

FLEXIBLE SPENDING ACCOUNTS - FSAs

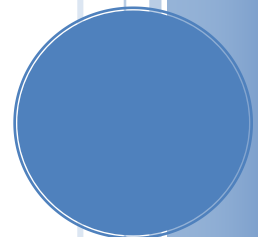
Adding Value to your Employee Benefit Program

Administered by:

The logo for AMWINS features a blue triangle pointing right, followed by the word "AMWINS" in a bold, dark blue, sans-serif font. A small "TM" trademark symbol is positioned to the upper right of the "S".

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CAFETERIA PLAN

A cafeteria plan allows employees to receive certain employee benefits with pre-tax dollars.

Common plans are:

1. Premium Conversion Plans or Premium Only Plans (**POP**), which allow employees to convert their contributions for health or other benefits from a post-tax to a pre-tax basis.
2. Flexible Spending Accounts (**FSAs**) allow employees to set aside pre-tax dollars to cover either qualified medical expenses not covered by health insurance, dependent care costs, job related mass transit or parking costs.

WHAT ARE THE BENEFITS?

Offering one or both of these plans, a business and employees save money.

1. Employees save money by paying for health care with pre-tax dollars.
2. Employers pay lower payroll taxes.

FSAs allow employees to manage some of the costs not typically covered by benefit plans, such as non-covered medical care or dependent care costs; job related mass transit or parking expenses.



POP: HOW DOES IT WORK?

1. Employee pay for benefits on a pre-tax basis.
 - a. (Instead of paying for their benefits with their after-tax earnings.)
2. Employee taxable income will change; resulting in savings.
3. Employer taxable payroll will change; resulting in savings.

Example of how **Employees can save money!**

MONTHLY		
	<i>Post-Tax</i>	<i>POP – Pre-Tax</i>
<i>Monthly Salary</i>	\$5,000	\$5,000
<i>Insurance Premium</i>	-	\$500
<i>Taxable Salary</i>	\$5,000	\$4,500
<i>Taxes (30%)</i>	\$1,500	\$1,350
<i>“Take Home” Salary</i>	\$3,500	\$3,150
<i>Insurance Premium</i>	\$500	-
<i>True “Take Home” Salary</i>	\$3,000	\$3,150

\$150 Monthly Savings
\$1,800 Annual Savings



FSA: HOW DOES IT WORK?

1. Employees set aside money for non-covered medical expenses or dependent care on a pre-tax basis.
2. It is put in a flexible spending account, very much like a savings account, that can be drawn on as the employee incurs expenses during the year.
3. Money is set aside on a “use it or lose it” condition.
 - a. Money in FSAs must be used for eligible expenses incurred during the year, and will not carry over to the next year.
 - b. Unused employee funds are forfeited to the employer. **special contract provisions may apply*

HOW MUCH CAN AN EMPLOYER SAVE?

Employers will save on their portion of the Social Security, Medicare, FICA, etc. These savings will be realized on every dollar employees convert to pre-tax benefits.

Example of how **Employers save money!**

<i>Employees in FSA</i>	100
<i>Average Contribution Per Employee</i>	\$1,500
<i>FICA Savings (7.65%) Per Employee</i>	\$114.74
Total FICA Savings	\$11,474

HOW MUCH CAN THE EMPLOYEES SAVE?

The amount employees save will vary depending on their individual tax situation. It is not unusual for employees to realize savings of 30%.** Generally, employees will save on Federal, State, Local and Social Security taxes.

***Amwins Connect Administrators is NOT a licensed CPA. Examples are for presentation purposes only.*

Example of how **Employees can save money!**

	Without FSAs	With FSAs
Gross Annual Salary	\$40,000	\$40,000
Pre-Tax Medical Care Expense	-	- 800
Pre-Tax Dependent Care Expense	-	- 3,900
Taxable Income	\$40,000	\$35,300
Income Taxes @ 32%	- 12,800	- 11,296
After-Tax Medical Care Expenses	- 800	-
After-Tax Dependent Care Expenses	- 3,900	-
Spendable Income	\$22,500	\$24,004
INCREASE tax home PAY with FSAs	\$0	\$1,504

FSA FUNDING:

1. Employees FUND FSAs
2. Employees make an annual \$ election
3. Employees fund the annual amount pro-rated per pay
 - a. EX. \$2,400 annual ELECTION
 - i. Pay Frequency – Monthly
 - ii. Employee funds 1/12th per pay
 1. = \$200
4. The entire election is available to pay eligible expenses use on the first day of the plan (even though the employee has only funded a portion)

FSA RISK:

1. Employees who do NOT use their entire fund balance by the end of the contract term forfeit any balance of funds to the employer.

