HEALTH INSURANCE COSTS: WHAT ARE YOUR ALTERNATIVES?

Health insurance costs for most employers have increased at an uncontrollable pace over the last several years. Despite changing co-pays and increasing deductibles, it seems impossible to reduce the rapidly escalating costs using traditional means.

Employers frequently overlook or are not presented with the alternative of being *self-insured* because it is viewed as too risky and unpredictable. However, even with a traditional *fully insured* plan, the employer is really self insured in the respect that if claims are in excess of the premiums paid in the current policy year, policy premiums will be adjusted the next year to compensate for the short fall.

When the claim cost is projected for the coming year to generate the new rate in a fully insured plan, the carrier does the following: looks at what happened in the prior year, makes certain adjustments that reflect the plan or census change, adds a projected medical inflation rate, and comes up with a projected claims cost. In a fully insured plan, if the inflation rate used was too high, it means there will be a higher profit for the carrier at the employer's cost.

In theory, if the year generates a loss, or an

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SECTION 529 SAVINGS PLANS HELP YOU MORE THAN YOU KNOW!

An often overlooked but highly tax advantageous means to save for higher education is a Section 529 plan. Section 529 plans are sponsored by individual states, and can be either a prepaid plan or a savings plan.

If you are considering a prepaid tuition plan (which allows you to pay today's tuition rates for specific schools), figuring out whether your investment is a wise decision should be based more on your certainty that the beneficiary will attend the participating schools. Withdrawals from prepaid tuition plans are tax-free, and the earnings rate is limited to the tuition inflation rate of the participating schools.

Section 529 plans are advantageous because your investment grows tax-deferred, and distributions that are used to pay for the beneficiary's college costs are tax-free for federal purposes if used for qualified higher education expenses. This treatment applies for distributions in 2002 through 2010. Unless Congress decides to extend this tax break, only the earnings portion of qualifying distributions made after 2010 will be taxable to the beneficiary.

Everyone is eligible to take advantage of a 529 plan, and the amounts you are permitted to invest are substantial - over $230,000 cumulative per beneficiary in many state plans. Generally, there are no income limitations or age restrictions.

Also, the account is treated as an asset of the parent, not the student, for purposes of the student financial aid form. This treatment is advantageous because the aid formula expects a smaller contribution from parental assets than from assets owned by a student.

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undesired profit, your rate will increase the following year at a rate that exceeds the medical inflation rate to cover prior year losses. In a self-insured plan, the cost is the cost - the employer reaps the reward of any savings over the fully insured plan and bears the risk of any overages associated with being self-insured.

With the self-insured plan you have more control over the plan. Certain procedures mandated by your state to the fully insured carrier do not have to be included in a self-insured plan. You pay premium tax on only the *insurance* portion of the self-insured plan, thereby eliminating hidden taxes paid in the fully insured plan.

With no end in sight to escalating health insurance costs, the self-insured option is a viable alternative for many employers.

Please be sure to inquire with your local ATA representative at the time of your next policy renewal about self-insurance.

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Tax laws for contributions and distributions vary from state to state. Your state may offer special tax benefits for the state's own plan in addition to the Federal treatment, such as allowing all or part of your contributions to the plan to be deducted on your state income tax return.

For example, currently 26 states (plus the District of Columbia) allow for immediate income tax deductions for all or a portion of contributions to their own state-sponsored 529 plans. Assuming your state allows the deduction, a good planning mechanism is to make a contribution to your state's 529 savings plan, take out the money to pay for tuition, then claim your deduction.

In general, most states do not have a lengthy waiting period; therefore, an immediate deduction may be available. Thus, depending on your state of residence, it may make sense to temporarily invest your money in a 529 plan as opposed to making a direct payment to the qualified higher education institution. Remember to evaluate any related fees that might be assessed and compare those to the expected tax savings.

Another advantage of a 529 plan is that contributors may open accounts in multiple states, and states also allow multiple accounts for multiple beneficiaries to be established. To discourage investment in out-of-state plans, some states reserve certain tax benefits for in-state investment.

Most plans also charge an annual asset-based program fee, which varies dramatically among plans. For example, fees range from a low of 0.15 percent in the District of Columbia 529 College Savings Program to a relatively modest 0.38 percent for the state of Maryland College Investment Plan.

Section 529 plans also have estate tax advantages because both the entire balance of contributions and any future earnings are excluded from the donor's gross taxable estate. 529 plans are considered completed gifts of a present interest to the beneficiary when the contribution is made.

Therefore, you may contribute up to $12,000 annually per beneficiary ($24,000 for joint spousal gifts) gift-tax-free. In addition, by using the annual gift tax exclusion, you may elect five-year averaging, thereby enabling a $60,000 contribution ($120,000 for joint spousal gifts) to each beneficiary in a single year without gift tax consequences. Because five years of exclusions are accelerated to year one, additional taxable gifts made during the five-year period would be subject to gift tax.

In order to receive the most from this special savings vehicle, please contact your local ATA representative to carefully evaluate your situation.

TAX TIP

NEW RULES FOR ROLLOVERS

The Pension Protection Act of 2006, signed into law on August 17, 2006, contains the most sweeping changes to U.S. pension rules in more then 30 years. Congress is making it easier to contribute more to your retirement plan and keep it there longer with new, more flexible retirement plan provisions.

The biggest item is a provision allowing non-spouse beneficiaries to transfer assets from company plans to *inherited* individual retirement accounts (IRA) held for their benefit. Starting in 2007, a non-spouse beneficiary (i.e. child, grandchild, or unmarried partner) who inherits a 401(k) or other company plan balance can transfer that balance directly to a properly set-up inherited IRA. The distributions can then be extended over their lifetime.

Under the prior law, individuals could do this from an IRA, but not from a 401(k). The new law also applies to trusts that are named as plan beneficiaries. However, all transfers must be made direct (trustee-to-trustee) from the company plan to an inherited IRA. Previously, a non-spouse beneficiary who inherited a company plan would owe tax on all the plan assets within a few years of the inheritance and the stretch opportunity would be lost.

In order to take advantage of these provisions you must designate a beneficiary of your company's plan, as well as your IRA, or you may not be able to take advantage of the beneficiary's actuarial life.

For help with properly structuring your pension plans and IRA's, please contact your local ATA representative.

☑ QUICK CHECK

Most industry standards say that used vehicles are considered to be aged units after they reach 60 days on hand.

To prevent units from reaching 60 days, reevaluate any unit that hits 30 days on hand. Now is the time to take a look at those units:

Why isn't it selling? Does it need another detailing? Is there some noise when it's driven?

Pull it off the lot and take it for a test drive to find out if there is a problem—then fix it. Doing this will give a cushion of another 30 days before that unit is considered aged.