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It's Open Season on Employee Benefits

Financial Professional Recommends Five Questions Every Employee Should Be Asking at Open Enrollment Time

CALABASAS, CA (October 27, 2008) – Employees all over the United States are beginning to receive notice from their health insurance providers that it's time for open enrollment again. While many employees spend 10 minutes flipping through the glossy benefits brochures before pushing them aside, Brett Ellen, President and CEO of American Financial Network, believes that by not investing the time to make informed choices, workers may be leaving money on the table and putting their future at risk.

According to the US Department of Labor's Bureau of Labor Statistics, an employer's cost for providing benefits to employees is nearly 30 percent of the employee's salary. "The ever-increasing choices employees can make regarding insurance coverage make the evaluation process complex and difficult," says Ellen. "In fact, behavioral research has shown that increased choices can impede decision-making – and that people tend to disengage from matters that don't require their immediate attention."

According to Ellen, answering a few simple questions can help employees carefully look at the big picture.

Is your 401(k) properly allocated? "For most workers, the 401(k) will be the primary source of income in retirement, so it's important to review your portfolio and rebalance when necessary," says Ellen. "Unfortunately, the majority of employees who contribute to a 401(k) put the account on auto-pilot." In fact, the *Financial Engines National 401(k) Evaluation* found 69 percent of the nearly 1 million 401(k) participants surveyed have

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portfolios with inappropriate risk and/or diversification. Additionally, 36 percent hold high concentrations of company stock, and 33 percent fail to contribute enough to receive the full company match, leaving money on the table. The most costly mistakes were made by plan participants with lower salaries, lower plan balances, and those closer to retirement. “With that in mind, review your portfolio to ensure your goals, timeframe, and risk tolerance, match your asset allocation,” Ellen recommends.

Also, although your income may prevent you from opening a Roth IRA there is no income limitation for a Roth 401(k). If you work for an employer that offers a Roth 401(k) option you can choose to make Roth 401(k) contributions. Whereas your current regular 401(k) contributions are made with pre-tax dollars and will be taxed at your ordinary income tax rate at withdrawal, the Roth 401(k) accepts only after-tax contributions. Accordingly, as with the Roth IRA, your money grows and is distributed tax-free.

How much company stock do you own? If a portfolio includes company stock, Ellen recommends that the company stock should account for no more than 10% of your 401(k) account. While pension plans are restricted from investing more than 10% of assets in company stock, there is no similar restriction on 401(k) plans. However, the Pension Protection Act of 2006 has made it easier for employees to diversify out of company stock. The act gives employees the right to sell publicly-traded company stock received as a matching contribution in a retirement plan account after three years of service for original matching contributions, and immediately for employee contributions. The law also prohibits companies from forcing employees to invest any of their own retirement savings contributions in company stock.

Is there a better choice for health insurance? While health plan choices were once divided between traditional and managed care, companies are beginning to provide more choices including a Consumer-Driven Health Plan (CDHP) that combines a High-Deductible Health Insurance Plan (HDHP) with a tax-advantaged Health Savings Account (HSA) that can be used to pay deductibles and other out-of-pocket expenses. “Generally, a HDHP does not cover first dollar medical expenses,” Ellen explains. “For calendar year 2009, federal law requires a deductible of \$1,150 for self-only coverage and \$2,300 for family coverage with maximum annual out-of-pocket amounts of \$5,800 for individuals and \$11,600 for families.” While the deductible must apply to all medical expenses, plans can pay for “preventive care” services from pre-natal care to annual physicals on a first-dollar basis, with or without a co-pay.

Often described as an individual retirement accounts for medical expenses, tax-advantaged HSAs allow individuals choosing a high-deductible health insurance plan to deposit tax-deductible funds into an account to pay for current health care needs and save for future medical bills. For 2009, the maximum annual HSA contribution for an eligible individual with self-only coverage is \$3,000. For family coverage, the maximum

annual HSA contribution for 2009 is \$5,950. Individuals age 55 and older can also make an additional “catch-up” contribution of \$1,000 in 2009. Contributions grow and are distributed tax-free for qualified medical expenses.

