Employee Benefit Resources, LLP

Employee Benefits

November 2001

Visit Our Website:
www.ebrworld.com

In This Issue

Employee Benefits is published by Employee Benefit Resources, LLP. The technical information it contains is necessarily brief. No final conclusions on these topics should be drawn without further review and consultation.

Responsive Claims Processing

EBR continues to receive praise from plan participants regarding how fast their cafeteria plan claims are processed. To quote one of our plan participants,

"I just wanted to say how impressed I am with your turnaround time. On Tuesday, September 25th, I mailed a request for reimbursement for the balance remaining in my flex plan. I received the check today, September 28th. This happens every time I have submitted a request. I really appreciate your prompt response. Thanks for such good service!" – MSU Bozeman Participant

To ensure all of our processing clients continue to receive prompt service, EBR has developed the following guidelines to help streamline claim processing.

- Notify EBR of any participant's name or address change.
- All claims must be submitted with a signed claim form. Claim forms should be available from the employer's human resource or payroll office. In addition, claim forms can be downloaded from the EBR web site at www.ebrworld.com.
- All claim documentation must be legible. Make sure that claim forms and receipts faxed to EBR are printed darkly to ensure clear transmission.
- When faxing claim forms to EBR, participants do not need to call to make sure the form has been received unless they do not receive reimbursement within 5 business days.
- Each line of the claim must be supported with documentation indicating the date of service, the procedure, the dollar amount associated with the procedure, the name of the person for whom the service was performed, and the name of the service provider. The *explanation of benefits statement* provided by the insurance company typically details this information clearly and concisely.
- Unacceptable documentation includes: balance forward statements, cancelled checks, copies of cancelled checks, or copies of money orders.
- When submitting claims for prescriptions, participants may request that their pharmacist print a summary of all prescriptions, and associated charges, for the time period in question. This is much easier to submit than the small cash register receipts that the pharmacist typically provides.
- Over the counter medications do not typically qualify as reimbursable medical expense items unless the items have been recommended by a physician and are supported by a prescription. The prescription must detail the specific condition for which the prescription has been written.
- Special needs items and prescriptions must be renewed at the beginning of each plan year.
- In the case of dependent care expenses, monthly orthodontia payments, and a variety of other recurring payments, EBR can often set up automatic monthly claims. This eliminates the need to submit a new claim each month.

Continued on Page 2

Abra Human Resources and Payroll Software Solutions

Abra Suite is the industry-leading integrated software solution for human resources and payroll management offering the strategic decision-making tools your company needs to be successful in today's highly charged business environment. Abra has the following solutions to meet all your needs.

- Abra HR is a powerful solution for managing critical employee information. Ideal for businesses of any size, Abra HR helps you manage your company's benefits programs with comprehensive benefits administration tools, track and prepare reports to ensure government compliance, and electronically store employee forms and certificates.
- Abra Payroll puts all the power you need to handle today's critical payroll demands right on your personal computer or network in a simple, easy-to-use, format. You can create special payroll runs, evaluate data, and reconcile payrolls and quarter-ends with online analyses, generate cost accounting and labor distribution reports, secure sensitive payroll information, and prepare payroll taxes.
- Abra Train is a skills-based training management system that allows you to define specific training needs, prepare compliance reports, and ensure certifications are met on-time. In addition, it helps define training requirements for new employees based on their current skill set and automatically updates employee "Skills Profiles" upon completion of new courses.
- Abra Recruiting Solution helps cut your cost per hire by maintaining an organized database of qualified applicants, tracking expenses, and streamlining hiring procedures. Plus with its powerful, web-enabled functionality, you can search resumes by email, internet mail, regular mail, and fax using key words that describe skills, education, experience, and much more.
- Abra Employee Self-Service gives employees and managers the ability to view and, if they chose, update their personal information using an Internet browser. This exciting product reduces the burden on HR and Payroll departments by making information like paid time off, current benefits elections, and addresses/phone numbers easily accessible (within security parameters you define!) to employees and managers.
- Abra Alerts automatically monitors your Abra Suite database and proactively distributes information to managers and employees—using your existing Email system! For example, Abra Alerts can automatically notify personnel of performance reviews, benefits enrollment, compliance requirements and other key events. And because it utilizes Email, it can send its reports anywhere in the world!

Our sister company, AZ & Company, is a solution provider for the Abra software. As a certified solution provider, we offer implementation and training to insure success with your Abra system. For a free consultation on how Abra Suite can help you manage your HR and Payroll needs, call AZ & Company at (406) 442-1040 and ask for Don Cox or Sherrie Nelson. ▲

Model Notice for Savers Credit

Many low to moderate income employees will qualify for a "Savers Credit" in 2002. IRS has issued a model notice for use in communicating the availability of the tax credit. The notice is enclosed with this newsletter and can also be accessed through our website at www.ebrworld.com. ▲

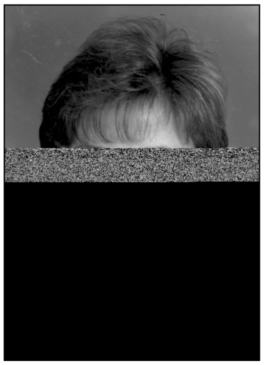
Responsive Claims Processing Continued from Page 1

- When traveling for medical needs, participants may claim 11 cents per mile for car travel, $50.00 per night lodging for the patient, and an additional $50.00 per night for a co-traveler who may be needed for patient-related assistance or driving needs. In addition, car rental, parking charges, and public transportation are reimbursable. Participants must be sure to retain, and submit, detailed receipts for these expenses, along with documentation of the medical services and the dates of service.

