

## June 2008 Edition

### **Topic: Structuring a Defined Contribution Benefit Plan**

How many times have you been frustrated trying to budget benefit costs? One of the biggest challenges with health care inflation is trying to budget around an expense that is continuously inflating at unknown and often significant increments. One strategy is to move from a defined benefit to a defined contribution benefit plan.

#### **Defined Benefit vs. Defined Contribution**

Most benefit plans today are structured as a defined benefit. For example, you provide a health care option and pay a certain percentage of the premium. The insurance carriers forms are even set up assuming you have a defined benefit by asking what percentage the employer contributes to employee and dependent premiums. In a defined contribution, the employer simply provides a set amount to each employee each month. That contribution is considered taxable income initially, but can then be deducted through a Section 125 plan pre-tax to pay premiums. As an employer, it allows you to disconnect your benefit expense from the underlying health insurance premium.

#### **Offer an Affordable Health Plan**

I recognize that this title may sound like an oxymoron, but you can get an affordable Health Savings Account (HSA) compatible plan in the State of Maine, even as a small employer. In most cases, the employer contribution will exceed the premium of the lower cost health plan. This enables the employee to allocate some dollars to a HSA in addition to paying the premium. This gives the employee an opportunity to build an account over time with pre-tax dollars to offset current and future out-of-pocket medical expenses. HSA compatible plans also don't inflate at the same rate as traditional plans, so both employer and employee dollars stretch further for longer.

#### **What are the advantages?**

The immediate advantage to the employer is the fixed monthly benefit cost for budgeting and cost containment. There can also be gains in employee appreciation toward the benefit plan simply from seeing that monthly addition to their pay stub. Companies spend thousands every year on benefit statements to essentially achieve the same thing, make employees aware of the cost of benefits. At no cost, you are keeping that message in front of your employees with every payroll. The greatest advantage is the impact on future inflationary trends. When employees know that lower health care expenditures result in more of that contribution going into their savings account, they will work to keep costs down. That may translate to making healthy lifestyle choices, or simply shopping to find the lowest cost medication.

Call us at NWBG to investigate a defined contribution plan for your company. We can help ensure your plan is set up correctly and within IRS guidelines.