



Client Bulletin



2011 Changes to Transportation Benefits

Inside this Issue:

- ◆ 2011 Changes to Transportation Benefits
- ◆ 2011 Cost of Living Adjustments
- ◆ Retirement Plan—New Disclosure Rules
- ◆ Supplemental Benefits: Individual Disability, Long Term Care
- ◆ Reminder: Annual Notices
- ◆ Health Care Reform Update—Nondiscrimination Testing
- ◆ Imputed Income on Group Term Life Insurance

The 2011 transportation benefit limits still have not yet been released by the IRS. The temporary increase in transit benefits under ARRA is set to expire on 12/31/2010. Until further guidance is available, employers need to assume that the 2011 transit benefits will be decreased to the pre-ARRA limit of \$120 per month. Since most December payroll reductions are used to purchase January benefits, employers will need to cap December pre-tax transit benefit payroll reductions at \$120 per month based upon the assumed 2011 benefit limit. It is unknown at this time if Congress intends to extend the higher transit limit when they return to work next week. We will keep you apprised of any legislative developments.

In addition, unless the IRS provides another extension, transit debit card systems will have to comply with the “separate bucket” rule. Initially passed in 2006, this rule requires transportation debit cards to segregate funds for transit/vanpool and parking. Compliance has been delayed several times in order to allow transit systems to upgrade the debit card systems. We will update you with any changes to the DC Metro area’s SmarTrip card as information becomes available.



2011 Cost of Living Adjustments

The Internal Revenue Service has announced the 2011 limits applicable to retirement plans. The limits remain the same as the previous two years. Please see our [2011 Cost of Living Adjustment table](#) on page 4.

In addition, the following health savings account (HSA) and high deductible health plan (HDHP) amounts remain unchanged for 2011:

	Single	Family
Minimum deductible for HDHP	\$1,200	\$2,400
Maximum out-of-pocket limit for HDHP	\$5,950	\$11,900
Maximum HSA contribution	\$3,050	\$6,150
HSA catch-up contribution (age 55+)	\$1,000	



Retirement Plans—New Disclosure Rules

The upcoming year will see two major regulatory initiatives on retirement plan disclosures come into effect:

- Participant Disclosure Rules
- Service Provider Disclosure Regulations (also known as the 408(b)(2) regulations)

For most plan sponsors, the Participant Disclosure Rules will take effect in the 2012 plan year. Look for a higher level of disclosures with respect to the cost of the investment expenses, recordkeeping services, financial advice and other services that are paid for through the cost of the investments. You will see more on this as the industry sorts out the regulations and adapts their systems to comply. For more details, see the [Department of Labor Fact Sheet](#).

The 408(b)(2) regulations become effective July 16, 2011. These rules are aimed at service providers who will have to provide more information to plan sponsors, with specifics on what fees pay for what service (specific services to be listed), whether a party acts as a fiduciary, any potential or real conflicts of interests, and of course more detailed information on investments. There will be some standard formats making it easier for plan sponsors to compare various providers for the same services. For more details, see the [Department of Labor Fact Sheet](#).

Supplemental Benefits:

Individual Disability, Long Term Care

In this difficult economy, employers are looking for creative ways to enhance the total benefits package offered to employees, and in particular, key employees. Supplemental group or individual disability, individual life and long-term care insurance can round out your benefits package. If you are interested in exploring these options, please contact your Keller consultant.

Reminder: Annual Notices

Do not forget to distribute your health plan’s annual notices at open enrollment. Contact your Keller consultant for a packet of easy to customize notices in Microsoft Word format.

- Health Care Reform Notices
- CHIP Notice
- Women’s Health and Cancer Rights Act reminder
- Availability of Notice of Privacy Practices
- Medicare Notice of Creditable Coverage

Health Care Reform Update—Nondiscrimination Testing



We are awaiting guidance on nondiscrimination testing for non-grandfathered health plans. For plan years beginning on or after 9/23/2010, non-grandfathered health plans will have to comply with new nondiscrimination rules similar to existing rules for self-insured plans. Without regulations, it is difficult to know how to apply these rules to fully-insured health plans. In the meantime, if any of your health plans favor highly compensated individuals with regard to eligibility or contributions, or bases benefits on age, years of service, or compensation, please contact your Keller consultant to discuss your current arrangement. We will notify you as soon as the regulations are released.

Imputed Income on Group Term Life Insurance



Employer-paid group term life insurance has tax implications for employees under IRC Section 79. If a group term life insurance policy is “carried directly or indirectly by the employer” because it is paid for or subsidized by an employer, then benefit amounts over \$50,000 under the policy are subject to imputed income rules.

The cost of coverage exceeding \$50,000 must be included in an employee’s taxable income and shown on the Form W-2, based on IRC Section 79 Table I rates, as shown below.

