# Capital Advice

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## Keeping Your Current Health Insurance May Cost You Benefits


Beginning January 1, 2014, the health insurance mandate provision of the Patient Protection and Affordable Care Act (ACA) took effect. This provision requires most U.S. citizens and legal residents to have minimum essential health coverage or pay a penalty fee.

If you already have health insurance, you may have the option of keeping it or opting for a new plan. That's because the ACA includes provisions for grandfathering health insurance plans in existence on March 23, 2010, the date the ACA was enacted. But keeping your current plan of insurance may mean that you won't receive some of the benefits offered by new plans. That's because the ACA does not require grandfathered plans to include all of the coverage benefits found in new plans.

### What's a grandfathered plan?

The ACA defines a grandfathered plan as one that has continually been in existence since March 23, 2010; has had at least one person covered at all times; and has not changed except as permitted by law. Grandfathered plans include both individual insurance policies as well as group plans purchased through an employer or an organization in which the insured is a member.

### What benefits must be included in a grandfathered plan?

The ACA does require that all plans, including grandfathered plans, comply with the following provisions:

- Plans can't impose lifetime limits on the value of coverage.
- Coverage can't be rescinded or canceled due to illness or medical condition. However, coverage can be rescinded or canceled in cases where the insured intentionally puts false or incomplete information on the insurance application, or doesn't pay premiums when due.
- Plans must extend dependent coverage to adult children up to age 26.
- Plans must provide a summary of benefits and coverage in an easy-to-understand format.

Along with these provisions, additional requirements apply to grandfathered group plans (but not individual grandfathered plans). Grandfathered group plans can't:

- Place annual limits on plan benefits
- Include pre-existing condition exclusions on coverage for children under age 19

### What patient benefits are not included in grandfathered plans?

There are several benefits that the ACA requires of new plans that do not apply to grandfathered plans. These benefits include:

- New plans must provide for certain preventive services at no cost to the patient, such as blood pressure and cholesterol tests; mammograms and colonoscopy screenings; counseling for smoking cessation, weight loss, and alcohol addiction; vaccinations for diseases such as measles; and preventive inoculations for influenza and pneumonia.
- New plans must give the insured the right to appeal health insurance plan decisions, such as a decision to deny payment for a particular service or treatment.
- New plans must allow the insured to select a primary care doctor within the provider's network; ensure that female patients can see an ob-gyn without a primary care doctor's referral; and allow access to out-of-network emergency room services.

### Can my plan lose its grandfathered status?

Group and individual grandfathered plans can lose their status if the plan significantly cuts or reduces benefits, increases co-insurance or co-payments, significantly raises deductibles, or significantly lowers employer contributions where applicable. If your plan is no longer considered a grandfathered plan, then it must comply with all of the plan requirements of the ACA.


See disclaimer on final page


*The right plan for you and your business will depend on a number of factors. Consider reviewing IRS Publication 560, "Retirement Plans for Small Business," and consulting a qualified financial professional before making any decisions.*

*Distributions from pretax accounts and nonqualified distributions from Roth accounts will be taxed at then-current income tax rates. In addition, taxable withdrawals before age 59½ (in some cases age 55) will be subject to a 10% penalty tax unless an exception applies.*

*All investing involves risk, including the possible loss of principal.*

# Business Owners: Don't Neglect Your Own Retirement Plan

If you're like many small business owners, you pour your heart, soul, and nearly all your money into your business. When it comes to retirement planning, your strategy might be crossing your fingers and hoping your business will provide the nest egg you'll need to live comfortably. But relying on a business to fund retirement can be a very risky proposition. What if you become ill and have to sell it early? Or what if your business experiences setbacks just before your planned retirement date?

Rather than counting on your business to define your retirement lifestyle, consider managing your risk now by investing in a tax-advantaged retirement account. Employer-sponsored retirement plans offer a number of potential benefits, including current tax deductions for the business and tax-deferred growth and/or tax-free retirement income for its employees. Following are several options to consider.

### *IRA-type plans*

Unlike "qualified" plans that must comply with specific regulations governed by the Internal Revenue Code and the Employee Retirement Income Security Act of 1974 (ERISA), SEP and SIMPLE IRAs are less complicated and typically less costly.

