

## **Golden Handcuffs: A New Twist Using an Insured Medical Reimbursement Plan**

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Are you looking for a new twist to approach business owners and executives? Most of you are likely familiar with the "golden handcuff" approach that has been marketed quite well utilizing life insurance. I want to give you another idea using the same concept, but now the advantage is tied to health benefits.

A medical reimbursement plan repays insured employees for many out-of-pocket expenses. These could include the deductible, co-insurance amounts, vision and dental expenses that are not covered under their base health plan.

What makes an insured medical reimbursement plan so attractive?

- ~ The employer can discriminate, as long as they include everyone in a specified class
- ~ The benefits are tax-free to the selected employees
- ~ The plan's cost is tax-deductible to the company
- ~ Accidental Death & Dismemberment coverage
- ~ It becomes a golden handcuff to recruit and retain key employees

If a corporation pays a premium to an insurance company and thereby shifts the risk to an "unrelated third party," it is called an "insured" plan. The non-discrimination rules do not apply to insured plans.

Do not confuse this type of plan to a Section 125 plan. There is no use-it-or-lose-it provision. The plan does not need to be offered to all employees and reimbursement plans typically lower administrative costs because there is less record keeping.

Business owners can offer this benefit to key executives and their eligible dependents. The premium payments are designed to be tax-deductible under Section 105. As a "C" corporation, it is deductible 100% as an eligible business expense. For "S" corporations, sole proprietors and partnerships, the amount eligible in 2001 is 60%, increasing to 70% in 2002, then 100% in 2003, just like a "C" corp. In order for the cost to be deductible and tax-free, the benefit must be insured. That also allows the employer to discriminate and favor the key employees. All participants, however, must be full-time, active employees, retired employees or board members.

In order to offer this type of benefit program, the employer must have an existing health insurance program as this plan is designed to supplement the underlying plan. The medical reimbursement provides a method to make out-of-pocket employee costs deductible to the employer. If the business owner is also an employee, this type of benefit allows him or her to deduct ordinary medical expenses (not covered by the basic health plan) without

being subject to the 7.5% of adjusted gross income floor, as available on the personal Form 1040 tax return.

Few companies offer an insured medical reimbursement plan and use their own approach. The SMLSelect is Security Financial Life's plan.

As you can tell, an executive medical reimbursement plan provides valuable benefits that can be provided in an income tax-favored manner. You now have a "golden handcuff" approach with a twist.

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