



Medical Reimbursement Plans— An Overlooked Executive Benefit

by Dennis R. Stessman, CLU, ChFC, CFP

Medical reimbursement plans repay insured employees for many out-of-pocket medical expenses not covered by their health plan. The best examples of these eligible expenses include deductibles, co-insurance amounts, vision and dental care costs.

What makes a medical reimbursement plan attractive?

- The employer selects which employees to include
- Tax-free benefits to the selected employees
- Tax-deductible cost to the company
- Simple administration for the company
- Accidental death and dismemberment coverage
- It provides an effective tool for recruiting and retaining key employees

Sounds similar to a Section 125 Plan, only better, right? There is no “use-it-or-lose-it” provision, it does not have to be made available to all employees and, typically, reimbursement plans lower administrative costs because there is less record keeping.

This type of benefit program is meant to supplement a basic health insurance plan and is available only to employers that have an existing health 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 program allows him to deduct ordinary medical expenses (not covered by the basic health plan) without being subject to the 7.5 percent of adjusted gross income floor, as available on his personal Form 1040 tax return. Examples of reimbursable expenses include:

deductibles, co-pays, health insurance premiums, eye care, hearing aids, prescription drugs, dental and orthodontia.

Business owners can offer this benefit program to employees and their eligible dependents. Premium payments are designed to be tax-deductible under Section 105 of the Internal Revenue Code. Legislation was passed last year that made this program very attractive to self-employed individuals effective January 1, 2000. Prior to that, self-employed individuals were only able to deduct 45% of the expenses incurred; now they are allowed a 60% deduction.

In order for the cost to be deductible to the employer and tax-free to the employee, the benefit must be insured. Because the plan is “insured,” it can be offered to as few or as many employees as the employer wants to include. In reality, this means that this benefit plan can discriminate and favor key employees. All participants, however, must be full-time, actively-at-work employees, retired employees, board members or the surviving spouse of an employee.

There are very few insurance carriers that currently offer an insured medical reimbursement plan, and each utilizes a slightly different approach. An example, comparing SMLSelect, a plan offered by Security Financial Life Insurance Co., is shown below.

As you can see, an executive medical reimbursement plan provides valuable benefits that can be provided in an income tax-favored manner. It can be used to reward long-term employees, attract new employees, or enhance a benefit package for current employees. ■



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	Without SMLSelect	With SML Select
Family health insurance premiums (\$425 per month less \$200 from employer)	\$ 2,700	\$ 2,700
Deductibles and co-pay	\$ 800	\$ 800
Dental and orthodontia	\$ 4,000	\$ 4,000
Vision care and eyeglasses	\$ 500	\$ 500
Total out-of-pocket expense	\$ 8,000	\$ 8,000
SMLSelect administrative cost	\$ 0	\$ 720
SMLSelect annual policy fee	\$ 0	\$ 200
Total Cost	\$ 8,000	\$ 8,920
Tax Savings (Corp. tax bracket - 40%)	\$ 0	\$ 3,568
Net Cost	\$ 8,000	\$ 5,352
Difference		\$2,648