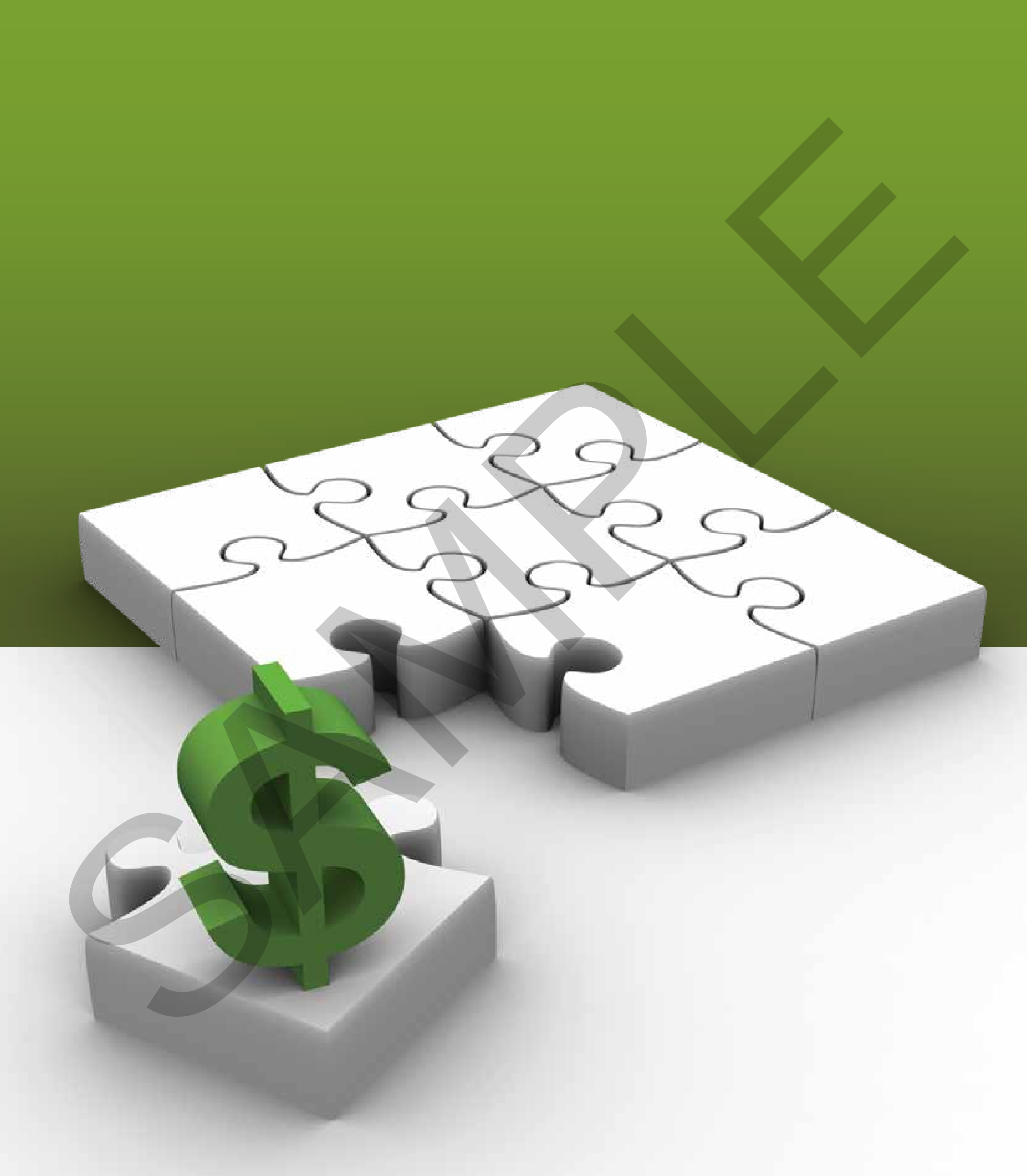
**CHAPTER 6**

# Utilizing Workplace Benefits To BUILD FINANCIAL WELLNESS

One of the best ways to build financial wellness is through appropriate participation in your employer-sponsored benefits.



## CHAPTER 6

# Utilizing Workplace Benefits To BUILD FINANCIAL WELLNESS

## Know Your Workplace-Sponsored Benefit Options

Employer-sponsored benefits represent a significant percentage of your overall compensation. Employers average about 30% of their overall payroll to fund the benefit options that are available to eligible employees. However, the days of a "one-size fits all" benefits package prevalent just a generation ago are gone. Employers are shifting the responsibility for benefits selection to employees, with more available benefits requiring significant financial contributions from eligible employees.

