The
Sponsor Sentinel

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Trent Teesdale, CEBS
Senior VP of Business Development

Navigating the New Normal

Avoid Layoffs and Unwanted Attrition with Creative Solutions

The outbreak of Coronavirus early in the year caused employers across the globe massive and unforeseen challenges. Following the announcement of the global pandemic, school districts and municipalities were forced to quickly respond by shutting down offices, parks, classrooms and other public spaces to maintain social distancing recommendations. We understand that many entities have had to utilize already limited funding to invest in technology, training, and safety equipment during this time—all while keeping our community resources and public education running smoothly. This expansion of services using the same—or in some cases, less—fiscal resources have many public entities turning to layoffs in order to alleviate the financial burden.

On the other side of the spectrum, some organizations are faced with an increase of attrition due to the fear employees may have about returning to a physical work environment as public spaces slowly begin to reopen.

So how do we combat the cost of mass layoffs (both financially and through a loss of resources) and avoid losing too much of the workforce at once due to attrition?

Avoiding Mass Layoffs through a Strategic Buyout Strategy

Unlike the private sector, local governmental entities rely heavily on employees to keep operations running smoothly, as opposed to technology or process enhancements. Since payroll expenses usually

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account for 60% of a public sector employer's operational costs, mass layoffs may seem like a logical step to take to reduce spending. However, layoffs in and of themselves can prove to be pricey and should be a last resort—especially when the majority of employees are involved in bargaining or union groups that often contractually require the least senior employees be laid off first. This means that employers would need to reduce their workforce by twice as much to achieve the same financial relief as perhaps laying off a more tenured employee. Knowing this, you can structure your benefits in a way that creates a win-win arrangement for all. Below is a readily available option.

Offer an Early Retirement Incentive

Creating retirement incentives for those who are close to retirement or eligible for retirement is a mutually beneficial way to reduce your workforce without the added cost of paying for unemployment. Oftentimes employees are hesitant to retire before age 65 because they cannot afford health insurance prior to Medicare eligibility. A Retiree Health Reimbursement Arrangement (rHRA) directly and efficiently addresses this need. Funded upon retirement, the rHRA helps bridge the gap between retirement and Medicare eligibility by providing tax-free funding for medical expenses. Special forms of compensation such as unused sick and vacation pay can be used to fund the rHRA, which means the employer is simply using existing earmarked funds more efficiently.

You can further incentivize early retirement by creatively structuring your HRA. For example, you could offer a certain contribution amount for individuals who waive access to employer-sponsored health insurance or offer a larger lump sum contribution to employees committing to an early retirement decision in writing.

The flexibility of the HRA allows you to design it based on the specific issue you need to solve.

rHRA at a glance

- Early retirement incentive
- Bridges gap between retirement & Medicare eligibility
- Can be funded using accumulated leave
- Triple tax-free (tax-free contributions, growth and reimbursements
- Flexible plan design means HRA can be structured to meet your specific needs

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Attracting and Retaining Talent to Combat Too Much Attrition

In other cases, there may be instances of too much attrition. Organizations have always struggled with employees leaving in pursuit of higher pay, advancements, or family moves. Now, in today's climate, this issue may be exacerbated by an increased health risk to employees with compromised immune systems or who are over age 60; the fear of adapting to a new set of challenges once onsite classes resume; or overall reduction in job satisfaction. According to a recent USA TODAY/Ipsos poll, 1 in 5 teachers are not likely to return to work. For those over age 55, it's 1 in 4.[1] However, with creative solutions, employers can offset some of the unwanted attrition.

Offer a Retention Incentive

If your organization is faced with a potentially damaging workforce reduction, the defined contribution HRA (dcHRA) can serve as an incentive for current employees to stay as well as a reason for jobseekers to choose you.

Funded while the employee is actively working, the dcHRA can allow plan factors such as a vesting schedule, which incentivizes employees to stay with their employer until they are fully vested in their benefit. Additionally, opting to make a defined annual contribution into the employee's plan versus a retirement-based defined benefit is a more attractive option that employees can immediately see. As the employer, you would make a tax-free contribution each year into the employee's dcHRA. Funds are invested for potential tax-free growth and can be used tax-free post-employment by the employee, their spouse and eligible dependents.

dcHRA at a glance

- Retention tool
- Attracts talent
- Can be funded using accumulated leave
- Vesting schedules can apply
- Triple tax-free (tax-free contributions, growth and reimbursements
- Flexible plan design means HRA can be structured to meet your specific needs

Through these uncertain times, we can work with you to determine a path forward that not only saves your organization money but grants you peace of mind in these trying times. Simply email us at accountmanagement@myMidAmerica.com to learn more.

IRS Notice 2020-50

What you need to know.

As your benefits administrator, MidAmerica Administrative & Retirement Solutions (MidAmerica) is here to ensure you stay up to date with the Internal Revenue Service (IRS) guidelines and that you have the information you need to make informed benefit decisions. In late June, the IRS released ***Notice 2020-50***, which offers an expanded definition on who is qualified to take advantage of ***the CARES Act provisions*** relating to retirement plan* distributions and plan loans. This expanded definition seeks to provide further relief to those affected by COVID-19.

