

SPRING 2010

Quill

NEWSLETTER



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Health Reform – A Business Perspective



On March 23, President Obama's long awaited health care bill was signed into law, but that was only the beginning of major changes to come in U.S. health care. This article discusses some of the issues of the new Healthcare Act from a business perspective.

Early Retirees

Beginning June 21, a new reinsurance program will become effective for businesses that provide insurance for early retirees. The federal government will reimburse 80 percent of the cost of benefits that employers provide to retirees aged 55 through 64. The reimbursement will be based on costs incurred in excess of \$15,000 but less than \$90,000. The reinsurance program will end by 2014 or when the \$5 billion set aside for the program is exhausted.

Extended Coverage

Beginning with the 2011 plan year, employer health plans must offer coverage to adult children of plan participants through age 26. To qualify, the adult child does not have to be the participant's dependent, but they cannot be eligible for coverage under another health plan. After 2014, the adult child can participate in his or her parent's plan even if he or she is eligible for other employer coverage.

Other reforms effective in 2011 include:

- Prohibition on lifetime limits; however, restricted annual limits will be allowed; annual limits are no longer allowed beginning in 2014;
- Prohibitions against imposing pre-existing condition limitations will be enforced in 2011 for children under age 19 and in 2014 for any participant;
- An employer's plan must satisfy nondiscrimination rules of the Internal Revenue Code, applicable previously only to self-insured plans.

W-2 Reporting

Beginning in 2011, employers will be required to report the value of employee health care coverage on Form W-2.

Fees on Certain Industries

Pharmaceutical companies and health insurance companies will be required to pay certain fees beginning in 2011. These fees will almost certainly be passed onto consumers. Additionally, beginning in 2011, pharmaceutical companies will be required to provide a 50 percent discount to Medicare Part D beneficiaries on brand-name drugs.

The pharmaceutical industry will pay total new fees of \$2.5 billion in 2011; \$2.8 billion in 2012 and 2013; \$3 billion in 2014-2016; \$4 billion in 2017; \$4.1 billion

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Thinking of Converting to a Roth IRA in 2010? Maybe you should be...
Ryan Cormier,
Senior Accountant

In the federal government's Tax Increase Prevention and Reconciliation Act of 2005, the eligibility criteria for converting to a Roth IRA in 2010 have been changed. Previously, if your Adjusted Gross Income was less than \$100,000 you were eligible to convert your traditional IRA to a Roth IRA (unless you were a married taxpayer filing separately). Starting in 2010, the federal government has changed these rules, allowing anyone to convert their traditional IRA to a Roth IRA.

Although not all taxpayers would benefit from conversion; some of those who would be wealthy persons and young high-income earners. Also benefitting would be those who believe their tax bracket will be the same or higher in retirement. Note: we are talking tax brackets and not income, as no one can be sure how the tax brackets may change in the future. Most retirement planning is done with assumption that tax brackets will remain consistent throughout our lives.

What would be some of the advantages of a Roth IRA? The first is the ability to withdraw contributions at any time without penalty. Earnings on those contributions can be withdrawn only after age 59½ without tax or penalty assuming the taxpayer has held the account for at least five

years. Another advantage of the Roth IRA is the ability to continue contributing to the Roth IRA after reaching age 70½, the cut-off for traditional IRAs. An additional advantage to converting to a Roth IRA in 2010 is the ability to defer and spread income recognition from conversion over tax years 2011 and 2012.

There are other less obvious reasons why converting to a Roth IRA could be advantageous. One is that any retirement account is now eligible to convert to a Roth IRA including 401(k) and 403(b) retirement plans. Another is that the tax free status of the Roth IRA can extend far into the future if a surviving spouse names a grandchild or great grandchild as the beneficiary. An added advantage is that children can today help their parents pay the income taxes on the conversion to a Roth IRA, so at the death of their parents they can receive the benefits from the Roth IRA income tax free. One other less obvious reason is that conversion to a Roth IRA is completely reversible. Let's assume you convert to a Roth IRA in 2010 but then decide that you made a mistake. As long as you re-characterize your Roth IRA by October 15, 2011 you do not have to pay the income taxes on the conversion. This allows taxpayers a "re-do" if the tax penalty on conversion is too great.

Tax planning for Roth IRAs can be tricky, depending on future tax rates and estimated annual income after retirement. Consulting with a CPA or a financial planning professional is always a good idea when it comes to long-term tax planning decisions.

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in 2018; and \$2.8 billion in 2019 and thereafter. The health insurance industry will pay total new fees of \$8 billion for 2014; \$11.3 billion for 2015 and 2016; \$13.9 billion in 2017; and \$14.3 billion for 2018. After that, the fee will be indexed to the rate of premium growth.

Employer Responsibilities

After December 31, 2013, applicable large employers (generally those with at least 50 full-time employees) will be required to offer affordable coverage to all of their full-time employees. They will pay a penalty if one of their employees is certified as having purchased health insurance through a state exchange and the employee receives a tax credit or cost-sharing reduction.