Employers do not need to calculate imputed income on optional (voluntary) life insurance when:

- the premium is paid in full by the employee,
- the costs and coverage can be separated from an employer-paid policy, and
- the policy is **not** considered employer-carried.

An IRS “straddle test” determines if the optional life insurance is employer-carried or not. This test says that if one employee is paying more than his corresponding Table I rate and another employee is paying less than his corresponding Table I rate, then the optional life rates “straddle” the Table I rates. If this is the case, the benefit amounts are subject to imputed income.

Please note that if the rates in your optional life insurance plan are either all above or all are below the IRS Table I rates, then the plan is **not** considered employer-carried and typically not subject to imputed income calculations.

Employer or employee-paid dependent (spouse and/or children) life insurance is exempt from imputed income if the face amount is \$2,000 or less on each dependent. If the benefit is higher, then imputed income must be calculated on the full benefit amount.

Any after-tax amounts that an employee contributes towards the employer-subsidized coverage reduce his or her imputed income, dollar for dollar. If employees pay for coverage with pre-tax dollars, then the pre-tax salary reduction and any employer contributions are excludible from gross income and the full Table I cost of benefit amount over \$50,000 is included in gross income.

TABLE I Rates	
Age at end of calendar yr	Monthly Cost per \$1,000
Under 25	\$.05
25 to 29	\$.06
30 to 34	\$.08
35 to 39	\$.09
40 to 44	\$.10
45 to 49	\$.15
50 to 54	\$.23
55 to 59	\$.43
60 to 64	\$.66
65 to 69	\$1.27
70 and above	\$2.06

Please contact your payroll vendor or Keller consultant if you need assistance.

New Cost of Living Adjustments for 2011

The Internal Revenue Service announced cost-of-living adjustments related to retirement plans for the 2011 tax year, although the limitation on annual benefits for defined benefit and defined contributions remain unchanged.

Qualified Plans' Maximum Compensation Limit. The maximum compensation used to calculate benefits under qualified retirement plans remains the same at \$245,000 this year. Dividing the maximum deferral by the maximum salary yields a deferral percentage of 6.7% (\$16,500 / \$245,000).

Pension Plans. The maximum annual pension payable as a life annuity under a defined benefit pension plan (at age 65), remains the same at \$195,000.

401(k) / 403(b) / 457(b) Plans. The maximum annual elective salary deferral under a 401(k), 403(b) or 457(b) plan in a calendar year remains the same at \$16,500. The catch-up contribution for employees age 50 or older also remains the same at \$5,500. It is no longer necessary to have a restrictive percentage limit on deferrals, in most cases a 95% limit should suffice.

Highly Compensated Employees. For 2011, a participant is considered "highly compensated" if their compensation is \$110,000 or above in the prior year. This group can be further limited to the top 20% of all eligible employees, ranked by compensation. These thresholds are used in virtually all discrimination testing of qualified employee benefit plans. The bar for Key Employees remains the same at \$160,000 for 2011.

Defined Contribution Plans. The limit on annual additions under section 415(c)(1)(A), (i.e., all contributions and forfeitures), for a participant to a defined contribution plan remains the same at \$49,000.

The Social Security Wage Base. The wage base remains the same at \$106,800. The Social Security tax rate on these wages remains at 6.2%. OBRA '93 removed the FICA Medicare tax wage limit, so all wages are subject to the 1.45% tax. The combined tax rate remains 7.65%.

Other Types of Plans. For 2011, the minimum threshold for employees to be included in a SEP plan remains the same at \$550. Simple IRA and Simple 401(k) maximum deferrals stay at \$11,500. The catch-up on a SIMPLE plan remains at \$2,500.

Please contact your Keller Benefit Services, Inc. consultant at 301-652-3650 if you have any questions.

IRS and Social Security 2011 limits and thresholds on benefits and compensation:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Maximum Annual Pension	\$195,000	\$195,000	\$195,000	\$185,000	\$180,000
Defined contribution maximum annual addition	49,000	49,000	49,000	46,000	45,000
401(k) plan maximum elective deferral	16,500	16,500	16,500	15,500	15,500
403(b) plan maximum elective deferral	16,500	16,500	16,500	15,500	15,500
Catch-up Contribution (50 or older)	5,500	5,500	5,500	5,000	5,000
SIMPLE IRA and SIMPLE 401(k)	11,500	11,500	11,500	10,500	10,500
Highly compensated threshold	110,000	110,000	110,000	105,000	100,000
Qualified plans' maximum compensation limit	245,000	245,000	245,000	230,000	225,000
Social Security wage base	106,800	106,800	106,800	102,000	97,500
Parking (monthly)	230	230	230	220	215
Transit (monthly)	120*	230	120/230	115	110

* Current ARRA Transit benefits limits are set to expire on 12/31/2010. Absent Congressional action 2011 limit goes to \$120.