“Use it or lose it.”

2. Employers are responsible to provide FSA funds of the first day of the plan year if eligible expenses are incurred and submitted for reimbursement.
 - a. THEREFORE: If an employee utilized their entire reimbursement in the first month on the plan year and leaves or is no longer employed, the EMPLOYER HAS NO MEANS TO COLLECT THE BALANCE OF FUNDING.



FSA ADMINISTRATION:

Cafeteria plans can be easy to administer:

1. Plans must have a written plan document explaining the plan's benefits.
2. Employees must complete an annual election before the annual effective date.
3. Plans must be tested to determine non-discrimination in favor of key employees.
4. Form 5500 (Annual Return/Report of Employee Benefit Plan) must be filed with the IRS.

Since 1980 Amwins Connect Administrators has been a premier benefits administrator in the Mid-Atlantic. We can help you make the right choices to fit your situation.

Implementation Process:

- ❑ Prepare all necessary plan documents
- ❑ Development of communication materials for annual employee elections

Administrative Process:

- ❑ Enroll the plan participant in the F.S.A. plan according to their annual election (i.e. Medical, Dependent care, Transit or a combination)
- ❑ Post payroll deduction deposits into each participant's F.S.A. account in accordance with their payroll deduction amounts identified on their election form and confirmed in the client's payroll file.
- ❑ Maintain a participant file containing:
 1. Name, Address, Social Security number
 2. F.S.A. Plan selections (Medical, Dependent Care or both)
 3. Plan Allocation Amounts (Medical, Dependent Care or both)
 4. History of Allocation Deposits and Claims Reimbursed

Claim Reimbursement Process:

- ❑ DAILY, process claim reimbursements for Medical and Dependent Care expenses in accordance with the Client's plan specifications.

Claims will be reimbursed up to each participant's allocation (medical) or accumulated (dependent care) election not to exceed the maximums allowed by the plan.
- ❑ WEEKLY, print Explanation of Reimbursements and Checks and mail to each participant's home address.
- ❑ RECONCILE the electronic claims with any manual claims processed to ensure timely and accurate account balances.

Customer Service Responsibilities:

- ❑ Telephone support for F.S.A. participation, enrollment, claims or reporting.
- ❑ Provide enrollment or claim submission assistance to plan participants.

Flex Convenience Debit Card & Internet Account Access (Optional):

- ❑ Increases participation and contributions in the plan, therefore increasing the savings Employers can achieve.
- ❑ Provides plan participants with instant access to Flex account funds – no need to use out of pocket dollars
- ❑ Eliminates most claim forms and waiting for reimbursement checks

- ❑ Employers and Employees can check FSA account balances and histories – 24 hours a day via their secure Internet access at www.TheFlexCard.com

Reporting:

- ❑ Check Registers to Client after each check cycle
- ❑ Monthly or weekly (depending on transaction type) reports and balance reports upon request
- ❑ Provide Quarterly F.S.A. reports to Client

Compliance:

- ❑ Nondiscrimination testing
- ❑ Prepare “signature ready” Form 5500 with the appropriate schedules
- ❑ Prepare Summary Annual Report (SAR)



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POP Implementation: **\$ 300.00 (First Year Only)**

FSA Implementation: **\$ 250.00 (First Year Only)**

Includes:

- Employee Communication Brochure
- Election Forms
- System set-up

Monthly FSA Administration: **\$ 6.00 for each FSA Account**

Includes:

- Process claim reimbursements
- Print reimbursement statements & checks
- Check register to employer
- Quarterly Benefit Statements to Participants
- Year-End Forfeiture Report to Employer
- Maintain participant's annual elections
- Customer Service Responsibilities
- FSA Summary Plan Description (SPD) for the new plan year