As expanded under Notice 2020-50, a qualified individual is anyone who:

- is diagnosed, or whose spouse or dependent is diagnosed, with the virus SARS-CoV-2 or the coronavirus disease 2019 (collectively, "COVID-19") by a test approved by the Centers for Disease Control and Prevention (including a test authorized under the Federal Food, Drug, and Cosmetic Act); or
- experiences adverse financial consequences as a result of the individual, the individual's spouse, or a member of the individual's household (that is, someone who shares the individual's principal residence):
    - being quarantined, being furloughed or laid off, or having work hours reduced due to COVID-19;
    - being unable to work due to lack of child care due to COVID-19;
    - closing or reducing hours of a business that they own or operate due to COVID-19;
    - having pay or self-employment income reduced due to COVID-19; or
    - having a job offer rescinded or start date for a job delayed due to COVID-19.

Notice 2020-50 also provides further clarification on plan loan amounts and repayment terms administration:

- Suspension period only applies to payments due between March 27, 2020 and December 31, 2020.
- Loan payments delinquent prior to these dates are not covered by the CARES Act.
- All loan payments must resume after the end of the suspension period—no later than January 1, 2021.
- The loan can be re-amortized to reflect a final payment/due date with a new due date—not to exceed one year after the original loan terms.
- Loan payment suspension is only available to qualified individuals and requires a signed self-certification form.

Questions?

As always, MidAmerica is here to help. If you have any questions concerning the recent IRS regulatory changes, simply reach out to your Account Manager by emailing accountmanagement@myMidAmerica.com.

Additional Resources

To stay up to date regarding COVID-19 related items, ***check out our CARES Act Resources page.***

Important note: Money Purchase Plan (MPP) funds do not qualify for CARES Act relief.

** These updates impact MidAmerica Special Pay, 3121 FICA Alternative, APPLE, Employer Sponsored or Single Vendor plans.*

Legislative Updates and Reminders

Ensuring your plans remain compliant

The CARES Act and New OTC Eligibility

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provides, among other things, that over-the-counter (OTC) drugs and feminine care products now qualify for reimbursement under certain Health Reimbursement Arrangements (HRAs) and Health Care Flexible Spending Accounts (FSAs). Items such as ibuprofen, acetaminophen, cold & flu medications, allergy medications, and sleep aids no longer require a prescription or doctor's note to be considered eligible for reimbursement through an HRA and FSA. Feminine care products, such as tampons, pads, liners, cups, sponges, or similar products, are newly eligible for reimbursement. These allowances are retroactive to January 1, 2020. It's important to note that HRA plan documents must allow for reimbursement of all ***IRS Code Section 213(d) medical expenses*** for OTC and feminine care products to be reimbursable.

IRS Notices 2020-29 and 2020-33

Recently, the IRS released two Notices that impact cafeteria plans and Flexible Spending Accounts (FSAs). Notice 2020-29 provides temporary relief for cafeteria plans in response to the COVID-19 pandemic in the following ways:

- It allows participants to revoke an election, make a new election, or decrease or increase an existing health care FSA election and dependent care FSA election during calendar year 2020, regardless of the reason for the election change and with no additional documentation requirements. This provision is effective January 1, 2020 through December 31, 2020.
- It also extended the claims period for health care FSAs and dependent care FSAs, allowing participants to use remaining funds to pay or reimburse expenses incurred through December 31, 2020 for the same type of FSA. This extension applies both to cafeteria plans that have a grace period and cafeteria plans that have a carryover, provided the grace period ends in 2020 or the plan year ends in 2020 (i.e. an off-calendar year plan).

IRS Notice 2020-33 permanently increases the current carryover amount for health care FSAs from $500 to $550 to account for inflation. ***Learn more by clicking here...***

PCORI Fee Filing Requirement for HRAs Extended Through 2029

The Affordable Care Act (ACA) of 2010 created the Patient-Centered Outcomes Research Institute (PCORI), a government-sponsored organization that helps patients, clinicians, payers, and the public make informed health decisions by advancing comparative effectiveness research. The Institute's research is partly funded by fees paid by health insurance issuers and sponsors of self-insured health plans. Under the ACA, the PCORI fees were scheduled to apply to policy or plan years ending on or after October 1, 2012 and before October 1, 2019. However, the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 extends the PCORI fees through 2029. Each year, MidAmerica automatically sends you a copy of Form 720 and your PCORI fee calculation if the filing is required for your organization. If you need a copy of Form 720 or the letter from MidAmerica containing your PCORI fee calculation, email us at accountmanagement@myMidAmerica.com.

Stay connected and informed.

Learn more about the CARES Act, SECURE Act and other IRS notices by visiting ***www.myMidAmerica.com/the-cares-act.***

You can also view recent industry and legislative updates at ***www.myMidAmerica.com/news.***

Connect with us on LinkedIn by searching *MidAmerica Administrative & Retirement Solutions!*

1. USA Today/Ipsos Poll of 5/26/2020. https://www.usatoday.com/story/news/education/2020/05/26/coronavirus-schools-teachers-poll-ipsos-parents-fall-online/5254729002/