



Medical Expense Reimbursement Plan

A Solid Employee
Retention Tool

NEF
NEW ENGLAND FINANCIAL™
POWER TO STAY THE COURSE
A MetLife Affiliate

What A Medical Expense Reimbursement Plan Means to You and Your Employees.



Successful companies depend on the leadership of experienced employees to guide them through the rough waters of today's business world. And if those employees decide to leave for greener pastures, the company suffers. Wouldn't it be great if you could find inexpensive perks to help retain those employees longer?

That's where the Medical Expense Reimbursement Plan (MERP) comes in. New England Financial's MERP is designed to help a company do just that — hold on to its employees by offering a strong benefit when it comes to their health insurance. And the best part is that a MERP could actually save your company health insurance premium dollars!

HERE'S HOW IT WORKS.

With a Medical Expense Reimbursement Plan, employers agree to pay part of their employee medical expenses. The employer offers one deductible to the employees and contracts with the insurance carrier for a higher

deductible. The difference between those two deductibles is the figure which is self-insured (meaning the employer reimburses up to this amount directly to the employee.)

Many employers will discover that they will save money. *To estimate the savings, or possible loss, you should complete the attached computation form.* Employees also generally save by receiving a lower deductible. And, because the employer cuts expense checks directly, a MERP shows a strong commitment to employees.

AN EXAMPLE

If the employer chooses a \$500 deductible for employees and a \$1,500 deductible for the company, the self-insured difference is \$1,000. Employees submit claims to New England Financial as they normally would. If and when an employee exceeds the \$500 deductible, NEF notifies the employer. The employer then reimburses the employee for the amount noted in that letter. If the employee reaches the \$1,500 deductible level, the employer no longer reimburses the employee and the regular insurance plan benefits begin. It's that simple!

Please Note: The plan is designed to pay for services provided by "in-network" providers only.

Common Questions About Medical Reimbursement

Q. Are there special rules employers must follow to ensure that the plan is properly installed?

A. Yes. Employers must commit themselves to certain rules about benefit payments, and the plan must be made clear to the employees.

Q. What documents are needed?

A. The employer must complete and sign the Non-Discriminatory Medical Reimbursement Plan Adoption Agreement. Employees will receive a Summary Plan Description (see sample document) along with their certificate of insurance booklet.

Q. What are the tax implications regarding this type of medical reimbursement plan?

A. Generally, the benefits are not taxable to the employee, and the employer may deduct 100% of the cost of the benefits paid to the employee; this is under Treasury Reg. §1.162-10(a) and Section 105(e) of the Tax Code. However, there are additional restrictions and the regulations and tax code provisions should be reviewed with your tax advisor.

Q. Can the business owner receive MERP benefits tax free?

A. Unfortunately, no. The MERP payments will be considered income to sole proprietors, partners, and S corporation owners. However, they may be able to take the allowable deduction (60% in 1999). You should consult a tax advisor regarding any deduction.

Q. Can a sole proprietor cover a spouse as an employee?

A. IRS Coordinated Issue Paper (UIL 162.35-02) concedes a self-employed person may offer a bona fide employed spouse the benefits of the program as an employee. Thus, the business owner can become a dependent on the spouse's coverage and deduct the full cost of health care coverage. You should consult a tax advisor regarding any deduction.

Q. What about "highly compensated" individuals?

A. In general, the plans cannot be discriminatory in favor of the "highly compensated" individuals.

These people could be taxed on all or part of the reimbursement. (See IRC. Section 105(h).)

Q. What are the requirements in determining if a plan will be considered non-discriminatory?

A. The plan must:

- provide benefits for 70% or more of the employees; and,
- benefit 80% or more of those employees participating in the plan; or,
- benefit a classification of employees that does not discriminate in favor of highly compensated employees.

