

*A Sample Cafeteria Plan Proposal*  
*Prepared for*  
***Just for You***



Telephone: 301-530-9400 ask for the sales rep on call for a custom pricing proposal

<b>COMPANY PROFILE .....</b>	<b>3</b>
<b>CHECK OUT OTHER SERVICES PROVIDED BY FLEXAMERICA.....</b>	<b>3</b>
<b>COBRA ADMINISTRATION .....</b>	<b>3</b>
<b>WHAT IS A CAFETERIA PLAN? .....</b>	<b>4</b>
<b>WHAT IS A CAFETERIA PLAN? .....</b>	<b>4</b>
<b>BENEFITS OF SPONSORING A PLAN.....</b>	<b>4</b>
<b>TAX SAVINGS .....</b>	<b>4</b>
<b>INTRODUCTION OF CAFETERIA PLANS .....</b>	<b>5</b>
PREMIUM ONLY .....	5
DEPENDENT CARE PLANS .....	5
HEALTHCARE SPENDING ACCOUNTS.....	6
PREMIUM REIMBURSEMENT ACCOUNTS .....	6
FLEX DOLLAR PLANS.....	6
<b>WHAT’S THE CATCH?.....</b>	<b>7</b>
<b>FLEXAMERICA SERVICES.....</b>	<b>7</b>
RECORD KEEPING SERVICES .....	7
GOVERNMENT REPORTING & COMPLIANCE.....	7
CLAIMS PROCESSING.....	8
EMPLOYEE COMMUNICATION SERVICES .....	8
<b>FLEX MASTERCARD .....</b>	<b>9</b>
HOW IT WORKS .....	9
ACCOUNT FUNDING .....	9
LIABILITY .....	9
<b>ADMINISTRATIVE HIGHLIGHTS.....</b>	<b>9</b>
<b>PLAN FUNDING OPTIONS .....</b>	<b>9</b>
<b>WEB BASED SERVICES .....</b>	<b>10</b>
PARTICIPANT SERVICES .....	10
ENROLLMENT OPTIONS .....	10
<b>COBRA.....</b>	<b>11</b>
<b>APPLICATION.....</b>	<b>13</b>
<b>TIME LINE TO SET- UP PLANS .....</b>	<b>13</b>

## Company Profile

**FlexAmerica** is a spin off from an employee benefit-consulting firm which had been offering cafeteria plan services to its clients since 1986. Based in the suburbs of the nation's capital, FlexAmerica is a rapidly growing third party administrator. With an emphasis on managing benefits information for employers, FlexAmerica provides companies with resources they can rely on in today's outsourcing environment.

FlexAmerica's growth has been fueled by changes in the market that left employers and their advisors with few choices for contracting with a company that specializes in FSA administration. Also, recent increases in health care costs have heightened employer awareness and demand for cafeteria plans as a solution to these rising costs.

### **What Makes FlexAmerica Different from other administrators?**

- Weekly claim processing for all clients,
- Internet based administration and claims services, and
- Focus on FSA administration
- No ancillary products are needed to implement a FSA

### **Cafeteria Plan Services Provided by FlexAmerica:**

- Employee Communication Meetings
- Custom Cafeteria Plan Design
- Discrimination Testing At The Beginning And The End Of The Plan Year
- Claims Processing & Record Keeping Services
- Signature Ready Form 5500 Preparation

### **Check Out Other Services Provided by FlexAmerica**

- COBRA Administration
- Parking & Transit Administration (Section 132)
- Flex Convenience Card*

## What is a Cafeteria Plan?

A cafeteria plan is set up under the IRS Code Section 125, 129 and 105 as a qualified plan, which allows employers to enhance their benefit program while both employee and employers take advantage of the tax breaks the plan provides. These types of plans are commonly referred to as Section 125 plans, POP plans, flexible spending plans or cafeteria plans. The primary feature of any qualified plan is that employees be given the choice of either company sponsored pre-tax benefits or taxable cash.

## Benefits of Sponsoring a Plan

Following are a few of the benefits of a cafeteria-style plan:

- **Employees** save Federal, State and FICA taxes on plan dollars.....approximately 30% on every dollar.
- **Employers** save the matching FICA costs, 1.25%-7.65% on all plan dollars.
- **Employers** attract and retain employees.

These are some of the many benefits associated with offering a cafeteria plan; however, the main reason many employers sponsor a plan is to enhance their current employee benefit program and share more of the healthcare costs with the employees in the current environment of steadily increasing costs. Since these plans permit employees to reduce their earnings to pay for benefits, they reduce their reported income, and therefore taxes, to the IRS. The employee is still paid the same wages; however, by redirecting a specified amount to pay for expected out of pocket costs, the employee is able to take home more money with a qualified plan than if they were paid with after tax dollars. In the competitive and demographically diverse market for qualified employees, cafeteria plans offer a flexible way to allow your employees to choose the benefits that best fit their needs and the needs of their family.