Although reading your employer-sponsored benefits guide isn't even close to the excitement of reading this book (I hope!), consider it a "must read" document, as it is absolutely essential that you understand and fully utilize employer-sponsored benefits as an essential element for both protecting and growing your hard-earned assets. Make it a point to locate your current employer-sponsored benefits guide and pay particular attention to eligibility for all available benefits, especially health, retirement and voluntary benefits. *In the vast majority of cases you'll find no better place to purchase these important and essential benefits than through your employer's benefits plan!* You'll also enjoy special tax benefits that federal, state and local governments provide for many employer-sponsored benefits. Most of these benefits will be available to you when you become eligible for benefits or on an annual basis when your employer conducts its "open enrollment period" for you to choose the benefits that fit your needs.

## What To Look For In Your Employer-Sponsored Benefits Guide

Your benefits guide will provide the information you'll need to make the most of your employer-sponsored benefits. First, determine your "eligibility" for benefits. This is where you'll find differences from the options your employer offers. For example, your health benefits plan may have an initial 60 day waiting period for those newly hired and an annual enrollment period for those who are currently enrolled in the health plan. The 401(k) or 403(b)-type pension plan will likely have a different waiting period for new hires and will often allow those who meet eligibility requirements to enroll at any time during the year. So why is all of this so important? You don't want to miss coverage opportunities for your health insurance and 401(k)-type plan during open enrollment. Millions of employees fail to fully-utilize the benefits that their employers make available to them by either not understanding how to utilize the benefits that are available or by failing to enroll in available and essential benefit offerings. *One of the top methods for building financial wellness in your life is to utilize every appropriate employer-sponsored benefit to the fullest extent possible.* Commit to fully participate in all appropriate benefits that your employer offers. There will be some benefits that have no value to you—especially those that require 100% payment on your end, but there will often be many benefits where you will need to make an informed decision to select the coverage that is right for you and your family.

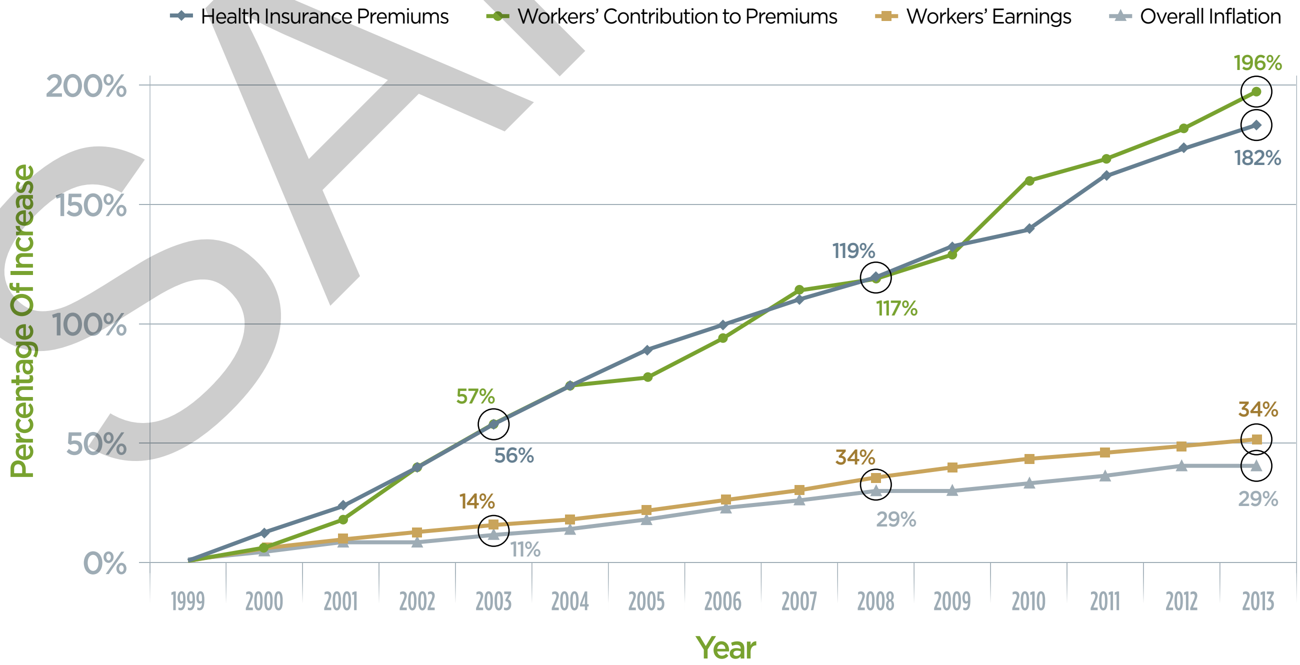
Of all employer-sponsored benefits, health insurance benefits are going through the most changes of all benefit offerings...

