

BENEFIT

Plan Trends



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New Tax Bill Extends And Enhances Tax Breaks For Small Businesses

Signed into law by President Barack Obama on December 17, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extends for two years the lower individual income and dividends/capital gains tax rates that had been due to expire at the end of 2010. In addition, the new law includes higher Alternative Minimum Tax (AMT) exemptions for 2010 and 2011, estate tax relief through 2012, a one-year reduction in payroll taxes, and enhancements and extensions of a number of tax breaks for businesses. The provisions affecting businesses include the following:

Payroll tax reduced for 2011.

For wages earned in calendar year 2011, the employee share of payroll taxes is lowered from 6.2% to

4.2%, up to the taxable wage base of \$106,800. Self-employed individuals owe 10.4% on self-employment income up to the threshold.

50% bonus depreciation raised to 100%. Under recent tax reform, businesses were given the option of depreciating 50% of the adjusted basis of the property for qualifying property bought and placed in service in 2008 through 2010. The 2010 Tax Relief Act increases the 50% bonus depreciation to 100% for qualified investments made after September 8, 2010 through December 31, 2011, and it also makes 50% bonus depreciation available for

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qualified property placed in service through December 31, 2012. In addition, certain long-lived property and transportation property is eligible for 100% expensing if placed in service before January 1, 2013.

Section 179 expensing extended through 2012. For 2010 and 2011, businesses are permitted under the Small Business Jobs Act of 2010 to expense up to \$500,000 of Section 179 property, and the amount that may be expensed is reduced only if the cost of the Section 179 property exceeds \$2 million. Under the 2010 Tax Relief Act, a \$125,000 dollar limit (indexed for inflation) and a phaseout beginning at \$500,000 (indexed for inflation) is in effect for 2012. After 2012, the limit reverts to \$25,000, with a phaseout beginning at \$200,000.

Research tax credit extended through 2011. The Code Section 41 research tax credit, which had expired at the end of 2009, is continued for two years, through December 31, 2011.

Energy tax credits for individuals and businesses extended. Many of the energy credits and deductions set to expire at the end of 2010 have been extended for one or two years under the new legislation, including business credits for biodiesel and renewable diesel fuel, the credit for refined coal facilities, the new energy-efficient home credit for builders and manufacturers, tax credits for alternative fuel and alternative fuel mixtures, and the credit for the purchase of energy-efficient appliances.

Extension of the Work Opportunity Credit (WOTC). The WOTC, which provides businesses that hire members of certain “targeted groups” with a credit of up to \$2,400 on the qualifying first-year wages paid to each employee, would have expired after August 31, 2011. Under the 2010 Tax Relief Act, the WOTC is extended for new hires who begin employment after August 31, 2011 and before January 1, 2012, though certain groups who had previously been targeted no longer qualify for this credit.

Extension of 100% exclusion on sales of small business stock through 2011. Under the Small Business Jobs Act of 2010, investors are permitted to exclude 100% of the gain from the sale of certain small business stock acquired and held for more than five years, up from 75% previously, and the excluded gain is not subject to the AMT. To qualify, the stock must have been purchased before January 1, 2011. Under the 2010 Tax Relief Act, this 100% exclusion is extended for one more year to cover stock purchased before January 1, 2012.

Transit benefits extended one year. Under the American Recovery and Reinvestment Act of 2009 (ARRA), the amount that may be excluded from the taxable income of employees used to pay for qualified mass transit, van pools, or parking was raised to \$230 per month through 2010. This sum of \$230 is equal to the tax-free benefit that employers may provide per employee, per month through a qualified transportation plan. Under the 2010 Tax Relief Act, these benefits are continued for one additional year, through December 31, 2011.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 offers a number of tax breaks for both individuals and businesses. However, many of the opportunities are temporary. For more information contact your qualified tax professional.

New Hires Place A High Value On Retirement Benefits

Companies that offer retirement plans to employees, especially in the form of traditional pensions, have an added advantage when it comes to attracting and retaining new employees, according to a 2010 survey of U.S. workers by professional services company Towers Watson.

The results of the annual survey of more than 3,000 employees suggested that sponsoring a defined benefit plan is especially effective in recruiting new employees and in building loyalty to the company. Nearly three-quarters (72%) of new employees, or those with less than two years of service, who work for a company with a defined benefit plan rate their employer-sponsored retirement benefits as an important reason for staying with the company, up from 51% of respondents in 2009. Moreover, 60% of the new employees who work for companies with defined benefit plans cited their retirement benefits as an important reason why they chose to work for their current employer, up from 27% in 2009.

