

CLIENT UPDATE

FLEX USE-IT-OR-LOSE-IT RULE MODIFICATION

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Referrals

We believe our firm is the most professional provider of employee benefits programs in the business. Our knowledge, ability and service are second to none. Our best new clients are those referred by you. If you know someone that might use our services call us or tell them to call us. It's as simple as 800/344-3766.

Thank you,
Rock Tuchek, President



There is good news for employees participating in Flexible Benefit Plans. The IRS released guidance on Wednesday May 18, 2005, that cafeteria plans can reimburse participants for claims incurred up to 2½ months *after* the close of a plan year (under current rules, reimbursements are permitted only for claims incurred during the plan year).

The new rules will allow plans to provide up to a 2½ month "grace period" (not to be confused with the plan's "run-out" period) during which claims incurred during the new plan year could be reimbursed with money left over from the previous plan year.

Although the use-it-or-lose-it rule has not been abolished and the new rules are "optional", this modification does give participants a chance to access unused funds from the previous year, for up to an additional 2½ months, effectively creating a 14½

month plan year.

Unused amounts cannot be cashed out or converted to other benefits during the grace period. For example, a participant's unused dependent care amounts cannot be used to pay or reimburse health care expenses incurred during the grace period (only unused health FSA amounts can be used to reimburse those expenses).

Plan sponsors may adopt a grace period for the current cafeteria plan year (and subsequent cafeteria plan years) by amending the cafeteria plan document before the end of the current plan year. If your FSA plan year runs on a calendar year, the plan must be amended before December 31, 2005.

If you have any questions regarding this guidance, please call or e-mail Rachel Narum at 800/344-3766 or rnarum@midwestbenefits.com.

COBRA REQUIREMENTS AND REGULATIONS FOR EMPLOYERS

COBRA, or the Consolidated Omnibus Budget Reconciliation Act, has recently become an even more complicated issue for employer groups. There are now more notice requirements and additional regulations to follow and understand.

While many employers have a good understanding of their responsibilities under COBRA, many more likely do not. It is the employer's responsibility to administer COBRA for their group health plan, and it is the employer's liability if it is incorrectly administered.

Midwest Group Benefits has always been in a support position for our clients regarding COBRA, by providing forms, and answers to questions, and we intend to continue to do this. Recently, however, we have developed

a relationship with a new vendor, Cobra Outsourcing, which for a per employee per month fee will do full COBRA administration. Cobra Outsourcing will take on full liability and handle every aspect of your Cobra administration needs. From the time you know a person is eligible for COBRA, Cobra Outsourcing takes over.



If full COBRA administration and a complete compliance guarantee removing all liability is of interest to you, please let us know.

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"Specializing in employee benefits"

NIPA CONFERENCE UPDATE—ROTH 401(K)

Sara Hotvedt recently attended the 23rd Annual NIPA (National Institute of Pension Administrators) Conference in Scottsdale, Arizona. One of the "hot topics" being discussed at the conference was the proposed IRS Regulation regarding Roth 401(k) contributions. For plan years beginning on or after January 1, 2006, plan sponsors will have the option to amend their plans to add this provision (it is NOT a mandatory amendment.) The Roth 401(k) is very similar to the Roth IRA, however, the contributions into the Roth 401(k) are not subject to the Roth IRA income-eligibility cap. Employees who participate in plans with the Roth 401(k) feature will be able to irrevocably designate deferrals as Roth 401(k) contributions and the deferral will go into their account after-tax rather than pre-tax. Like pre-tax 401(k) deferrals, Roth 401(k) contributions will be subject to the Code Section 402(g) limit (\$15,000 in 2006) and the catch-up contribution limits (\$5,000 in 2006). If an employee makes BOTH pre-tax deferrals and Roth 401(k) contributions, the contributions will be combined with respect to the 402(g) limit (you cannot put \$15,000 into the plan pre-tax and \$15,000 into the plan as an after-tax Roth 401(k) contribution.) In addition, the Roth 401(k) deferrals are included in non-discrimination tests and will be subject to the same distribution restrictions as pre-tax deferrals. If the plan makes matching contributions on pre-tax deferrals, the matching formula will carry through to the Roth 401(k) contributions, however the match will be made pre-tax. There are many questions and issues which have arisen following the release of the proposed regulations. The IRS' intention is "to finalize the rules in time for plan sponsors to implement the valuable retirement savings opportunity beginning in 2006." We will bring you more information as it is available.

MGB JOINS THE BBB



In August 2004, Midwest Group Benefits became a member of The Better Business Bureau. Since the founding of the first BBB in 1912, the BBB system has proven that the majority of marketplace problems can be solved fairly through the use of voluntary self-regulation and consumer education.

In order to become a member of the BBB, a company must meet strict membership standards, agree to follow the highest principles of business ethics and have a proven record of marketplace honesty and integrity. Midwest Group Benefits is proud to be a member of the Better Business Bureau.

MEET THE STAFF: KARI FRANA

Since 1998, Kari Frana has been processing medical and dental claims for Midwest Group Benefits. In addition to the claims work, Kari also handles customer service and correspondence with MGB's clients and their employees.

Prior to working at Midwest Group Benefits, Kari attended UNI and graduated from the

Health Information Program at Northeast Iowa Community College in 1995. Her work experience includes time at First Continental Life and medical clinics.

Outside of the office, Kari enjoys spending time outside, reading mysteries and suspense novels and going to movies and the theatre. She shares her home with her cat, Macho.