## Health Insurance Benefits

If you haven't noticed changes in your health benefits over the past couple of years, you haven't been properly engaged! Of all employer-sponsored benefits, health insurance benefits are going through the most changes of all benefit offerings. Why? It is due to one simple word—**cost**. Health insurance premiums over the past decade have increased at a multiple of the Consumer Price Index and have far outpaced the growth of wage increases. **Figure 6-1** shows how dramatically health insurance premiums have increased from 1999-2013. Employers are struggling to afford health insurance benefits for eligible employees and as costs go up, most of us are finding that each year we pay more for our health insurance plan, yet it provides higher deductibles and coinsurance amounts. That's why it is vitally important to choose (assuming you have more than one health plan offering) the health plan that



## Figure 6-1. Cumulative Increases In Health Insurance Premiums, Workers' Contributions To Premiums, Inflation, And Workers' Earnings, 1999-2013



meets your health needs and fits your budget. Some important factors to consider if more than one health insurance plan is offered include:

1. THE COST YOU WILL PAY FOR EACH OFFERED PLAN
2. THE PLAN DEDUCTIBLES, COPAYMENTS AND COINSURANCE AMOUNTS
3. THE OUT OF POCKET MAXIMUM FOR COVERED EXPENSES
4. WHETHER YOUR PREFERRED DOCTORS AND HOSPITALS PARTICIPATE WITH THE HEALTH INSURANCE PLAN

## Your Good Health Is Your Wealth

Having and maintaining good health is priceless. But from a financial perspective, there has never been a better time to focus on taking good care of yourself through proper nutrition, weight management, stress management, being tobacco-free and exercising. In fact, a significant number of employers and health insurance plans offer "incentives" for participating in targeted programs designed to improve your health. Make sure you understand all incentives offered by your employer or health plan, as failure to take advantage of these incentives can result in either lost discounts on your health insurance premiums or costly "penalties" for non-compliance. The good news is that most incentives offered by employers and health plans are reasonably attainable for most people, but a surprising number of eligible participants fail to follow through on simple requirements to receive the award or to avoid the penalty for non-compliance. Expect employers and health insurance plans to increase both incentives and penalties for health behaviors or conditions that increase costs. Understand that current federal law requires that employers and insurance companies provide reasonable standards to allow you to comply with the applicable requirement subject to the incentive or penalty. The important take-away is to take full advantage of cost-saving initiatives that your employer or insurance company offers. You'll not only save money, but you'll also reap the rewards of better health as a result of your efforts to improve your overall health.