“To decide whether an HSA is right for you, begin by determining the difference between the premium of your current health insurance and of the cost for the high-deductible plan necessary for an HSA,” Ellen recommends. “While you might expect the high-deductible plan to cost you 20 to 40 percent less, the savings actually hover around 10 percent. Obviously, the HSA is most beneficial to those who can afford to sock away the maximum amount, pay for medical bills out of cash flow, and allow the HSA to grow tax-free to create a pool of tax-free money to pay for qualified medical expenses in retirement.” Ellen says employees should also weigh the tradeoff between having greater control over your healthcare and needing to dedicate more time to managing it. He says when a person enrolls in an HSA, the trustee provides a checkbook or debit card, or both, to pay for eligible expenses. “It’s up to you to determine what expenses are eligible – and to save all of their receipts in case you get audited by the Internal Revenue Service,” Ellen says. The IRS provides a list of approved expenses on their website (at www.irs.gov/pub/irs-pdf/p969.pdf); all else is subject to income taxes and a 10 percent penalty on that amount.

Are you taking full advantage of Flexible Spending Accounts? According to a 2005 study by Mercer Human Resource Consulting, 26 percent of employers with 10 or more employees offered a health care Flexible Spending Account (FSA), yet just 35 percent of eligible employees were participating. In addition to visits to the doctor, the cost of eyeglasses, dental work, psychologist visits, even cough syrup can be run through the plan.

Some companies also offer a dependent care FSA which allows contributions up to \$5,000 a year. In the same Mercer study, they found that 27 percent of employers with 10 or more employees offered a dependent care FSA, but just 14 percent of eligible employees were participating. In 2005, the average contribution to a dependent care FSA was \$2,630. An employee making \$35,000 a year, who contributed \$2,630 would see a net tax savings of \$770. (The standard deduction and federal income tax are based on an individual claiming a deduction as head of household plus one dependent under age 65).

Should you buy long-term care coverage? According to the American Association for Long-Term Care Insurance roughly one-third of men and one-half of women age 65 and over will require some form of long term care – and the costs are significant. A growing number of employers offer group long-term care insurance as a voluntary employee benefit. Thanks to the Health Insurance Portability and Accountability Act (HIPAA), LTC insurance premiums that C corporations pay as part of an employee benefit plan are fully deductible for the company. According to Ellen this is particularly advantageous for companies with highly compensated

employees since there are no discrimination tests to meet, as with other types of benefits such as pension plans. “As a boon for the employee, neither company premium payments nor care benefits are treated as income,” Ellen says.

One of the advantages of buying long-term care insurance through your employer is that you can sometimes get coverage that would have been more difficult, or more expensive to obtain on the open market. “Most company plans allow family members to purchase the same insurance at the same rate provided to the company as a group,” says Ellen. “However, the downside of buying into a group plan is that your choice of companies and products is limited.”

Ellen advises married couples to do review both spouses’ benefits to find any gaps or overlaps in coverage. “You may be able to save money or improve your coverage by moving your family to your spouse’s health plan. In addition, if you see a particular benefit in your spouse’s plan that you think your company should offer, Open Enrollment is the ideal time to speak to your human resources department about enhancing your company’s benefits package.

Don’t forget to take an annual look at your life insurance. While group life is usually less expensive than individual policies, Ellen recommends looking into individual life insurance policies outside of a group plan to address portability and insurability issues upon separation of service or retirement from your company.

About Brett Ellen and American Financial Network

Brett Ellen, founder and president of American Financial Network, is a financial planner and investment advisor representative with Securities America Advisors who specializes in wealth management and corporate benefit planning services. Additionally, Ellen established and is an active part of the Financial Solutions Alliance, a network of financial service providers from across the country that work collaboratively to address the financial and business needs of their clients. Unprecedented in his ability to serve both individual investors and corporate planners, Ellen is recognized by Securities America as their top advisor.

As a California native, Ellen believes strongly in giving back to his community. He and his firm actively support a variety of non-profit organizations. In 2008, the Muscular Dystrophy Association awarded Ellen the prestigious Humanitarian of the Year Award for his philanthropic endeavors and dedication towards making a difference. In 2001 he and his wife, inspired by their children, formed their own non-profit. TKOHelpingHands.org (Turn Kindness On) promotes community involvement and social responsibilities in young children. For more information about Brett Ellen, visit www.afn-net.com.

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NOTE:

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