## Tax Savings

Employers will save payroll taxes when employees reduce their salary to pay for qualified benefits. These savings are usually 7.65% of deferred monies. For example: an employer whose employees are deferring \$75,000 a year in pre-tax benefits will save approximately \$5,738 in matching FICA taxes which can be used to cover the administrative costs of a full flex plan.

<i>How much will my employees save? Employee paying \$2,000 in premium and benefits comparison</i>		
	<u>W/O FSA</u>	<u>W/ FSA</u>
Salary	\$30,000	\$30,000
Annual Pre-tax Election	\$0	\$2,000
Taxable Income	\$30,000	\$28,000
<b>Taxes(30.65%)</b>	<b>\$-9,195</b>	<b>\$-8,582</b>
Annual after tax expense	\$2,000	\$0
Take home pay	\$18,805	\$19,418
<b>Increase in take home pay with FSA</b>		<b>\$613</b>

# Introduction of Cafeteria Plans

Cafeteria plans are set up in the IRS code and work like accident and health plans. Employers have the option to offer different benefit levels depending on their specific needs. Most employers offer the basic benefit found in a “POP Plan” while larger employers tend to offer additional choices for employees. Because of confidentiality reasons, employers tend to outsource the claims payment functions associated with healthcare spending accounts. The selection of a plan administrator is a key factor in the success of a FSA plan because participants will file more FSA claims than any other type of claim due to the highly automated managed care claims system.

Following is a description of the different accounts an employer can offer on a qualified basis.

## ***Premium Only***

A POP plan, also known as Section 125 or premium conversion plan, is the most basic form of a cafeteria plan. Employees are given the simple choice of purchasing their current benefits with pre-tax dollars or not. Eligible employee premiums that can be paid with pre-tax dollars include medical, dental, vision, cancer policies, life insurance (up to \$50,000) and disability premiums. FlexAmerica does not recommend that employees pay for disability premiums on a pre-tax basis because doing so will make the disability benefit taxable to the employee when received.

Employers frequently use POP plans to help offset the increases in health plans while existing benefits and contribution percentages remain intact. The cost to employees can often be lower than their share before the renewal. **Additionally, the savings the employer realizes through lower payroll taxes more than covers the cost to administer the plan. It’s a win win situation for both the employer and employees.**

## ***Dependent Care Plans***

Employees can use this account to pay for eligible dependent care expenses with pre-tax dollars up to \$5,000 per family per year. This option is a replacement for the federal childcare tax credit. Each plan year employees elect the amount they will use pre-tax for dependent care expenses to be deducted in equal increments from their paycheck. The monies are held in a separate account for each employee until the employee submits an eligible dependent care expense claim. Unlike the healthcare account, only the amount that has been deducted to date can be reimbursed to participants. This eliminates any risk on the employer’s part since the account can never have a negative balance.

### ***Who is an Eligible Dependent?***

- A child under the age of 13
- A spouse, parent or child(ren) of any age who are physically or mentally unable to care for themselves AND who qualify as a dependent on your federal tax return.

### **Expenses include:**

- Before and after school programs
- Nursery or pre-school tuition
- Summer day camp
- Care in a home by a licensed provider

Note: Dependent care benefits elected under a cafeteria plan offset the federal tax credit for dependent care allowable on their federal tax return.

## **Healthcare Spending Accounts**

Healthcare Spending Accounts offer employees the opportunity to pay for eligible out-of-pocket medical costs with pre-tax dollars. Similar to the deduction an individual could take on his/her tax return but without regard to the 7.65% Adjusted Gross Income rule, healthcare accounts allow employees to save taxes on the first dollar set aside up to the maximum amount the employer selects.

Healthcare Spending Accounts cover an endless list of eligible expenses for which an employee can seek reimbursement. A partial list of eligible expenses can be obtained through our web site at [www.flexamerica.com](http://www.flexamerica.com). Some examples include deductibles, coinsurance, prescription and office visit co-pays, dental, orthodontia, durable medical equipment, infertility and psychiatric services, eyeglasses and contact lenses.

