

# BOLTON *Benefits*

BOLTON & Company

## ABOUT BOLTON BENEFITS

For over 70 years, Bolton Benefits has been a leader in providing creative solutions in analyzing, designing and implementing employee benefit programs. In addition to preferred carrier relationships and broad market access, we are able to provide a comprehensive array of services ranging from network analysis to Internet/ Intranet services to human resources consulting.

### Products and Services:

- **Group Medical, Vision, Dental and Life**
- **401 (K) Plans**
- **Long Term Care**
- **Employee Handbook Guidance**
- **Employee Assistance Programs**
- **And Much More....**

## IRS SUSPENDS REQUIREMENT TO FILE FORM 5500, SCHEDULE F; CHANGE REDUCES TAXPAYER BURDEN

In a News Release on April 4, 2002, the Internal Revenue Service announced that effective immediately, they have indefinitely suspended the requirement for taxpayers to file Schedule F (Form 5500) "Fringe Benefit Plan Annual Information Return." This is part of the agency's ongoing commitment to reduce unnecessary taxpayer burden.

"This IRS effort will simplify tax administration and eliminate the filing of about 200,000 forms each year," said Larry Langdon, Commissioner of the IRS's Large and Mid-Size Business Division.

The suspension of the requirement to file Schedule F is outlined in Notice 2002-24. The filing suspension applies to all plan years, including years prior to 2001. During the suspension period, the IRS will review reporting requirements and electronic filing options.

Before today's announcement, sponsors of certain fringe benefits were required to file the annual information return, Schedule F (Form 5500) for cafeteria plans, educational assistance programs, and adoption assistance programs.

Sponsors of fringe benefit plans who have not filed required Forms 5500, Schedule F, for plan years prior to 2001 should not seek relief under the Department of Labor's Delinquent Filer Voluntary Compliance Program (DFVC). There is also no need to request relief from the IRS for failure to file these forms.

The IRS notice does not affect annual reporting requirements under Title I of ERISA, or relieve administrators of employee benefit plans from any obligation to file a Form 5500 and any required schedules (other than the Schedule F) under that title. For further information on annual reporting requirements applicable to employee benefit plans under Title I of ERISA, see the instructions for the Form 5500 Annual Return/Report and the Department of Labor's regulations.

IRS Notice 2002-43 is available on the IRS Web at [www.irs.gov](http://www.irs.gov).

## DISABILITY INSURANCE

In three private letter rulings from the IRS, the employers involved provided their employees with long-term disability coverage through group insurance plans. As is typical in such situations, these plans provided employees with basic wage continuation payments if they became disabled from certain accidental bodily injury, sickness, or pregnancy.

At the time of the ruling requests, the employers' plans covered the entire premium for the basic coverage. The cost of this coverage was nontaxable to the employees. However, any disability payments the employees received from the plans would be taxable. The purpose of the ruling requests was that the employers wanted to know the tax effect of amending their plans to allow employees,

prior to the start of each year, the option of paying the full cost of the coverage on an after-tax basis.

Based on the above amendments to the plans, the IRS concluded that long-term disability benefits paid to an employee who had elected to pay the premiums on an after-tax basis for the plan year in which he or she becomes disabled will be excludable from such employee's gross income.

In earlier rulings, the IRS concluded that if the employer had paid any of the premiums in the three years prior to the disability, a portion of any benefits paid by the plan were taxable to the employee. It appears this three-year look-back rule no longer applies.

## UNDERSTANDING HIPAA PRIVACY PROVISIONS

An often misunderstood feature of the Health Insurance Portability and Accountability Act of 1996 is the privacy provision. Personal Health Information (PHI) is any health information that can be identified as relating to a specific insured employee or dependent. All entities who handle PHI are restricted in access to the information as well as discussing or transmitting information. This includes insurance carriers, insurance brokers and employers. Violations can result in a fine of \$100 per violation up to a maximum of \$25,000, as well as imprisonment for up to 5 years.

The most noticeable impact on employers will be increased difficulty in assisting employees and dependents in resolving claim issues. It will no longer be possible for employers to simply call the insurance carrier to inquire about the status of a paid or unpaid health claim. Insurance carriers are prohibited from answering even a question as simple as "has the claim been paid" unless the insured individual completes and signs an authorization form. This "authorization form" includes information about the insured, information about the specific third party to whom information may be released, the type of health information (i.e. medical, dental, etc.), and signatures of the insured and a witness. All information must be complete and transmitted to the insurance carrier BEFORE any discussion of a claim can occur. The same procedure applies if an employer routinely asks their insurance broker to help in resolving claim issues.

The insured will also find it more difficult to check the claim status for a spouse or adult children (there is some exception for minor children.) An authorization would need to be completed by an insured adult designating another family member to make claim inquiries on his/her behalf.

Insurance carriers cannot accept the name and social security number of individuals during a phone conversation as proof of the identity of the party to whom they are speaking. A PIN number will need to be assigned to every plan participant in order to confirm identity during a phone conversation.

In conjunction with the restrictions on the release of PHI, employers must designate one or more individuals (as appropriate) in their organization who may have access to PHI. All non-designated individuals should be prohibited from access. As stated earlier, even information about the status of a claim is considered to be PHI. Any individuals authorized to handle PHI should be fully trained on privacy procedures and requirements.

Finally, it is important for employers to communicate to employees and plan participants that these are not employer rules nor insurance carrier rules. These rules were designed by Congress and are federal law. As PIN numbers are issued to plan participants, further communication and explanation may be required.

**We're on the Web!**  
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