

# CLIENT UPDATE

## ROTH 401(K) CONTRIBUTIONS

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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



Effective for plan years beginning on or after January 1, 2006, 401(k) plans may be amended to add a "qualified Roth contribution program" which will allow participants to have all or a portion of their elective deferrals to the plan designated as after-tax Roth contributions. Roth contributions will be includible in an employee's income and reported on the Form W-2. Two attractive features of the Roth 401(k) are that (1) unlike Roth IRAs, Roth 401(k) contributions may be made regardless of an employee's income and (2) when an employee takes a distribution of their Roth contributions, it will be tax-free if it is a qualified distribution. Roth 401(k) contributions are subject to the same deferral limitations as pre-tax deferrals (2006 limits are \$15,000 for employees under age 50 and \$20,000 for employees age 50 and

over). In addition, employees may make a combination of Roth 401(k) and pre-tax 401(k) contributions, however the above deferral limitations are an aggregate limit, so the total of the Roth and the pre-tax contribution cannot exceed those limits. If the Plan calls for matching of pre-tax deferrals, Roth contributions will be matched as well (on a pre-tax basis). Plans are not required to add this feature; therefore if this is something that you want to add to your plan, a plan amendment must be done. If this is something that you are interested in, please contact Sara Hotvedt in our office or email her at [shotvedt@midwestbenefits.com](mailto:shotvedt@midwestbenefits.com).

## UPDATE FROM THE IOWA ASSOCIATION OF SCHOOL BOARDS CONVENTION

On Thursday, November 17th, four members of the Midwest Group Benefits team traveled to Des Moines to the 60th Annual Iowa Association of School Boards Convention and Exhibit Show. Loren Kiel, Jeanette Ruegnitz, Rachel Narum and Arne Beneke spent the day visiting with school board members from around the state, regarding the services that MGB offers. Board members had the option of participating in a trivia quiz. See how well you do!

1. What does H.S.A. stand for?
2. What year was Midwest Group Benefits founded?
3. How many schools does Midwest Group Benefits count as clients?
4. In which Iowa city is Midwest Group Benefits located?
5. In what school year was the Northeast Iowa Schools Insurance Trust (NEISIT) started?
6. What is the single maximum annual H.S.A. contribution for 2006?
7. What does Medicare Part D cover?
8. What is a 28-E agreement?



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## HSA AND FLEX GRACE PERIOD

On November 23rd, 2005, the Treasury Department and the IRS issued guidance on the interaction between HSAs and the grace period for Flex Benefit Plans. For example, a participant with a full flex plan may elect an HSA for the following year. A problem arises when the flex plan has a grace period that extends into the HSA eligible plan year. The flex plan makes the participant ineligible for HSA contributions.

For the short-term, an employer may eliminate the problem identified above by amending their flex plan so the grace period is not available for individuals electing high deductible (HSA-qualified) plans. This is a solution for employers with FSA plan years ending before June 5, 2006. It would also be possible for a participant to contribute to an HSA provided their FSA has no unused contributions from the prior plan year, or to delay in making HSA contributions until after the grace period.

Long-term, the issue gets a bit more tricky. The employer must amend the FSA to a limited purpose (vision and dental only) plan for *all* participants during the grace period. If the employer chooses not to allow a grace period, the full flex plan can remain in place for the appropriate employees.

We expect more guidance on this issue from the IRS and the Treasury Department in the upcoming months. If you have questions, please contact Rachel Narum at 800/344-3766 or rnarum@midwestbenefits.com.

### Holiday Office Hours

- \* Regular hours are 8AM to 5PM, Monday through Friday
- \* MGB will be closed on Monday, December 26th
- \* MGB will be closed on Monday, January 2nd

*Happy Holidays!*

## MEET THE STAFF: KERI DOTZLER

Keri Dotzler is one of the three claims analysts that process Midwest Group Benefits self-funded clients' claims. Keri takes care of ten group clients, and does everything from processing the initial claim, sending payment to providers and employees, forwarding claims to secondary in-

surances and answering any questions that come in from group health plan participants. Outside of the office, Keri enjoys camping and boating, and playing with her dogs Chester and Jasper.

Answers to Quiz: 1. Health Savings Account 2. 1984 3. 15 4. Decorah 5. 1986-1987 6. \$2700 (if over age 55, an additional \$700 can be contributed annually) 7. Prescription drugs 8. A formal agreement between a public entity and one or more public or private agencies. The purpose is to create a separate entity for joint purchasing for the benefit of all (i.e. insurance)



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