do not require employers to file written documents, perform complicated non-discrimination tests or file annual reports. However, we do recommend putting your plan in writing to ease administration and employee communications.

Many employers have asked whether they could use debit cards in a qualified transit benefit program, so the IRS opened the issue to public comment last fall. At press time, the IRS had not issued a ruling on the topic. Being able to use debit cards for transit benefits would make transit benefits more convenient for employees and employers.

Still unconvinced? The U.S. Environmental Protection Agency's Best Workplaces for Commuters program offers a Web-based tool that lets you calculate what a transit benefit program would save your company. See [www.bwc.gov/resource/calc.htm](http://www.bwc.gov/resource/calc.htm). □

**Correction:** The article "Enhance Executive Pensions with Nonqualified Retirement Plans" in our December issue contained an error. Under the corporate-owned life insurance (COLI) section, it said, "The company pays tax-deductible premiums on life insurance policies for executives, is usually named beneficiary and can borrow against the cash value of the policy (which builds up tax-free during the employee's life)." The premiums on this type of policy are not deductible for the employer.

When considering corporate-owned life insurance, beware so-called "janitor insurance," where the employer buys life insurance on rank-and-file employees, sometimes without their knowledge, and collects the death benefits on these policies. During the 2003-4 legislative session, both the Senate and House proposed legislation that would eliminate this practice. (Neither bill passed.)

COLI has also played a role in some tax-shelter schemes, where the employer borrows against the policy's cash value to pay premiums in the initial years of the policy, then uses the built-up cash value to pay premiums in later years. The IRS has argued that such plans serve no purpose other than as tax shelter.

Nevertheless, COLI remains a valid source for funding nonqualified benefits for highly compensated employees. For more information on nonqualified benefit programs, please call us. □



The IRS has issued proposed regulations that would update requirements for 403(b) plans—the nonprofit world’s equivalent of the 401(k). Last updated in 1964, Section 403(b) needs updating to reflect major changes in the laws affecting benefit plans. The proposed regulations would amend Section 403(b) to conform to ERISA, TEFRA, EGTRRA and other laws affecting benefit plans. Although most employers with 403(b) plans operate them as ERISA (qualified) benefit plans, ERISA allows an exemption for employers with “limited” involvement in their 403(b) plans. The proposed regulations would eliminate this exemption, making all 403(b) plans ERISA qualified. This would require employers to provide written documentation of their 403(b) plans and subject them to the same nondiscrimination and coverage requirements that apply to qualified plans, such as 401(k)s. The IRS is accepting comments on the proposed regulations until February 14. For more information on benefit programs for nonprofits, please call us. ☐

participant’s spouse, or a dependent..., loss of the participant’s property due to casualty, or other similar extraordinary and unforeseeable circumstances...”

✱ **Penalties.** Deferrals and distributions that don’t meet the criteria above will be included in the participant’s gross income and subject to immediate tax, plus a 20 percent penalty, plus an interest penalty. The Act affects all deferrals (and related earnings) made after January 1.

The Act requires the Secretary of the Treasury to issue regulations clarifying these rules for employers. However, when this issue was prepared in late December, clarifying regulations were still not available.

For more information on nonqualified and qualified deferred compensation programs, please call us. ☐

*LIFE INSURANCE – continued from Page 1*

by the employer.” This includes policies for which the employer pays any cost, or policies where the employer arranges for premium payments and premiums paid by at least one employee subsidize those paid by at least one other employee.

Individuals can also exclude the cost of employer-provided group-term life insurance on the life of a spouse or dependent if coverage does not exceed \$2,000. This coverage is excluded as a de minimis fringe benefit. \* A company can deduct the cost of group term life premiums, as long as it is not the direct or indirect beneficiary of the policy.

**Limits and features**

Employers can tailor a group term life benefit to their needs and budget. According to the Bureau of Labor Statistics, most employees with life insurance benefits (89 percent) do not have to contribute toward this benefit. Most employees (53 percent) had plans that provide benefits as a multiple of earnings. White collar workers most commonly had coverage that would pay two times annual earnings, while those in service occupations had coverage that would pay one times annual

earnings. Thirty-five percent of workers had “flat dollar amount” coverage, which pays the same specified amount for any covered employee. Some plans provide coverage amounts based on classes (i.e. officers: \$50,000; managers: \$30,000; others: \$20,000)

Group term life policies offer many options, which may vary by insurer or by state. Look for a policy that offers a conversion option, which allows employees to convert their group term life coverage to an individual term policy without undergoing a medical exam when either their employment or the benefit plan terminates. To take advantage of this option, insureds have to apply and make a premium payment within a period of time specified in the policy. (Some states require policies to be convertible.)

Other valuable options are waiver of premium, which waives premium payments for an employee who becomes totally disabled, usually up to retirement age. A living benefit option allows employees with a terminal illness to receive a portion of their death benefit in advance, to help cover medical costs.

Although group term life cannot take the place of individual policies in an individual’s financial portfolio, employees value their life insurance coverage. You can add to the value by offering, in addition to your basic group term life coverage, additional coverage on a voluntary (employee-paid) basis. In a survey conducted by LIMRA International for Allstate Insurance Company, 25 percent of adults surveyed said they should have more coverage. Voluntary benefits are a cost-effective and convenient way to provide these employees the additional coverage they want.

For more information on setting up a life insurance benefit for your employees, please call us. ☐

*“...most employees with life insurance benefits (89 percent) do not have to contribute toward this benefit”*

\*A “de minimis” fringe benefit is any property or service that you provide to an employee that has so little value (taking into account how frequently you provide similar benefits to your employees) that accounting for it would be unreasonable or administratively impracticable.



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