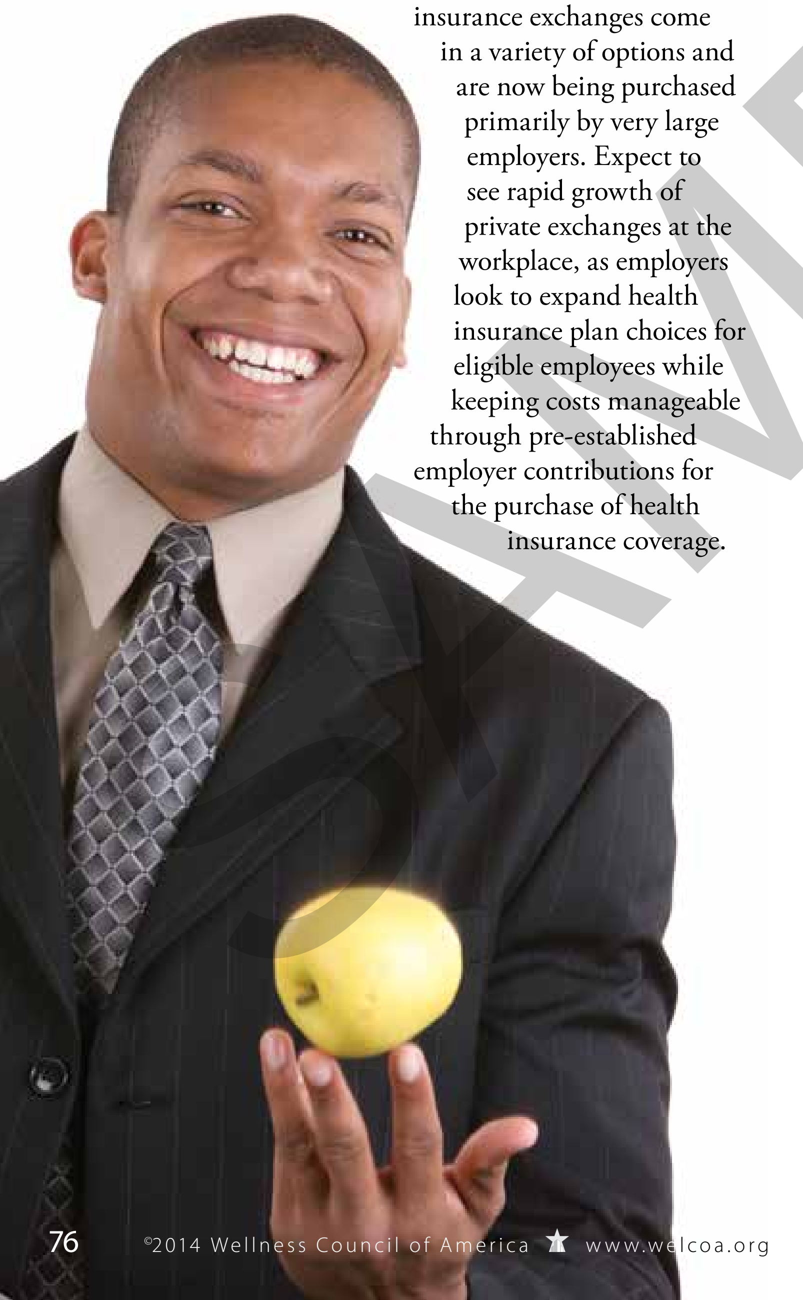
## Understand How Public And Private Health Insurance Exchanges Work

Cost pressures have led to the enactment of the *Patient Protection and Affordable Care Act of 2010*. This sweeping federal law will change our health care system and will have an impact on virtually every person in our nation, with expanded health insurance subsidies available through the state-based public health insurance exchanges for those who are not covered by employer or government-sponsored health insurance.

If your employer currently offers health insurance at the workplace, chances are that your employer will continue to offer health insurance and will forgo eliminating coverage for at least the next few years. Employers and individuals will need to evaluate and analyze the public exchanges to determine how viable they will be in the future.

Should you lose coverage from your employer due to job termination, the public exchanges will likely be the place where you will seek coverage. Health insurance policies available through the public exchange will likely be less costly than COBRA continuation policies sponsored by your employer. If you lose your job and you do not have gainful employment for a period of time, you may qualify for subsidies and tax credits on the public exchange to help you to purchase and pay for affordable coverage. If you find yourself in this situation or your employer eliminates health insurance coverage at the workplace, consider your health insurance options through your state's public health insurance exchange. Also, seek the assistance of a qualified health insurance broker or a health navigator if you need assistance in selecting an appropriate health insurance policy. These professionals are paid either by the public exchange or the insurance carrier to help you understand and select health coverage that works best for you. The best place to start is by going to **www.healthcare.gov**. This is the official federal gateway to your state's public health insurance exchange and when you are directed to your state's insurance options, you will find a list of qualified navigators to assist you in your state.

Private health insurance exchanges are now growing at a rapid pace. These exchanges are sponsored by the private sector and allow employers to continue sponsoring group-based health insurance with multiple health insurance plan options available on the private health exchange. Private health insurance exchanges come in a variety of options and are now being purchased primarily by very large employers. Expect to see rapid growth of private exchanges at the workplace, as employers look to expand health insurance plan choices for eligible employees while keeping costs manageable through pre-established employer contributions for the purchase of health insurance coverage.