NEF suggests that employers open the plan to all employees. Please keep in mind that "a plan will not be considered discriminatory in operation merely because highly compensated participants utilize a broader range of plan benefits to a greater extent than do other participants. Treasury Reg. §1.105-11(c)(3)."¹

Q. Can an employer exclude some employees in meeting the eligibility requirements?

A. Yes, including those employees who have not completed three years of service, those who are not 25 years or older, part-time or seasonal employees, non-resident alien employees who do not receive any U.S. income, and employees covered by a collective bargaining agreement.

Q. What about employees who are not covered under the employer's group health insurance plan because they are covered by a spouse's plan or do not wish to contribute to the plan cost?

A. There are two classes of employees under the MERP; participating and non-participating. Those employees who participate in the NEF health plan will be eligible to receive benefits under the MERP. Those employees who do not participate will not be eligible to receive benefits under the MERP.

Q. What type of benefits will be included in the Medical Expense Reimbursement Plan?

A. NEF suggests that employers cover only those in-network items normally covered under the New England Financial medical plan. These items include (but are not limited to) doctor bills and hospital bills. The Preferred Provider Organization (PPO) co-pay, emergency room co-pay, and any Pre-Certification penalty should remain the responsibility of the employees.

Q. May employers add benefits to the Medical Expense Reimbursement Plan not covered by New England Financial?

A. Yes, employers may add benefits. However, if those benefits are not normally covered under New England Financial, they will not be credited towards the deductible or co-insurance. Also, they will increase the group's maximum exposure. NEF will not administer additional benefits elected by the employer.

Q. What are examples of some of these "extra benefits"?

A. The Tax Courts and IRS have stated that these items can be included in the Medical Expense Reimbursement Plan:

The professional services of a Christian Science Practitioner or an Oculist; equipment and supplies such as elastic hosiery, fluoridation unit for the home, automobile device for a handicapped person (not for use for travel to business), stair-seat elevator for people with heart conditions, glasses and contact lens, or even an air conditioner where it is necessary for the relief of allergies; medical treatments such as healing services; other items include wigs that are essential for mental health, remedial reading programs for children with dyslexia, Navajo healing ceremonies, hair transplant operations, or clarinet lessons if prescribed by a dentist for tooth defects. Please note that this is just a partial list. An employer should always consult a tax advisor regarding any deduction.

NON-DISCRIMINATORY MEDICAL REIMBURSEMENT PLAN Adoption Agreement

ARTICLE I PURPOSE OF PLAN

This Non-Discriminatory Medical Reimbursement Plan (hereinafter called the "Plan") is intended to encourage employees of _____ (hereinafter called the "Company") to remain in the employ of the company, to reward such employees for their past loyalty to the Company and to improve the working efficiency of such employees by removing the worries of the expense of certain medical care from their minds.

ARTICLE II EMPLOYEES COVERED BY THE PLAN

The employees covered by the Plan (hereinafter called the "Covered Employee") shall include all employees and dependents who are covered under the group health certificate and whose effective date is _____, 1999 issued to the Company by New England Financial and administered by HealthPlan Services, Inc. (hereinafter referred to as the "Group Health Contract").

ARTICLE III ADMINISTRATION OF THE PLAN

- 3.1** The Board of Directors shall constitute a Medical Reimbursement Plan Committee (hereinafter called the "Committee"). Subject to the provisions hereof, the Committee shall have the authority to interpret the Plan and to prescribe, amend and rescind rules and regulations relating to it. The Committee shall elect one of its members as chairperson and shall hold meetings at such times and places as it shall deem advisable. A majority of its members shall constitute a quorum. All actions of the Committee shall be taken by a majority of the members, and any action so taken shall be fully as effective as if it had been taken by a vote of a majority of the members at a meeting duly called and held.
- 3.2** The Board of Directors by majority vote hereby elects to have New England Financial and HealthPlan Services, Inc. administer claims and provide administrative services for the Plan including coordinating benefits of the Plan with the Group Health Contract.

