



Flexible Spending Accounts (FSAs) & Health Reimbursement Arrangements (HRAs):

Add Value to Your Employee Benefit Program

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FLEXIBLE SPENDING ACCOUNTS (FSAs)

WHAT IS A CAFETERIA PLAN?

In the 1970's, Congress recognized that many families have two wage earners. As a result, many companies were providing health benefits to one wage earner unnecessarily. In response to the need for greater flexibility, cafeteria plans were created. In essence, a cafeteria plan allows employees to receive certain employee benefits with pre-tax dollars. It can consist of one benefit, such as health insurance, or many benefits.

The most common plans are:

1. Premium reduction plans, 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), which 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 OF HAVING THESE PLANS?

You know firsthand that benefit costs continue to rise each year. Your challenge is to determine how to continue to offer a competitive benefit plan, without going into bankruptcy to do it. For example, you may have already shifted some or the entire premium cost increases to your employees, and you are hesitant to do more of the same. By offering one or both of these plans, you and your employees can actually save money. Not only do your employees save money by paying for health care with pre-tax dollars, but also as the employer, you will pay lower payroll taxes. In addition, by setting up FSA's for your employees, they can plan for and 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.

HOW DOES IT WORK?

When you offer one or both of these plans, you will be allowing your employees to pay for benefits on a pre-tax basis, as opposed to paying for their benefits with their after-tax earnings. If they make this election, their level of taxable income will change, and they will actually see a true savings. In addition, if an employee decides to set aside money for non-covered medical expenses or dependent care, this money may be set aside, again, on a pre-tax basis. It is put in a special account, very much like a savings account that can be drawn on as the employee incurs expenses during the year. With FSA's, however, money is set aside on a "use it or lose it" condition. In other words, the money in FSA's must be used for eligible expenses incurred during the year and will not carry over to the next year.

HOW MUCH CAN AN EMPLOYER SAVE?

Employers will save on their portion of the Social Security and Medicare tax. These savings will be realized on every dollar employees convert to pre-tax benefits to the extent their wages are under the withholding maximum. The following is an example of how Employers save money:

NUMBER OF EMPLOYEES IN FSA PLAN	AVERAGE ANNUAL CONTRIBUTION (PER EMPLOYEE)	TOTAL FICA SAVINGS	SAVINGS PER EMPLOYEE
100	\$1,500	\$11,474	\$114.75



FLEXIBLE SPENDING ACCOUNTS (FSAs) *(continued)*

HOW MUCH CAN THE EMPLOYEES SAVE?

The amount employees save will vary depending on their individual tax situation, however, it is not unusual for employees to realize savings of 30% of their pre-tax payments for benefits. Generally, they will save on Federal, State, Local and FICA taxes. *The following is an example of how an Employee 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 in take-home pay with FSAs	\$0	\$1,504



HEALTH REIMBURSEMENT ARRANGEMENTS (HRAs)

WHAT ARE THE BENEFITS OF HAVING THESE PLANS?

Health Reimbursement Arrangements (HRAs) are designed to help employers who want to continue to offer a high level of benefits to their employees, while containing their health plan costs.

The employer provides a core level benefit plan with a high deductible and offers additional benefits through an HRA. The HRA creates a health reimbursement fund, enabling the employer to reimburse a portion of the employee's out-of-pocket expenses (i.e. deductibles, copays and coinsurance), in exchange for much lower base plan costs. Any unused HRA funds remain the employers.

An HRA plan is paid solely by the employer and not funded through salary reduction elections of the employees. The employer determines the maximum health reimbursement amount per employee. Under the HRA plan, the employer reimburses the employee for qualified out-of-pocket health care expenses up to the maximum dollar amount established by the employer for the coverage period.

HOW DOES IT WORK?

The employer has the ability to create a flexible plan design that includes a core health plan with a high deductible in exchange for a lower health care premium.

The employer will determine the annual amount they will reimburse towards out-of-pocket expenses (i.e. deductibles, copays or coinsurance). The employer will determine the maximum amount reimbursed for each coverage type (i.e. single employee, employee & child(ren), employee & spouse/domestic partner and employee with family coverage).

Employees utilize the core plan benefits and experience out-of-pocket expenses. These expenses can be submitted to the employer's HRA plan for reimbursement up to the HRA fund maximum based on their coverage type (i.e. single, family, etc.).