By contrast, just 20% of the new employees who work for an organization with a defined contribution plan only indicated that employer-sponsored retirement benefits played a role in their decision to take their current job, up from 16% in 2009. In addition, just over one-quarter (26%) cited their employer's retirement program as an important reason for remaining with their current company, unchanged from 2009.

"Given the growing importance of security in retirement, employees increasingly view retirement benefits as a significant differentiator when making decisions about where to work," said David Speier, a senior retirement consultant at Towers Watson. "In an environment in which talented employees are difficult to lure away from stable jobs, retirement plans—and especially defined benefit plans—could give employers the edge they need."

More than two-thirds of all the employees with all types of retirement benefits (67%) said they would like to continue working for their current employer until they retire, up from 56% in 2009. The results also indicated, however, that traditional pension plans are much more likely than defined contribution plans to be an important factor in the retention of employees: 80% of respondents at companies with defined benefit plans said

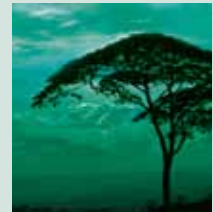
they plan to continue working for their employer until they retire, compared with only 62% of respondents at companies with defined contribution plans.

In addition, the 2010 survey showed that the percentage of workers under age 40 who cited their traditional pension benefits as an important reason why they work for their current employer increased by more than half in just one year, to 43% in 2010 from 28% in 2009. The percentage of these younger employees at companies with defined benefit plans who indicated they are interested in remaining with their employer until retirement also rose sharply, from 44% in 2009 to 70% in 2010. Meanwhile, the respondents under age 40 with access to defined contribution plans only were less likely this year than last to rate their employment benefits as an important reason for staying with their current employer, from 19% in 2009 to 17% in 2010.

HHS Releases New Guidance On Mini-Med Plans

In response to concerns that some Americans are being offered health plans at work or on the individual market that provide less coverage than they expect, the U.S. Department of Health and Human Services (HHS) released new guidance on December 9, 2010 that requires the providers of these plans to give consumers more information about so-called "mini-med" plans. The HHS also announced that it has issued guidance restricting the sale of new mini-med plans except under very limited circumstances, as these plans have annual coverage limits well below the minimum requirements recently set by the Federal government.

Mini-med plans, which provide health insurance coverage with very low annual caps in exchange for low premiums, are sometimes offered as group plans



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to workers in the retail and food service industries. According to the HHS, the new guidance is intended to ensure that consumers enrolled in plans with low annual coverage limits are notified of the quality of their health plan so they can make informed decisions about whether mini-med coverage is right for them. The supplemental guidance requires health plans with waivers to inform consumers that their health care coverage is subject to an annual dollar limit lower than what is required under the law. This notice must include the dollar amount of the annual limit, along with a description of the plan benefits to which the limit applies.

Under the new rules, health insurers offering mini-med plans must notify consumers in plain language that their plan offers extremely limited benefits and direct them to www.HealthCare.gov, where they can get more information about other coverage options. These notices must be displayed in 14-point bold type as part of any informational and educational materials, as well as in any plan or policy documentation provided to enrollees.

HHS officials noted that, under the Patient Protection and Affordable Care Act of 2010, all U.S. citizens and legal residents will be required to obtain health care coverage or pay a penalty starting in 2014, and states may create health insurance exchanges through which individuals and small businesses can purchase qualified coverage, when annual dollar limits on health plans will be prohibited. Under the annual limits set by HHS regulations published in June 2010, health plans currently are not permitted to limit annual coverage of essential benefits (such as hospital, physician, and pharmacy benefits) to less than \$750,000. This

annual limit is set to rise to \$1.25 million for plan years starting after September 23, 2011 and to \$2 million for plan years starting after September 23, 2012. For plans issued or renewed beginning January 1, 2014, all annual dollar limits on coverage of essential health benefits will be prohibited.

HHS officials recognized, however, that mini-med plans are currently the only type of private insurance available to some workers. In order to protect coverage for these workers, the department announced it has issued temporary waivers from rules restricting the level of annual limits to some group health plans and health insurance issuers. HHS officials said the waivers last for one year only and are only available if the plan certifies that a waiver is necessary to prevent either a large increase in premiums or a significant decrease in access to coverage.

The new guidance outlines the very limited circumstances under which new mini-med plans may be sold. For example, an employer that already offers a mini-med plan may be permitted to buy a new mini-med plan from a different provider under certain circumstances. Waivers are also more likely to be granted in states operating programs that provide health care coverage with low annual limits or that require issuers to offer coverage with low annual limits.

“The Affordable Care Act is giving consumers more control over their health care by providing them with information about their health insurance options,” said Secretary of Health and Human Services Kathleen Sebelius. “Now, we’re taking an unprecedented step to ensure consumers are informed when they purchase policies that offer limited coverage.”



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