## Consider Enrollment In A Medical Expense "Flexible Spending" Account

Most employers offer a flexible spending account for eligible employees to designate pre-tax amounts for qualified medical expenses. Surprisingly, a majority of eligible employees forgo this very useful benefit, because of the "use it or lose it" provision that requires use of all amounts set aside to be applied to qualified medical expenses during the designated plan year. However, on October 31, 2013, the IRS issued Notice 2013-71. This notice allows flexible spending accounts for qualified health care expenses to permit a rollover of up to $500 per plan year of unused funds. Check with your employer to see if your employer plans to adopt this new provision for your flexible spending account. The current annual funding limit for flexible spending accounts for qualified health care expenses is $2,500. This amount will be periodically adjusted annually for inflation. **Appendix 6-1** (located at the end of this chapter) shows the variety of medical expenses that can be paid from a flexible spending account during a plan year.

Through a bit of planning, most eligible participants can benefit from the tax-advantages of putting money aside in a flexible spending account. When referring to **Appendix 6-1**, you'll notice that eligible expenses include all health plan copayments, deductibles, coinsurance and a variety of other medically necessary benefits that are not covered by most health insurance plans. Check with your employer to determine the dollar limit permitted for flexible spending plans. Remember, you do not pay Social Security (FICA), federal or state taxes on the amount of income you set aside in your flexible spending account for medical expenses. This can result in a tax savings of 30% or more to pay for eligible medical expenses. Be sure to be conservative in estimating how much you'll spend for covered expenses during the plan year, as any amounts not spent are forfeited to your employer by law.

If you select a qualified high-deductible health insurance plan that is eligible for a health savings account (HSA) and you decide to fund the account, you will not be eligible for a standard flexible spending account. Instead, check with your employer to determine whether a "limited purpose" flexible spending account is available. This type of flexible spending account is acceptable for those who have HSA plans and covers dental and vision expenses.

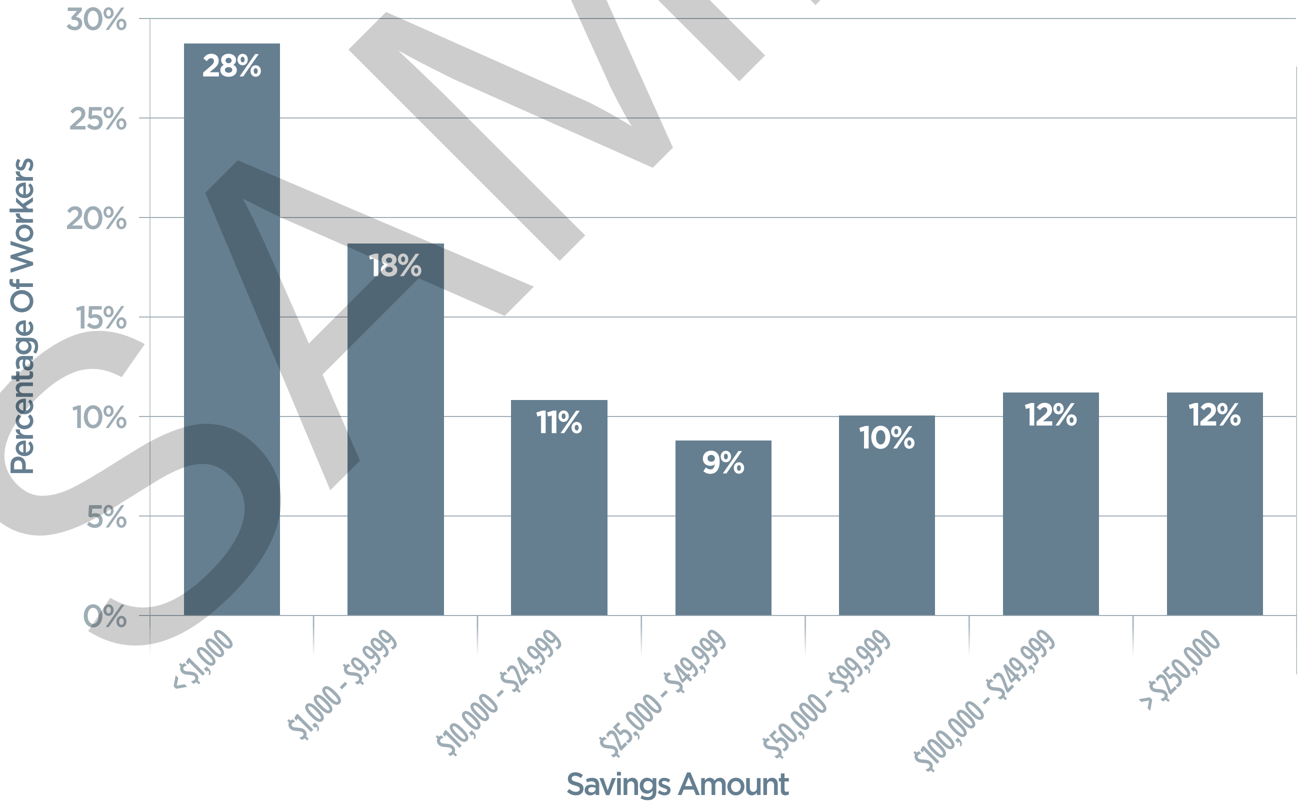
## Consider A Flexible Spending Account For Childcare Expenses