ARTICLE IV BENEFITS PAYABLE UNDER THE PLAN

- 4.1** The Company shall reimburse Covered Employees as follows:
All medical expenses provided by a New England Financial in-network provider, considered as eligible covered expenses in the group health certificate which exceed a cash deductible of _____ and are less than the cash deductible in the group health certificate.
- 4.2** All Covered Expenses for which the Company shall reimburse a Covered Employee, his spouse and his dependents (as defined in section 152 of the Internal Revenue Code of 1986), shall be as defined in section 213(e) of the Internal Revenue Code of 1986 and are expenses that are eligible under the Group Health Contract.

ARTICLE V ELIGIBILITY, EFFECTIVE DATES AND TERMINATION DATES

- 5.1** The eligibility requirements, effective dates and termination dates of coverage will be identical in every respect and coincide with the Group Health Contract whether The Plan is contributory or non-contributory.

ARTICLE VI METHOD OF REIMBURSEMENT

- 6.1** The Company shall make the reimbursement to a Covered Employee, or, if he or she is deceased, to his or her estate, unless the payment of such benefits has been assigned, pursuant to a written assignment by the employee that has been filed with the Company.
- 6.2** Any Covered Employee applying for reimbursement under this plan shall submit to HealthPlan Services, Inc. a standard claim form for medical expenses for verification. New England Financial and HealthPlan Services, Inc., either of which may request additional information, such as bills, statements, and vouchers, prior to any payment.
- 6.3** All benefits due for a Covered Employee under this plan shall be paid by the Company on a monthly basis in accordance with the provisions and limitations of the Group Health Contract.

ARTICLE VII TERMINATION AND AMENDMENT OF THE PLAN

- 7.1** The Board of Directors may at any time and from time to time amend the Plan in such respects as it shall deem advisable in order that the Plan shall conform to the provisions of sections 105 and 106 of the Internal Revenue Code of 1988 or to any amendment thereafter. The Plan may be terminated by the Board of Directors at any time upon giving at least thirty days written notice to all employees or upon termination of the Group Health Contract. Such termination shall not affect the right of the Covered Employee to seek reimbursement thereunder for medical expenses arising prior to said termination.

IN WITNESS WHEREOF, we have set our hands and the seal of the Company as of this _____ day of _____, 19____.

ATTEST:

By: _____
President

Secretary

COMPUTE NET MINIMUM SAVINGS OR MAXIMUM EXPOSURE OF THOSE EMPLOYEES COVERED THROUGH A MEDICAL EXPENSE REIMBURSEMENT PLAN

(For Use With WiseChoice PPO Plans)

What is your present deductible or the deductible you're considering (in-network only)? \$_____ (A)

What is the higher deductible you are considering (in-network only)? \$_____ (B)

Subtract the lower from the higher. (B)-(A)= \$_____ (C)

What is the co-insurance level for the in-network benefits? _____ % (D)

Multiply the co-insurance level (D) by the difference in the deductibles (C). (D) X (C)= \$_____ (E)

What is the number of single people in the group?_____ (F)

What is the number of Husband/wife, Parent/child, Parent/children or Family units in the group?

Total husband/wife units = _____ x 2 = _____

Total parent/child units = _____ x 2 = _____

Total parent/children units = _____ x 3 = _____

Total family units = _____ x 3 = _____

TOTAL = _____(G)

What is the total number? (F)+ (G)= _____ multiply by line (E)= \$_____ (H) This is the Maximum Exposure the company could pay to the employees if all insured people in the group (and their families) were to reach the higher deductible.

What is the lower deductible premium? \$_____ (I)

What is the higher deductible premium? \$_____ (J)

What is the monthly savings? (I)-(J)= \$_____ multiply by 12 months= \$_____ (K) This is the Annual Savings.

