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<u>Our Opinion is Beginning to Change on Obamacare for Staff Health Insurance</u>: At our seminars, we are hearing more and more doctors tell us that they no longer offer health insurance as an employee fringe benefit. The employees get their insurance either through their spouse's employer or else through www.healthcare.gov. In some cases, the practice is only offering health insurance to the key people and moving the rest of the staff out of the group plan. This is permissible. Employers with less than 50 full-time-equivalent employees do not have to offer insurance or face a penalty, and these employers can cover certain categories of employees and not cover others.

When we ask doctors about the employees' reactions to being shifted onto Obamacare, we're told that it was a seamless transition. Our fear has been that this could create a mutiny in the office because, initially, many of these Obamacare plans were not accepted by the top hospital networks. Apparently, this "narrow network" effect is decreasing and Obamacare policies are now more readily accepted.

The other benefits are that the practice once and for all gets out of the insurance business and the risk of large premium increases. Employees are becoming responsible for their insurance and in most cases will qualify for a generous government subsidy. When the subsidy is factored in, the employees may pay less under Obamacare than what they were paying when they were part of the group plan.

<u>Employers Who Still Want to Offer a Healthcare Fringe Benefit to Employees with Individual Insurance Plans Have a Couple of Options</u>: They can offer a **taxable** dollar stipend and explain that the money is meant to be used to help acquire insurance. This will be a taxable bonus, and it's debatable whether the employee will use the money for this purpose and/or appreciate the gesture as an insurance benefit.

<u>A Better Option is a Tax-Free HSA Employee Benefit -- But Understand that Unlike with Health Insurance, Where You Can Discriminate and Only Cover Those You Want, Non-Discrimination Rules Will Apply to Employer HSA Contributions</u>: HSAs allow employers to make tax-deductible (to the practice) and tax-free (to the employee) contributions towards the employees' healthcare without

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being locked into providing health insurance. In fact, the HSA has a triple tax benefit of deductible contributions, tax-free growth and tax-free distributions if used to pay health care costs.

In order to contribute towards an employee's HSA, the employee must have a "high deductible health plan" (HDHP). For 2015 and 2016, this means a policy with a deductible of at least $1,300 for someone with self-only coverage and $2,600 for someone with family coverage. There are some other technical requirements to be a HDHP, and you should require written proof from the insurer that their policy qualifies.

If the employer makes HSA contributions to the employees, it must meet the non-discrimination rules or risk paying a 35% penalty on the total HSA contributions. These rules are contained in IRS Regulation 54.4980G, but here are the basics:

Comparable contributions: The employer must make "comparable" contributions for employees with a HDHP. If some employees have a HDHP and others don't, you can ignore the ones who don't, and you need not give them a different kind of benefit. For the HDHP employees, you must give "comparable" benefits to employees who are in the same category.

Determining the categories: The categories of employees are distinguishable based on:

(1) employment status (full time vs. part-time), and

(2) how many dependents are covered under an employee's HDHP.

Part-time status means working fewer than 30 hours per week. Full-time means 30 hours or more.

As for dependents on the plan, the rules account for four groups of HDHPs: (1) self-only coverage, (2) family coverage including the employee plus one dependent, (3) family coverage of the employee plus two dependents, and (4) family plus three or more dependents.

By way of example, two full-time employees with self-only coverage are in the same category and must receive a comparable benefit. If the categories are different, the HSA benefits can be different. Part-timers with self-only coverage may get the smallest benefit, full-timers with "family plus three" coverage may get the biggest, and everyone else may fall somewhere in between.

(The tax regulations actually permit some additional discrimination based on whether the employees get their HDHPs through your employer-group plan, a spouse's employer's plan or they have individual policies. You can also discriminate based on whether the employees are "highly compensated employees" or not, but in this case, the HSA benefit can be larger for the non-highly compensated employees and not the other way around).

Comparable benefits: Benefits are comparable if they are either: (1) the same dollar amount for each person in the category, or (2) the same percentage of the plan's deductible for each person in the category.

How to treat the owner? If you are an owner of a C corporation, the tax law treats you as an "employee" and you'd be treated the same as the rest of the staff. If you are a sole proprietor (unincorporated or single member LLC), then you make the HSA deduction personally on your 1040 tax return. Since this is done outside of the practice, the non-discrimination rules don't apply and you can contribute for yourself without contributing for staff.

If you are an S corporation shareholder, you would treat the corporate HSA contribution as compensation which is deductible to the practice, taxable to you but exempt from FICA and Medicare. You then claim the deduction on your 1040 tax return just as if you made the contribution personally. Since the contribution is coming

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from the practice, and avoids FICA and Medicare, this is more advantageous than you making the contribution personally. However, you would make the contribution personally - and avoid the non-discrimination rules - if you wanted to make an HSA contribution for yourself but not the staff.

Some Miscellaneous Final Thoughts: For 2015 and 2016, the annual contribution limit for an individual with self-only coverage is $3,350, while the contribution limit for an individual with family coverage is $6,650 in 2015 and $6,750 in 2016. Employees age 55 and over are eligible for an additional $1,000 contribution.

If your practice makes a limited HSA benefit available to its employees, and you would like to maximize your annual contribution, then part of your contribution should come from the practice (in an amount that does not discriminate) and the balance should be claimed personally on your 1040 tax return.