Any HRA funds not reimbursed to employees are retained by the employer.



AMWINS CONNECT ADMINISTRATORS ADMINISTRATIVE SERVICES FOR FSAs/HRAs

HOW EASY IS IT TO ADMINISTER AN FSA AND HRA PLAN?

When set up properly, cafeteria plans can be easy to administer. Every plan must have a written plan document explaining the plan's benefits. Employees must complete an annual election form before the annual effective date. In addition, the plan must be tested to determine that it does not discriminate in favor of key employees. Annually, a Form 5500 (Annual Return/Report of Employee Benefit Plan) must be filed with the IRS.

HOW CAN AMWINS CONNECT ADMINISTRATORS HELP WITH YOUR FSA AND HRA PROGRAM?

Amwins Connect Administrators recognizes the kind of personalized service the employer needs when evaluating the benefits of a cafeteria plan. As professional benefit administrators, we can help you make the right choices to fit your situation. Our services include the following:

Implementation Process for FSA and HRA plans:

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

Administrative Process:

- Enroll the plan participant in the FSA plan according to their annual election (i.e. Premium Reimbursement, Medical, Dependent Care)
- Post payroll deduction deposits into each participant's FSA 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. FSA Plan selections (Premium Reimbursement, Medical or Dependent Care)
 3. Plan Allocation Amounts (Premium Reimbursement, Medical or Dependent Care)
 4. History of Allocation Deposits and Claims Reimbursed
- Enroll the plan participant in the HRA plan according to their coverage level (i.e. single or dependent coverage)

Claims Reimbursement Process:

- On a daily basis, process any manual FSA claim reimbursements for Premium Reimbursement, Medical and Dependent Care expenses in accordance with the Client's plan specifications.
- On a daily basis, process any manual HRA claim reimbursements upon receipt of the core health plan explanation of benefits or documentation of claim payment.
- Claims will be reimbursed up to each participant's allocation (Medical FSA or HRA) or accumulated (Dependent Care) election not to exceed the maximums allowed by the plan.
- On a weekly basis, print Explanation of Reimbursements and Checks for any manually processed claim and mail to each participant's home address.
- For Flex Debit Card utilization, reconcile the electronic claims with any manual claims processed to ensure timely and accurate account balances.



AMWINS CONNECT ADMINISTRATORS ADMINISTRATIVE SERVICES FOR FSAs/HRAs *(continued)*

HOW CAN AMWINS CONNECT ADMINISTRATORS HELP WITH YOUR FSA AND HRA PROGRAM? *(continued)*

Customer Service Responsibilities:

- Respond to all telephone inquiries regarding FSA or HRA participation, enrollment, claims or reporting.
- Provide enrollment or claim submission assistance to plan participants.

Flex Convenience Debit Card & Internet Account Access:

- Provides plan participants with instant access to FSA or HRA 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.

Reporting:

- Check Registers to Client after each check cycle
- Mail Quarterly FSA statements to all plan participants
- Provide Quarterly FSA reports to Client
- Provide Quarterly HRA reports to Client



AMWINS CONNECT ADMINISTRATORS FSA/HRA ADMINISTRATIVE FEES

\$250.00 Plan Set-Up Fee for FSA
\$250.00 Plan Set-Up Fee for HRA

Implementation/Employee Communications:

Includes:

- Summary Plan Description
- Explanation of FSA benefits brochure
- FSA election worksheets
- Explanation of HRA benefits
- Manual Claim Forms

Monthly FSA Administration:

\$6.00 PEPM

Includes:

- Process manual claim reimbursements
- Print reimbursement statements & checks
- Check register to employer
- Flex Debit Cards
- Quarterly Benefit Statements to Participants
- Year-End Forfeiture Report to Employer
- Maintain participant's annual elections
- Customer Service Responsibilities

Monthly HRA Administration:

\$6.00 PEPM

Includes:

- Process manual claim reimbursements
- Print reimbursement statements & checks
- Check register to employer
- Flex Debit Cards
- Quarterly Benefit Statements to Participants
- Year-End Forfeiture Report to Employer
- Maintain participant's annual elections
- Customer Service Responsibilities

Optional Annual Compliance Services:

\$880.00 Annual Compliance Fee

Includes:

- Discrimination testing
- Signature ready Form 5500 (unaudited)
- Summary Annual Report