In summary, contact EBR if you have any question regarding the validity of a claim, or the necessary documentation to support it. We strive each and every day, to provide our participants with the fastest claims processing available anywhere.

If your organization would like to explore the possibility of EBR processing its cafeteria claims, please feel free to give us a call today! ▲

Professional Profile



Em Willoughby, a Qualified 401(k) Administrator, has worked in the qualified retirement plan field since 1989, and has been a Pension Consultant with EBR since 1997. She works with a diverse client base and specializes in defined contribution plans including 401(k), Money Purchase and Profit Sharing plans. Em works closely with clients to design and administer their retirement plans. As a result, she spends time keeping current on compliance issues. Em enjoys spending time with her children, golfing, and skiing.

401(k) Safe Harbor Deadlines

Sponsors of Safe Harbor 401(k) plans must provide written notice of safe harbor provisions to all eligible employees at least 30 days (and no more than 90 days) before the beginning of each plan year. For calendar year plans, written notice must be provided no later than December 1, 2001 for the plan year beginning January 1, 2002.

Sponsors have the option of amending their 401(k) plan to include safe harbor provisions as late as 30 days before the end of the plan year by: 1) providing notice to eligible employees before the beginning of the plan year that the plan may be amended during the plan year to provide that the employer will make a safe harbor nonelective contribution of at least 3% to the plan for the plan year; and 2) if the plan is amended, providing a supplemental notice to eligible employees 30 days prior to the last day of the plan year informing them of the amendment. For calendar year plans that provide this notice by December 1, 2001, the sponsor has until December 1, 2002 to adopt the 3% safe harbor provisions for the plan year beginning January 1, 2002.

Logon to our website at www.ebrworld.com for a sample notice.

EGTRRA Substantially Increases Maximum Defined Benefit

Defined benefit plan participants impacted by the dollar limit on benefits will enjoy a dramatic increase in maximum benefits for plan years ending in 2002. The dollar limit is increased 14.3% from $140,000 to $160,000. For participants born after 1937, and anyone covered by a plan with a normal retirement age of less than 65, the increase is more dramatic. Under old law, this dollar limit was reduced for every month that retirement age preceded the participant's Social Security Retirement Age. For an individual born after 1954, the reduction for benefits payable at age 62 was 30%. The new law provides that no reduction applies for retirement on or after age 62, resulting in an additional increase of over 42% for these participants (1.0/.7), with lesser increases for older individuals. Benefits payable before 62 are reduced, but only from age 62.

These changes result in substantial retirement savings opportunities for those employers who can afford contributions well in excess of those allowed under defined contribution arrangements. However, those currently sponsoring defined benefit plans providing maximum benefits who cannot afford additional contributions may need to scale back the plan's benefit formula.

If you have questions on how the new law effects your defined benefit plan, please contact your plan administrator at EBR.

Ninth Circuit Requires Dialog on Reasonable Accommodations

The U.S. Court of Appeals for the Ninth Circuit has ruled that Montana employers must engage in good faith in an interactive process with disabled employees to identify a reasonable accommodation that will allow them to continue working. This is the first time the Ninth Circuit has addressed certain parts of the Americans with Disabilities Act.

Employees, or someone acting on their behalf, are obligated to notify the employer of a disability and request an accommodation. However, if the employer knows an employee is disabled, the employer must initiate the discussion. The Court also said that the employer may have to reassign the disabled employee, even if doing so violates a seniority system.

For more information on how this important Court decision impacts your organization, please call John Cummings, Jim Dole, or Linda Kaiser at Employee Benefit Resources at (406) 449-5500.

Changes to Top Heavy Rules for Qualified Plans

If you have a qualified plan, you should be aware of the up coming changes.

A plan is "Top Heavy" if 60% or more of its assets or accrued benefits belong to its "Key Employee's" and additional requirements must be met. A "Top Heavy" plan is required to provide an accelerated vesting schedule and certain minimum contributions or benefits for non-key employees.

Under the Economic Growth and Tax Relief Reconciliation Act of 2001, ("EGTRRA") for plan years that begin in 2002 there will be a number of modifications to the Top Heavy Rules:

- The definition of "Key Employee" is simplified. The determination of " Key Employee" will be based on one plan year – the "determination year". The "Top Ten Owner " category will be eliminated from the definition of Key Employees. The minimum compensation for the officer category will be increased to $130,000 and will be adjusted for inflation in $5,000 minimum increments.

- The 4-Year look back period is eliminated. A participant's account balance or accrued benefit is only included if they have performed services during the determination year. Only distributions for the determination year will be added back to the account balances, with the exception of in-service distributions.