Some employers also make flexible spending accounts available for qualified childcare expenses. If you have children under the age of 13 that you claim on your federal tax return and you incur expenses for their day care, you will save on federal, state and Social Security taxes on any amount contributed to a flexible spending account for qualified childcare expenses. Be sure to carefully plan your amount to withhold, as expenses not used during the plan year are forfeited by law to your employer. Using this benefit can result in considerable tax savings.

## Consider Voluntary Plans—If Available

Many employers offer what are called "voluntary plans" for employees to consider during the annual open enrollment period. These often include dental, vision, life insurance and sometimes other options. Voluntary plans require you to pay 100% of the plan cost, but often benefits are less expensive through purchase at the workplace because voluntary plan insurers often offer better priced "group rates" for workplace voluntary plans. With any voluntary plan, the most important factor is whether you need the available voluntary plan. This will depend on whether you already have the benefit outside your employer's coverage and whether you anticipate using the benefit. Be sure to evaluate all voluntary offerings to determine whether any voluntary plan offerings make sense for you.

## Figure 6–2. Total Savings Reported By Workers In 2013



## Aggressively Use 401(k)-Type Pension Plans For Retirement Funding

Defined benefit pension plans are virtually non-existent in private sector entities that employ 500 or fewer employees and they are rapidly shrinking even for the largest employers. Over the past 30 years, employers have been replacing defined benefit pension plans with 401(k)-type pension plans that often require you to financially participate in the plan to receive any optional employer contribution. So what does this likely mean for you? Simply, you now bear most of the financial responsibility to save for your retirement through this type of pension plan. **Figure 6–2** illustrates the extent of the savings problem most workers have in saving enough for even a modest retirement. In 2013, approximately 75% of workers responding to the Employee Benefit Research Institute Retirement Confidence Survey reported having less than $100,000 set aside in total savings (both personal and retirement). Note that this survey excluded the value of a primary residence. For most of us, having less than $100,000 for perhaps 20 years or more in retirement will not be enough to pay for expenses that exceed any Social Security retirement payments. With both Social Security and Medicare facing serious solvency issues over the next 10 to 20 years, it is not prudent to plan on much more financial help from the federal government in retirement to fund our basic living and health care needs.

## Ideas For Funding Your 401(k) Plan

The first benchmark to consider for funding your 401(k)-type plan is whether there is any employer contribution to the plan. Many employers provide a matching contribution, which usually means for every dollar you put in the plan, your employer will provide some type of match, up to a certain percentage of your compensation. Employer matching contributions range from 10 cents per dollar that you invest up to even one dollar of match for each dollar you invest, up to a determined percentage of compensation earned.

*Do everything possible to contribute from day one of eligibility the amount of compensation that will ensure a full employer matching contribution*. Why? The employer matching contribution is literally "free money" for you and you cannot earn a better return on your money when matching dollars are provided by your employer. Let me illustrate how this might work for you: Your employer offers a 25% matching contribution to your 401(k)-type plan, up to 10% of your total pay. So for every dollar you invest in the plan, up to 10% of your pay, your employer will put in 25 cents. That represents a 25% rate of return just for participating! You simply cannot find a better return for your participation. Be sure to know your employer's "vesting" schedule for any employer matching contributions. Sometimes the vesting is 100%, meaning that the money is yours on the day it is deposited into your account. Sometimes the employer contribution becomes yours over time, which generally will not exceed five years. Check your plan document to determine how employer contributions are earned.