What is the difference between the Annual Savings and the Maximum Exposure? (K)-(H)= \$_____ This is the minimum amount of savings (if this figure is a positive number) or the maximum exposure (if this figure is a negative number) your company could experience by self-funding the deductible. Naturally, your savings or exposure will be based on the health experience of your employees and will, in all likelihood, fall somewhere between the Annual Savings and Maximum Exposure. Annual Savings is defined as a calendar year savings. **Your plan year savings will differ from the Annual Savings depending on the start date of this plan and any previous deductibles met by your employees.**

Producer's Signature

Date

Employer's Signature

Date



Q. What are some examples of expenses that are non-tax deductible?

A. Diaper services, baby-sitting fees, bottled water, dance lessons, weight reduction programs not undertaken for specific ailments, tooth paste, Scientology fees, maternity clothes, or the cost of a hotel room suggested for sex therapy. Please note that this is just a partial list. Once again, an employer should always consult a tax advisor regarding any deduction.

Q. What are the ERISA reporting requirements?

A. Most welfare benefit plans are required to complete a reporting document such as Form 5500; however, there is a small welfare plan exemption. This exemption applies to plans with fewer than 100 participants that are fully insured and/or benefits are paid out of the general assets of the business on a pay-as-you-go basis. Also, these plans are not required to file a Summary Plan Description;

however, employers are required to distribute a Summary Plan Description to employees (DOL Reg. 2520.104-20(c)).

Q. Do COBRA benefits apply to the Partially Self-Insured Medical Expense Reimbursement Plan?

A. Yes, all COBRA benefits apply. Additionally, individual state Continuation Benefits may apply depending on which state the business is located in. Regardless of where the employer is located, NEF suggests that if the state offers any type of Continuation Benefits, the employer extend the plan to match those benefits.

Q. May an employer cancel the plan?

A. Yes. NEF suggests giving employees a thirty day notice of cancellation.

Q. May employers make mid-year changes to the plan and/or back date it?

A. Employers may make mid-year changes to the plan with a 30 day notice to the employees; however, they may not alter the plan to pay

for or avoid payment on a benefit after the medical service or medical product has been provided or purchased. Also, employers may not back date the changes, thus medical services or purchases already provided or purchased and not previously covered cannot be reimbursed.

Q. Will New England Financial reimburse employees for any benefits due them (relating to the portion of the deductible which is being funded by the employer)?

A. No. Any benefit payments due to employees are solely the employer's responsibility.

Q. Is there an administration fee for this plan?

A. Yes, \$10 plus the normal \$25 monthly administration fee (\$35 total per month) will be charged for the Medical Expense Reimbursement Plan (where allowable by state law or regulations). A one-time set-up fee of \$1 per employee will also be charged for this plan.

Medical Expense Reimbursement Plan-Enrollment Checklist

Getting Your Case Approved Quickly

Expedite the processing of your cases by doing the following:

- Employer must complete and sign the Non-Discriminatory Medical Reimbursement Plan Adoption Agreement.
- Employer and Agent must complete and sign the calculation form located on back of the Adoption Agreement.
- Make sure the employer completes and signs the Employer Participation Application. All questions must be answered.
- As the Producer, complete and sign the Agent Information section of the Employer Participation Application.
- Indicate the desired coverage effective date. It must be the first day of the month, unless the coverage is replacing another group policy. The application must be received by HPS by the 12th of the same month it becomes effective.

- Tell the client not to terminate existing coverage until you or the client have received confirmation of acceptance from HPS.
- Elect a waiting period for future employees (zero, one, two or three months). The effective date of future employees will be the first of the month following the number of months elected. This may vary by state.
- Have all employees complete an Application for Insurance form for themselves and any dependents to be insured. If an employee is refusing coverage, s/he must complete and sign the Waiver of Coverage section.
- Employees must answer all questions completely, including all medical questions. If any medical question is answered "yes", the employee must complete the back of the application.
- Make sure that both the employees and the employer have signed and dated their applications. Any corrections must be initialed and dated by that applicant.

- Mail the employer and employee applications, a business check for the first month's premium and administration fee payable to HealthPlan Services, a copy of the proposal and the most recent billing statement from the prior group carrier to:

HealthPlan Services
P.O. Box 30129
Tampa, FL 33630-3129

Or for overnight mail:

HealthPlan Services
3501 Frontage Road
Tampa, FL 33607
(813) 289-1000


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