- For a Top Heavy 401(k) plan under the old rules, the Employer's Matching Contribution was not applied towards the minimum Top Heavy minimum contribution. This has been repealed and the matching contributions will be counted toward the minimum Top Heavy Contributions to non-key employees.

- Frozen defined benefit plans will no longer have to accrue top heavy minimums.

- Safe harbor 401(k) plans that consist solely of a cash or deferred arrangement which meets the requirement of IRC §401(k)(12) (the ADP safe harbor) and matching contributions which meet the requirements of IRC §401(m)(11) (the ACP safe harbor) will not be treated as a top heavy plan. If the plan includes contributions in excess of those described in IRC §401(k)(12) and IRC §401(m)(11), the plan is subject to the top heavy rules.

If you have any questions do not hesitate to contact your retirement plan consultant at EBR. ▲

Employee Benefit Resources, LLP
P.O. Box 1193
Helena, Montana 59624

Return Service Requested

Presort Standard
U.S. Postage
PAID
Permit #306
Helena, MT 59601

Notice to Employees Regarding Saver's Credit

This notice explains how you may be able to pay less tax by contributing to [insert name of employer's plan] (the "Plan") or to an individual retirement arrangement ("IRA"). Beginning in 2002, if you make contributions to the Plan or to an IRA, you may be eligible for a tax credit, called the "Saver's Credit." This credit could reduce the federal income tax you pay dollar-for-dollar. The amount of the credit you can get is based on the contributions you make and your credit rate. The credit rate can be as low as 10% or as high as 50%, depending on your adjusted gross income - the lower your income, the higher the credit rate. The credit rate also depends on your filing status. See the tables at the end of this notice to determine your credit rate.

The maximum contribution taken into account for the credit for an individual is $2,000. If you are married filing jointly, the maximum contribution taken into account for the credit is $2,000 each for you and your spouse.

The credit is available to you if you:

- are 18 or older,
- are not a full-time student,
- are not claimed as a dependent on someone else's return, and
- have adjusted gross income (shown on your tax return for the year of the credit) that does not exceed:
    - ✓ $50,000 if you are married filing jointly,
    - ✓ $37,500 if you are a head of household with a qualifying person, or
    - ✓ $25,000 if you are single or married filing separately.

Example: Susan and John are married and file their federal income tax return jointly. For 2002, their adjusted gross income would have been $34,000 if they had not made any retirement contributions. During 2002, Susan elected to have $2,000 contributed to her employer's 401(k) plan. John made a deductible contribution of $2,000 to an IRA for 2002. As a result of these contributions, their 2002 adjusted gross income is $30,000. If their Federal income tax would have been $3,000 (after applying any other credits to which they are entitled) without having made any retirement contributions, then their federal income tax as a result of making the $4,000 retirement contributions will be only $400 after application of the Saver's Credit and other tax benefits for the retirement contributions. Thus, by saving $4,000 for their retirement, Susan and John have also reduced their taxes by $2,600.

The annual contribution eligible for the credit may have to be reduced by any taxable distributions from a retirement plan or IRA that you or your spouse receive during the year you claim the credit, during the 2 preceding years, or during the period after the end of the year for which you claim the credit, and before the due date for filing your return for that year. A distribution from a Roth IRA that is not rolled over is taken into account for this reduction, even if the distribution is not taxable. After these reductions, the maximum annual contribution eligible for the credit per person is $2,000.

Example: Mark's adjusted gross income for 2002 is low enough for him to be eligible for the credit that year and he defers $3,000 of his pay to his employer's 401(k) plan during 2002. During 2001, Mark took a $400 hardship withdrawal from his employer's plan and during 2002 he takes an $800 IRA withdrawal. Mark's 2002 saver's credit will be based on contributions of $1,800 ($3,000 - $400 - $800).

The amount of your saver's credit will not change the amount of your refundable tax credits. A refundable tax credit, such as the earned income credit or the refundable amount of your child tax credit, is an amount that you would receive as a refund even if you did not otherwise owe any taxes.

The amount of your saver's credit in any year cannot exceed the amount of tax that you would otherwise pay (not counting any refundable credits or the adoption credit) in any year. If your tax liability is reduced to zero because of other nonrefundable credits, such as the Hope Scholarship Credit, then you will not be entitled to the saver's credit.

Credit Rates

If your income tax filing status is "married filing joint"

and your adjusted gross income is:	Your saver's credit rate is:
$0 - $30,000	50% of contribution
$30,001 - $32,500	20% of contribution
$32,501 - $50,000	10% of contribution
Over $50,000	Credit not available

If your income tax filing status is "head of household"

and your adjusted gross income is:	Your saver's credit rate is:
$0 - $22,500	50% of contribution
$22,501 - $24,375	20% of contribution
$24,376 - $37,500	10% of contribution
Over $37,500	Credit not available

If your income tax filing status is "single," "married filing separate," or "qualifying widow(er)"

and your adjusted gross income is:	Your saver's credit rate is:
$0 - $15,000	50% of contribution
$15,001 - $16,250	20% of contribution
$16,251 - $25,000	10% of contribution
Over $25,000	Credit not available