

# Solutions Spotlight

February 2010

## Where Are Participants in Their 401(k) Recovery?

Both the mainstream press and reports from 401(k) vendors lead us to conclude that participants' 401(k) accounts either have, or are nearing, pre-recession levels. That said, the mixture of both relief and disbelief that plan sponsors are experiencing needs to be somewhat tempered. As with most issues, the "devil is in the details."

The Vanguard Group recently reported that 60 percent of their plan participants had the same, or higher, account balances in September 2009 as they did in September of 2007 (near the market peak). Of the remaining 40 percent with lower balances, most were less than 20 percent below their peak value. Both Fidelity and Prudential (among other vendors) reported similar findings. On the surface, this information may be difficult to believe. While true that the "market" has rebounded substantially since its low point in Q1 2009 (the S&P 500 rebounded approximately 68 percent between March 9 and December 31 of 2009), it is still down roughly 25 percent from its peak in October of 2007.

However, the reports of participant account recovery are in fact accurate. First, the reality is that many 401(k) accounts are relatively small. The national average account balance, prior to the market downturn, was estimated at around \$50,000. The smaller the account balance the greater the impact of new contributions (employee and employer) on the recovery of the account balance. EXAMPLE: Assume an "average" participant with an account balance of \$50,000. The participant contributes \$8,000 and receives an employer match of \$4,000. Those amounts, in addition to investment growth experienced in 2009, serve to come very close to compensating for the losses experienced during the recent recession.

That said, plan sponsors should recognize that all participants will not have had similar experiences. Participants with higher account balances are likely still looking to recover losses incurred during the downturn of the market. Ultimately deferrals drive the success of the participant's drive towards a healthy retirement.

To discuss strategies for increasing the average deferral percentage of your plan participants, contact Forrest Ross at WHA Financial Solutions at [fross@wha.org](mailto:fross@wha.org).

*Source: Retirement Plan Advisory Group, "Retirement Report," January 2010*

## COBRA Subsidy Payments in 2010

The IRS has responded to employer questions related to receiving the 35 percent share of the COBRA premium assistance in 2010 for 2009 coverage and what to do as it relates to Form 941 with the following guidance. If an employer receives an assistance eligible individual's 35 percent share of the COBRA premium in 2010, the employer may claim the credit for the related premium subsidy on Form 941 for either the quarter in 2010 in which it receives the individual's 35 percent premium payment or a later quarter in 2010, but not for a quarter in 2009, regardless of the fact that the premium is for coverage during 2009.

**Q. Is the employer required to claim the credit on Form 941 for the quarter during which the COBRA subsidy is provided to assistance eligible individuals?**

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A. No. Instead of claiming the credit on Form 941 for the quarter during which the COBRA subsidy is provided, the employer may generally choose to claim the credit on Form 941 for a later quarter in the same calendar year.

Alternatively, if the employer has not claimed the credit on the original Form 941 for the quarter during which the COBRA subsidy was provided, the employer can file Form 941-X for that quarter. In all cases, however, if an employer chooses to reduce its payroll tax deposits during a quarter by the amount of subsidy provided during the quarter (or during a previous quarter), it must claim the credit for that subsidy amount on Form 941 for the quarter during which its payroll tax deposits were reduced. In addition, an employer may not claim credit for the same subsidy amount on Form 941 for more than one quarter.

**Q. If, in 2010, an employer receives payment of an assistance eligible individual's 35 percent share of the COBRA premium for 2009 coverage, does question FP-15 permit the credit for the related 65 percent premium subsidy to be claimed for a quarter in 2009?**

A. No. If an employer receives an assistance eligible individual's 35 percent share of the COBRA premium in 2010, the employer may claim the credit for the related premium subsidy on Form 941 for either the quarter in 2010 in which it receives the individual's 35 percent premium payment or a later quarter in 2010, but not for a quarter in 2009, regardless of the fact that the premium is for coverage during 2009. In all cases, however, if an employer chooses to reduce its payroll tax deposits during the quarter based on the receipt of the individual's 35 percent premium payment, the employer must claim the credit for the related subsidy amount on Form 941 for the quarter during which its payroll tax deposits were reduced. In addition, an employer may only claim credit for the subsidy amount once.

*Article courtesy of HR and Benefits Essentials*

### **New Rules on Mental Health Parity**

The U.S. Departments of Labor, Health and Human Services (HHS), and the Treasury jointly issued new rules providing parity for consumers enrolled in group health plans who need treatment for mental health or substance use disorders. The new rules prohibit group health insurance plans from restricting access to care by limiting benefits and requiring higher patient costs than those that apply to general medical or surgical benefits. The rules implement the Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008 (MHPAEA). The new rules are effective for plan years beginning on or after July 1, 2010, and apply to employers with 50 or more workers whose group health plans choose to offer mental health or substance use disorder benefits.

The new law requires that any group health plan that includes mental health and substance use disorder benefits along with standard medical and surgical coverage must treat them equally in terms of out-of-pocket costs, benefit limits and practices such as prior authorization and utilization review. These practices must be based on the same level of scientific evidence used by the insurer for medical and surgical benefits. For example, a plan may not apply separate deductibles for treatment related to mental health or substance use disorders and medical or surgical benefits. They must be calculated as one limit.

A press release from the DOL on the regulations is available at <http://www.dol.gov/opa/media/press/ebsa/EBSA20100151.htm>.

*Article courtesy of HR and Benefits Essentials*

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