## The 1% Concept For Increasing 401(k)-Type Savings

Let's say that your company matches your contribution to the plan up to 10% of your compensation. Try to

**Do everything possible to contribute from day one of eligibility the amount of compensation that will ensure a full employer matching contribution.**

contribute up to the full 10% match. If you cannot do this due to extreme financial difficulty or you want to exceed the 10% company matching contribution, commit to increasing your plan by 1% each time you receive a raise. If you receive a 3% raise, devote at least 1% of your raise to your plan. This will make any increases you make to your plan "automatic" and you won't miss the extra contribution because it is coming from your wage or salary increase. Another method to consider is to sign up for an automatic increase on a pre-determined date each year. This is good to do if you know your annual salary or wage review dates. Most plans allow for automatic increases in contributions at a pre-determined interval each year.

By choosing the appropriate asset allocation you can essentially ignore the daily noise of the financial markets and use your asset allocation to stick with your long-term financial plan.

## Investing In Your 401(k)-Type Plan

This is often the most difficult decision we have to face in our 401(k) plans. Why is it so difficult? Here are a few key reasons:

1. **There are often a lot of investment choices, which can lead to confusion**
2. **Most of us are uncomfortable investing money that must last for many years**
3. **Our "emotions" get in the way of good long-term decisions**
4. **Stocks and bonds continually change in value, sometimes resulting in significant losses over an extended period of time**
5. **There is constant financial market "noise" that provides conflicting opinions about the future direction of the financial markets**

Given the reasons above, many of us allow our emotions to get involved when investing. The fear of loss can be very powerful and it generally does not serve us well. The most important factors to consider involve your age, your tolerance for risk and your overall asset allocation. In fact, your asset allocation (see chapter 5) is the most important decision you can make. By choosing the

appropriate asset allocation you can essentially ignore the daily noise of the financial markets and use your asset allocation to stick with your long-term financial plan. Proper asset allocation allows you to spend "time in the market," instead of playing the losing game of trying to "time the market." No one knows the future direction of financial markets, but be assured that there is always some type of crisis in the world that can make you fear investing any of your hard-earned money. Set your asset allocation and forget the "noise" that impacts markets every day.

Many 401(k)-type plans offer asset allocation-type investments as an option for plan participants. These have different labels and include: **"Lifestyle Plans," "Target-Date Plans,"** etc. These plans focus their asset allocation (the mix of stocks and bonds) on the year you plan to retire. For many plan participants these plans are the best way to invest plan dollars. But, before making any investment, be sure to carefully read the plan's prospectus or online summary to make sure you fully understand the financial risks of the underlying investment. The biggest advantage of asset allocation-type plans is that it allows professional managers to adjust the investment's asset allocation over time.

Remember that your 401(k)-type account is for your longest-term goal, your retirement. Most employers will help you grow this important asset through matching contributions, but most of the responsibility is yours. Take action to ensure that you are taking full-advantage of this type of investment. If you terminate employment, don't make the mistake of "cashing-in" your account. Why? There are early withdrawal penalties of 10%, plus you'll owe income taxes on the entire amount of the withdrawal. Depending on the size of your account balance, you may be able to keep your account open with your former employer. Your new employer may allow a "roll-over" of your account from your former employer. Also consider a roll-over to a third-party mutual fund administrator. Whenever you are considering a roll-over, consult the new mutual fund administrator to ensure that you follow the necessary rules to ensure a non-taxable rollover to your new plan. *Never ask for your plan proceeds to be sent to you directly for deposit into your new plan*. You'll incur a required 20% federal income tax withholding amount from your current plan administrator, which will make it difficult for you to make the transfer without incurring any federal tax penalties.

Remember that your 401(k)-type account is for your longest-term goal, your retirement.

## Putting Ideas In Action

Your employer-sponsored benefits are crucial for building financial wellness. By taking the steps to understand your benefits, you'll take the steps to purchase the coverage offered through your employer that provides you with the protection and retirement growth opportunities that you'll need during your working years and into your retirement years. Remember that employer-sponsored benefits are continually changing and evolving and that it is your responsibility to know and to properly select the benefits your employer makes available to you at the workplace. Please refer to the following Action Step Checklist to put the concepts outlined in this chapter into action!

## Chapter 6 Action Step Checklist

The Action Step Checklist will help you implement some of the key concepts mentioned in this chapter. When you've finished the Action Step, place a checkmark next to it to document your progress.