The employer is at risk with this account since they have to make the entire Healthcare Spending Account election available to employees during the year. A deficit could occur when an employee terminates with a negative account balance and does not elect to continue participating in the plan through COBRA. On the other hand,

### ***Employee perceived drawbacks to FSA's***

- Any money left in their account at the end of the year is forfeited. The employer cannot reimburse the employee that did not have enough claims to substantiate his election.
- If an employee terminates employment prior to incurring a planned expense, the money is forfeited. However, the employee could elect to continue participation through COBRA and submit expenses past their termination date

employees who leave money in their accounts at the end of the year usually offset this loss. Most companies also institute a maximum annual employee election of \$3,000 to \$5,000 to minimize their exposure. A random sample of 600 participant accounts showed that 55 accounts had an average negative balance of \$155.81, 431 had balance of + or - \$5; 114 forfeited and average of \$207.95.

## **Premium Reimbursement Accounts**

A few employers could benefit from the premium reimbursement account. This account allows employees who are paying for individual health insurance premium to pay these premiums on a pre-tax basis. This account can only be used for individual premiums non-group plans such as Tricare or individual health plans, no COBRA premiums or any other group insurance premiums may flow through this account.

## **Flex Dollar Plans**

Flexible Benefit Plans are the most complex form of a cafeteria plan and are particularly appropriate for companies that would like to have the employees share more in the cost of benefits. They help a company make the transition on terms that are equally favorable to the employer and employees. Rather than simply pay for all or part of the employees' insurance, the company assigns a "price tag" to benefits and gives employees a set amount of points or dollars to spend on their benefits. They may choose to "purchase" benefits or take the money in the form of cash.

The advantages of this approach are:

- It provides a transition to more managed care health plans by requiring employees to pay the difference for the higher cost plans and establish predictable benefit costs for each employee.
- The employer will have more control over future health insurance cost increases.

- It makes cost sharing less difficult for the employees. They will have a choice in the benefits they want while still taking advantage of the tax savings available through the plan.
- The employer may see a reduction in his contributions for insurance since employees with double coverage may choose to drop coverage and take a cash benefit which is priced lower than the employer's contribution to benefits.

## What's The Catch?

The employer is at risk for those employees who terminate employment with a negative healthcare spending account balance. These monies cannot be recouped from terminated employees. The employer must also comply with the plan requirements that include COBRA administration for the healthcare account. Employees who participate are also at risk. Participants who do not use the money they elected forfeit the balance. This money is retained by the employer and may be used to pay for administration costs or to offset any losses from early terminations.

## FlexAmerica Services

### Record Keeping Services

FlexAmerica has invested in state of the art FSA claims processing and data management systems. Our Internet site accesses information from both systems to provide the employer and participants with as much information as possible.

Our claims processing system tracks expenses and account activity for each participant as well as on an aggregate group basis. Standard services include participant EOBs with each weekly reimbursement and employer reports that detail claims data pertinent to your plan. Due to the Privacy Act, FlexAmerica's reports will not detail specific provider information. Employers and participants can use these reports to determine account balances throughout the plan year and track claims activity.

Our data management system houses plan sponsor's information including historical and future IRS Form 5500 filing dates, all plan specific data and correspondence and communication with the client.

This report may be saved and opened in excel or other spreadsheet programs

**FlexAmerica Internet Example Company**

**FSA Account Summary**

**Enrollment Policy: FlexAmerica requires that all weekly terminations and additions be received by Wednesday 12:00 pm EST.**

Account Key	
Account 1	Dependent care
Account 2	Health FSA
Account 3	Flexible Reimbursement
Account 4	Other

Enrollment Summary										
ID#	Last name	First name	FSA account	Annual dollar	Annual EA contribution	Regulate	Roll status	Per pay deduction	Year date	Class Year End Date
1111001	SMITH	GEORGE	1	4000.00	0.00	0.00	00.00	0.00	0000-00-00	0000-12-31
1111002	SMITH	GEORGE	2	4000.00	0.00	0.00	0.00	0.00	0000-00-00	0000-12-31
1111003	CRONIN	MIKE	3	3200.00	0.00	447.32	00.00	00.22	0000-00-00	0000-12-31
1111004	SMITH	STEVE	3	4000.00	0.00	0.00	00.00	0.00	0000-00-00	0000-12-31
1111005	SMITH	GEORGE	3	4000.00	0.00	0.00	00.00	0.00	0000-00-00	0000-12-31

### Government Reporting & Compliance

The Internal Revenue Service requires an annual filing of Form 5500 and Schedule F. These reports include such information as the number of participants, the amount of benefits in the plan, plan number, and company name.

The following is a summary of some of the basic requirements set forth by the IRS to sponsor a plan which is also subject to ERISA:

1. The plan must be in writing and adopted by the sponsoring company.
2. Discrimination testing must be performed to ensure the plan does not favor the highly compensated.
3. The plan must be communicated to employees through a Summary Plan Description.