- **SEP-IRA:** A SEP allows you to set up an IRA for yourself and each of your eligible employees. Although you contribute the same percentage of pay for every employee, you're not required to make contributions every year. Therefore, you can time your contributions according to what makes sense for the business. For 2014, total contributions (both employer and employee) are limited to 25% of pay up to a maximum of $52,000 for each employee (including yourself).
- **SIMPLE IRA:** The SIMPLE IRA allows employees to contribute up to $12,000 in 2014 on a pretax basis. Employees age 50 and older may contribute an additional $2,500. As the employer, you must either match your employees' contributions dollar for dollar up to 3% of compensation, or make a fixed contribution of 2% of compensation for every eligible employee. (The 3% contribution can be reduced to 1% in any two of five years.)

### *Qualified plans*

Although these types of plans have more stringent regulatory requirements, they offer more control and flexibility. (Note that special rules may apply to self-employed individuals.)

- **Profit-sharing plan:** Typically only the business contributes to a profit-sharing plan. Contributions are discretionary (although they must be "substantial and recurring") and are placed into separate accounts for each employee according to an established allocation formula. There's no fixed amount requirement, and in years when profitability is particularly tight, you generally need not contribute at all.
- **401(k) plan:** Perhaps the most popular type of retirement plan offered by employers, a 401(k) plan allows employees to make both pre- and after-tax (Roth) contributions. Pretax contributions grow on a tax-deferred basis, while qualified withdrawals from a Roth account are tax free. Employee contributions cannot exceed $17,500 in 2014 ($23,000 for those 50 and older) or 100% of compensation, and employers can choose to match a portion of employee contributions. These plans must pass tests to ensure they are nondiscriminatory; however, employers can avoid the testing requirements by adopting a "safe harbor" provision that requires a set matching contribution based on one of two formulas. Another way to avoid testing is by adopting a SIMPLE 401(k) plan. However, because they are more complicated than SIMPLE IRAs and are still subject to certain regulations, SIMPLE 401(k)s are not widely utilized.
- **Defined benefit (DB) plan:** Commonly known as a traditional pension plan, DB plans are becoming increasingly scarce and are uncommon among small businesses due to costs and complexities. They promise to pay employees a set level of benefits during retirement, based on a formula typically expressed as a percentage of income. DB plans generally require an actuary's expertise.

Total contributions to profit-sharing and 401(k) plans cannot exceed $52,000 or 100% of compensation in 2014. With both profit-sharing and 401(k) plans (except safe harbor 401(k) plans), you can impose a vesting schedule that permits your employees to become entitled to employer contributions over a period of time.

### *For the self-employed*

In addition to the options noted above, sole entrepreneurs may consider an individual or "solo" 401(k) plan. These types of plans are very similar to a standard 401(k) plan, but because they apply only to the business owner and his or her spouse, the regulatory requirements are not as stringent. They can also have a profit-sharing feature, which can help you maximize your tax-advantaged savings potential.

# What's New in the World of Higher Education?

***The appeal of MOOCs***

*The combination of quality courses, robust online learning technology, and the wide availability of broadband, coupled with the very high cost of a traditional college education, makes it likely that the popularity of MOOCs--which stands for "massive open online courses"--will only grow in the future, whether people enroll to earn serious credentials or simply for their own enjoyment and curiosity.*

Whether your son or daughter is expecting college decisions any day now or whether you're planning ahead for future years, here's what's new in the world of higher education.

## Costs for 2013/2014

Question: What goes up every year no matter what the economy at large is doing? Answer: The cost of college. The reasons are many and varied, but suffice it to say that this year, like every year, college costs increased yet again.

For the 2013/2014 year, the average cost at a 4-year public college is $22,826, while the average cost at a private college is $44,750, though many private colleges charge over $60,000 per year (Source: The College Board, Trends in College Pricing 2013). Cost figures include tuition, fees, room and board, books, and a sum for transportation and personal expenses.

What's a parent to do? For starters, check out net price calculators. Now required on all college websites, net price calculators can help families estimate how much grant aid a student might be eligible for at a particular college based on his or her individual academic and financial profile and the school's own criteria for awarding institutional aid. You'll definitely want to spend some time running numbers on different net price calculators to see how schools stack up against one another on the generosity scale.