Even though the HSA benefits are tax-free to the employees, the employer must report the contributions on the employees' W-2s (using code letter "W" in box 12). The employees can withdraw the money to pay for qualified health care costs, but not their insurance premiums.

Dis-Enrolling from Expensive Medicare Part D Insurance Coverage: The last Newsletter recommended delaying Medicare Part D enrollment if you are a high income earner because of the high cost of the premium surcharge on high earners. If and when you do enroll, you will have a lifetime late enrollment penalty to pay, but that is much smaller than the big premiums being paid by high earners. But what if you are already enrolled and paying what one reader describes as an "obscene amount for coverage and have very little drug needs?"

You can cancel the coverage by completing the steps on the medicare.gov website under the heading "How to drop your Medicare drug plan." The cancellation must be done during the annual open enrollment period of October 15 - December 7, and it goes into effect the following January 1st. You can either call 1-800-MEDICARE or else contact your provider to find out what their procedures are for dis-enrolling. If this applies to you, then mark your calendar for October 15th.

What Happens if Your Home is Destroyed and You Want (or Don't Want) to Rebuild It? It depends on what type of homeowner's policy you have and how the carrier is obligated to settle the loss. Insurers will write either an **extended replacement cost** policy or a **guaranteed replacement cost** policy.

Extended replacement cost means that if there is a total loss, the policy will pay the stated amount on the policy (the home's insured value as determined by the insurance company) plus an additional amount if the rebuilding costs more than anticipated. It may be 125% or 150% of the face value, but that is the cap. If the rebuilding costs more than that, the policy won't pay any more. This is the policy for a "regular" home, and online software programs are typically used to determine the home's value.

Guaranteed replacement means that the policy will pay whatever it costs to make the insured whole, even if it exceeds the limit on your policy. This is the best coverage and is recommended for expensive homes with slate roofs, old-school masonry and woodwork, etc. that will be difficult and expensive to replace. These are sold by the high net worth carriers like Chubb, AIG, ACE and PURE. With these policies, the insurers are doing in-person home inspections to be sure they understand their risks.

The guaranteed replacement cost policy typically has a cash out option. If the home is destroyed, the insured can accept a cash settlement for the face value of the policy. Extended replacement cost policies have a lesser benefit. If the insured does not want to rebuild, they won't get the face value on their policy. Instead, they will get a much reduced cash payout that is roughly equal to the fair market value of the property before it was destroyed.

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C&A

Some Thoughts on Debt: Borrowing money serves a useful purpose at different stages in a career, but we are increasingly seeing doctors ask "Should I get out of debt?" That implies they either have the money to pay down their debts and are wondering if that's a financially smart thing to do, or they are prepared to reorder their priorities to spend less and concentrate on debt reduction. The next three items focus on these issues. As you probably suspect, there is no one right answer for everyone.

Keep a Balance in Your Life: It is said that youth is wasted on the young. Our corollary is that often wealth is wasted on the old (i.e., when we need the least amount of money is when we have the most). There should be a good balance between saving and spending.

The save-it-all advisors and the spend-it-all advisors and the talk show hosts are all wrong. We have seen too many instances where doctors become slaves to their saving habits, to the end that they or their families are deprived of things they ought to have. They probably assume they are simply deferring the fruits of their labor. But, they are actually taking a big gamble -- kids do not stay young long enough and life and good health are very fragile commodities.

Once your life and disability insurance needs are covered, it is unhealthy to plow excessive amounts into savings or into prepaying an already tolerable debt level if the consequence is to continually sacrifice current living standards. If you begin the process of maximizing your profit sharing plan contributions early in your career, and you spend and enjoy the rest, then you will retire quite comfortably.

Should I Sell Some Investments and Pay Down My Debts? First look at the interest rate you are paying on debt and compare that to rates you earn on your investments. Be sure to put both on a pre-tax or after-tax basis to make it a valid comparison. If the interest you are paying exceeds the interest you are earning, consider paying down the debt. For example, if you are paying over 6% on a $50,000 equipment loan while earning less than 1% on your money market funds, that's like borrowing at 6% to invest at 1% -- not a great idea!

Our thoughts:

- A penny saved is a penny earned. That means paying down a debt is the same as a riskless investment that earns at the same rate as the interest on the prepaid debt. Cashing in low earning investments to pay off high interest loans is numerically the right thing to do. If the sale of the investment triggers a tax, factor that into the calculation.

- Do not prepay debt to the point of reducing your cash reserves below a reasonable amount to cover emergencies.

- Paying down a deductible house mortgage requires additional thought. The general rule is that once an "acquisition" mortgage (the proceeds used to acquire or improve the home) is prepaid, that's it -- if we later borrow back up, the interest on the re-borrowed amount is not deductible.

The exception to the rule is that we can have up to an additional $100,000 of non-acquisition home mortgage debt and still deduct the interest. This means if you think you might need to borrow more than $100,000 against your home for nonacquisition/improvement purposes, it is probably unwise to prepay the original home acquisition mortgage.

- A final thought. Many doctors have told us they viewed the world differently once their debts were eliminated (or reduced down to just the normal long term real estate mortgages). It felt great.

The June 1st Newsletter will finish this discussion on debt with an explanation of why a young doctor saddled with huge student debt should welcome the opportunity to buy into a practice or else purchase the entire practice. These indebted young doctors are fearful of the purchase, but it is usually their best financial opportunity.

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