Employers offering coverage through an eligible employer-sponsored plan and paying a portion of the cost will have to provide vouchers to their employees that can be applied to the cost of a health plan with an insurance exchange.

Certain small employers might be eligible for a credit if they provide health coverage to their employees.

It's too soon to see whether small business and the consumer will be in better shape as a result of the new law. But one thing is certain: health care reform has been a long time in the making and will be a long time in the implementation. The provisions are complex and the economic implications for business owners (in terms of health care costs and taxes) are significant. It is not too early to begin planning how to best position your company to respond to changes that are on the horizon.

ERISA Audits

Peter H. Way, Senior Manager

During 2007 the U.S. Department of Labor adopted significant revisions to both the compliance and the reporting requirements for certain 403(b) retirement plans. Such changes are effective for plan years beginning after December 31, 2008, and generally subject ERISA-covered 403(b) plans to the same Form 5500 reporting and audit requirements as 401(k) plans.

However, recognizing the administrative and financial burden faced by many employers in bringing their plans into compliance and undertaking an annual audit, in July of 2009 the Employee Benefits Security Administration (EBSA) issued Field Assistance Bulletin (FAB) 2009-02. The Bulletin provides transitional relief in regards to certain accounts and contracts entered into prior to January 1, 2009. Specifically, such items can be excluded from the plan's annual reporting and related audit requirements - provided that they meet four specific criteria, as follows:

- (1) the contract or account was issued to a current or former employee before January 1, 2009;
- (2) the employer ceased to have any obligation to make contributions (including employee salary reduction contributions) and in fact ceased making contributions to the contract or account before January 1, 2009;
- (3) all of the rights and benefits under the contract or account are legally enforceable against the insurer or custodian by the individual owner of the contract or account without any involvement of the employer; and
- (4) the individual owner of the contract or account is fully vested.

Along with alleviating the considerable administrative efforts and finan-

cial hardship associated with the inclusion of accounts of prior employees, the ability to exclude accounts that meet the above criteria from participant counts used to determine the obligation for a plan audit will allow some plans that would otherwise fall under the annual audit requirement to instead be considered a "small plan" and thus avoid the audit altogether. It should be noted that such relief applies for 2009 plan years only; the applicability to subsequent year's awaits future DOL decision making.

Due to considerable uncertainty communicated by employers in applying FAB 2009-02 to their own 403(b) plans, in February 2010 EBSA responded with FAB 2010-01. The Bulletin attempts to clarify the most common inquiries related to the transitional relief issued in July 2009.

Thus, each employer offering an ERISA-covered 403(b) plan is encouraged to make sure they are familiar with the aforementioned Bulletins, and their relevance to their own plans.



Federal Data Collection Form Deadlines

Government organizations and non profit organization: receiving federal funds may be subject to the audit requirements of the Office of Management and Budget (OMB) Circular A-133. When applicable, audits must comply with these requirements and certain filings must be made with the Federal Audit Clearinghouse. Audit risk under Circular A-133 is established in the planning stages of an audit and depends on a number of factors, including whether the organization had prior audit findings. If an organization meets the low-risk criteria, less testing may be necessary as coverage for only 25% of all federal expenditures for the year is required. High risk organizations are required to have audit coverage over 50% of all federal expenditures for the year. Clarification has recently been made that in order for an organization to meet the criteria for low-risk status in the current year, the prior two audits must have had timely submissions to the federal audit clearinghouse by the due date. The due date is 30 days after receipt of the audit reports, or 9 months after the organization's fiscal year end. Depending on the Agency, extensions may no longer be granted.



Cell Phones in the Office

With personal cell phones being a fact of life for most of us, employers face issues when dealing with excessive or disruptive cell phone use in the workplace. Since common courtesy is not always that common, a cell phone policy is a must. A policy should outline:

- ☎ When and under what circumstances personal cell phone calls may be made or taken
- ☎ When to switch cell phones off, or to silent mode (meetings for example)
- ☎ Where cell phone calls should be made or taken, especially in open work environments

Additionally, when work involves use of equipment or traveling, policies should be clear about what are considered unsafe and unacceptable practices, such as use of cell phones while driving.



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The Quill logo consists of the word "Quill" in a bold, blue, sans-serif font. To the right of the text is a stylized blue quill pen graphic.

Employee Announcements

Runyon Kersteen Ouellette extends a warm welcome to Karen Mirecki, who began working at RKO in December of 2009 as a Tax Department Assistant.

Congratulations to Jen Conners, a Supervisor at RKO, and her husband Fred on the arrival of their baby girl, Evelyn Anne.

Congratulations to Ryan Cormier, Senior Accountant at RKO, and his wife Maura on the arrival of their baby girl, Evelyn Grace.



Where's my Refund?

The links on the web to check the status of your Federal and State of Maine refunds are as follows:

Federal refunds - <https://sa1.www4.irs.gov/irfof/lang/en/irfofgetstatus.jsp>

State of Maine refunds - <https://portal.maine.gov/refundstatus/>

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