Here is your Action Step Checklist from Chapter 6:

- ______ Review all of your workplace benefits to ensure that you understand and take full advantage of employer-sponsored coverage that meets your needs. Most employers publish a listing or booklet of available benefits. Be sure to understand your eligibility for participation and the cost of available benefits.
- ______ Understand your health insurance plan options. Health insurance plans frequently change and be sure to select the coverage that works best for you.
- ______ Take the time to review how your state's public health insurance exchange operates. It might be a good option for you to purchase health insurance should you lose coverage at the workplace. Based on your income and number of dependents, you may qualify for tax credit and plan subsidies to help you pay for the coverage you purchase.
- ______ Consider enrolling in an employer-sponsored flexible spending account for qualified medical expenses. Most employers offer these accounts and it's important to be sure you will spend the money you set aside, as any unused funds at the conclusion of your plan year may be forfeited to your employer. Also note that the IRS does give employers the option to establish a 90 day grace period to use your benefits after the close of the plan year. Check with your employer to see if this option is available.
- ______ Find out if your employer offers "voluntary benefits" for purchase through payroll deduction. Consider the purchase of appropriate voluntary benefits during your employer's open enrollment period.
- ______ If your employer offers a 401(k)-like retirement plan that includes a matching contribution, be sure to do everything possible to contribute up to at least the employer matching contribution.
- ______ When investing in your 401(k) plan, be sure that you have an asset allocation that is appropriate for your age and tolerance for risk. Don't get hung up on the inevitable changes that occur in financial markets. Remember that you are investing for a period of several years and that you will need the long-term growth that a mix of stock and bond mutual funds can deliver.

By taking the steps to understand your benefits, you'll take the steps to purchase the coverage offered through your employer that provides you with the protection and retirement growth opportunities that you'll need during your working years and into your retirement years.

## Appendix 6-1.

IRS Code Section 213(d)(1) defines medical care as amounts paid for the diagnosis, cure, mitigation, treatment or prevention of disease, or for the purpose of affecting any structure or function of the body. Such expenses must be incurred primarily for the prevention or alleviation of a physical or mental defect or illness.

- Acupuncture
- Ambulance
- Artificial limbs
- Artificial teeth
- Automobile modifications (hand controls, lifts, etc.)
- Birth control pills, devices
- Birth prevention surgery
- Birthing classes
- Braille books & magazines
- Breast reconstruction
- Care for mental handicap
- Chiropractors
- Christian Science practitioner
- Coinsurance, all family members (the "80/20" cost-sharing of medical bills required by many policies after payment of the deductible)
- Contact lens and supplies
- Contact lens protection plan
- Contraception
- Copays
- Corrective/support devices* (special mattress or board)
- Cosmetic surgery (only if restorative)*
- Costs for physical/mental illness
- Crutches
- Deductible, all family members
- Dental fees (if not cosmetic, e.g. teeth whitening)
- Dentures
- Diagnostic fees
- Disabled persons' schools
- Drug addiction inpatient treatment
- Drug & medical supplies
- Eyeglasses, including exam fee
- Fee for practical nurse
- Fees of licensed osteopaths
- Fertility enhancement
- Guide dog
- Hearing devices & batteries
- Home improvements for approved medical conditions*
- Insulin
- Laboratory fees
- Laser eye surgery
- Learning disability—special school fees
- Massage therapy*
- Mileage (transportation costs for medical services)
- Obstetrical expenses*
- Operations
- Orthodontia*
- Orthopedic shoes
- Oxygen
- Physician fees
- Prescribed medicine (includes vitamins and contraceptives)
- Prenatal care*
- Psychiatrist's care
- Psychologist's fees
- Routine physicals & other non-diagnostic services
- Schools and education, special
- Smoking cessation
- Special communications equipment for the deaf
- Special education for the blind
- Sterilization fees
- Surgical fees
- Therapeutic care for drug & alcohol addiction
- Therapy treatments
- Transportation services for medical treatment
- Tubal ligation
- Tuition at special schools for the disabled
- Vasectomy
- Weight loss* (to treat existing disease)
- Wheelchair
- Wigs*
- X-rays

### *Please Note:

Additional guidance is available for meeting eligibility requirements for reimbursement of this expense. Special rules apply, including a requirement for additional physician-supplied documentation of medical condition.

### Internal Revenue Code 213(d)

See IRS Publication 502 *"Medical & Dental Expenses"* for further information.
Available at: **www.irs.gov/formspubs/index.html**

While Publication 502 is a good resource to use, it's important to note that the Code specifically forbids reimbursement of Insurance Premiums and Long-Term Care expenses under a Health FSA.