## New rates on federal student loans

Last summer, new legislation changed the way interest rates are set for federal Stafford and PLUS Loans. Rates are now tied to the 10-year Treasury note, instead of being artificially set by Congress. For the current academic year (July 1, 2013, through June 30, 2014), the rates are:

- 3.8% for undergraduate students borrowing subsidized and unsubsidized Stafford Loans
- 5.4% for graduate students borrowing unsubsidized Stafford Loans
- 6.4% for parents borrowing PLUS Loans

The rates are determined as of June 1 each year and are locked in for the life of the loan.

## A renewed focus on IBR

Federal student loans are the preferred way to borrow for college because they offer a unique repayment option called "income based repayment," or IBR. Under IBR, a borrower's monthly student loan payment is based on income and family size and is equal to 10% of discretionary income. After 20 years of on-time payments, all remaining debt is generally forgiven (loans are forgiven after 10 years for those in qualified public service).

Enrollment in the program has been relatively modest, but last fall, the Department of Education contacted borrowers who were having difficulty repaying their student loans to let them know about IBR. The department also put the IBR application online and has made it possible for applicants to import information from their tax returns.

## A government push for information

Last summer, as part of his push to make college more affordable, President Obama announced a proposal that would require colleges to report the average debt load and earnings of graduates (in addition to the information on tuition costs and graduation rates that they already report), with the availability of federal financial aid being linked to those ratings. In response, most colleges have cried foul, claiming that average debt is not a valid indicator of affordability because colleges have vastly different endowments and abilities to award institutional aid, and that post-graduation salaries can depend on variables outside of a college's control. No reporting requirement has been finalized yet, but the trend is clearly toward the government requiring colleges to make their costs and return on investment as transparent as possible so families can make more informed choices.

## The growth of MOOCs

You may have heard the term "MOOCs," and going forward, it's likely you'll hear it a lot more. MOOCs stands for "massive open online courses," and these large-scale, online classes have the potential to revolutionize higher education. One of the earliest MOOCs was a course on artificial intelligence at Stanford University in 2011, which attracted 160,000 students from all over the world (though only 23,000 successfully completed the course, earning a certificate of recognition).

Today, hundreds of MOOCs are offered free of charge by many well-known, leading universities. The piece of the puzzle that has yet to be solved is what credit or degree will be given when courses are completed and how pricing will work. But the combination of quality courses, robust online learning technology, and the wide availability of broadband, coupled with the very high cost of a traditional college education, makes it likely that the popularity of MOOCs will only grow in the future, whether people enroll to earn serious credentials or simply for their own enjoyment and curiosity.

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## Will rising interest rates impact my pension benefits?

If you're nearing retirement and plan to elect lifetime payments from your pension plan, rising interest rates won't have any impact on your benefits. But if you're considering a lump-sum payment, rising interest rates can be critical.

Pension plans calculate your lump sum by determining the present value of your future pension payments. The two primary components in this calculation are your life expectancy, and interest rates. Life expectancy is determined using IRS tables. These tables are unisex (that is, the same life expectancy factors apply to both men and women). This results in women getting lump sums that are slightly smaller than they would otherwise get based on true gender-based factors, and men getting slightly larger lump sums.

Until recently, the interest rate plans used to calculate lump-sum payments was the U.S. 30-year Treasury bond rate. However, employers can now use a higher corporate bond rate. What's important to understand is that the amount of your lump sum payment is inversely proportional to interest rates--that is, the higher the rate, the smaller your lump sum.

If your plan offers lump-sum payments, there are two questions you need to ask yourself. First, "Is a lump-sum right for me?" This is a difficult question, and the answer depends on a number of factors. Is the pension your primary source of retirement income? How is your (and your spouse's) health? Will you be giving up valuable subsidized benefits built into the plan's benefit payments, or cost-of-living increases? A lump sum gives you control over your retirement dollars and removes the risk of early death, but shifts the investment risk from the plan to you. Remember that you'll be giving up a benefit payment that's guaranteed for your (and if you're married, your spouse's) life. Will you be able to make your lump sum last for a retirement that may last 30 years or more?

If you decide a lump sum is the right choice, the second question is, "When should I take the money?" Interest rates remain near historic lows, and it's only a matter of time before they start heading back up. If you're approaching retirement and believe interest rates will rise in the near future, you may want to consider taking the lump sum sooner rather than later. Your plan can provide you with an estimate of your lump sum based on various interest rates.

I'D RATHER BALANCE RISK AND RETURN.