### **Claims Processing**

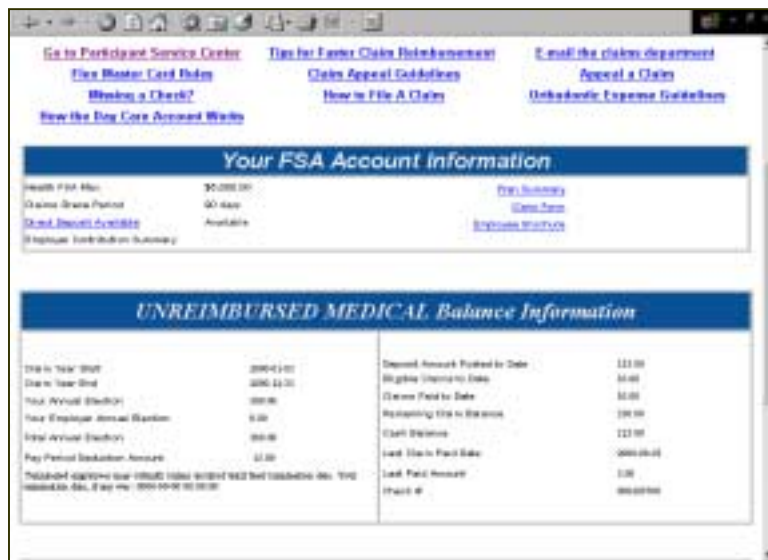
FlexAmerica provides complete claims outsourcing services for employers. Claims are processed weekly and an EOB detailing account balance and claim information is included with each disbursement. Claim forms and participant account balance information can also be found on our secure web site.

**FlexAmerica processes claims on a weekly basis. Our policy is "claim in by Tuesday mailed by Thursday"**

### **Employee Communication Services**

Once a year at Open Enrollment, a FlexAmerica representative will meet with you and your employees to communicate the benefits and guidelines that pertain to your specific plan. These meetings are designed to:

- Refresh old employees with the benefits of their plan and/or introduce new guidelines.
- Introduce your plan to new employees that may not have had the benefit of attending a previous meeting.
- Address and answer any concerns your employees have regarding participation.
- Emphasize third party administration to assure your employees that their medical and personal matters are kept private.



# Flex MasterCard

## How it works

The flex MasterCard is the newest innovation in claims reimbursement. Employers who opt for this service will have a special limited used MasterCard issued for each plan participant. The card uses smart card technology which restricts the use of the card to approved merchants only. Expenses at approved merchants are sent through the system and either approved if the account balance and merchant is correct or the transaction is denied. The system is also set to flag certain transactions and put the expense into a pending status. Employees with pended transactions must then submit the claim to FlexAmerica for final approval. Claims which are not processed through the MasterCard system will run through our claim system and may be mailed or faxed to FlexAmerica for weekly processing. Additionally, since supermarkets and pharmacies are approved merchants, FlexAmerica has limited the use of the card to round dollar amounts to coincide with your health plan's prescription co-pays, thus requiring your employee to segregate their purchases at the point of sale and manually send in claims for odd dollar amounts. *This plan option cannot be used in conjunction with Direct Deposit option.*



## Account Funding

The MasterCard feature requires an additional funding requirement. Offering the card requires that the plan sponsor maintains at least three (3) months elections in their designated bank account. Once initiated, claims for employees are swiped at the point of sale, the transactions are then uploaded to the merchant's bank and processing will begin within the banking system. Within 48 hours, the employee's transaction will hit your bank account. FlexAmerica will continue to provide periodic reports to the employer; however, due to the frequency and number of transactions, FlexAmerica will not provide notification of all amounts to the plan sponsor.

## Liability

The IRS has informally approved these systems for general use. They have also stated that it is the employee who liable for fraudulent claims, not the plan sponsor. This also will require employers to promptly notify FlexAmerica of terminations so the card may be turned off in a timely manner.

## Administrative Highlights

Customer Service Hours	24x7 Web Access
Telephone Hours	8:00 – 6:00 EST
Explanation of Benefits	Included with each reimbursement
Discrimination Testing	Includes 2 tests standard per year
Direct Deposit of claims	Optional for all employers
Fax Submission of Claims	Yes

## Plan Funding Options

The plan sponsor is responsible for paying all claims processed by FlexAmerica. The employer may set-up a benefit checking account with which FlexAmerica will write checks from or the amount of the weekly claims may be automatically transferred by FlexAmerica to our claims account via an ACH transaction.

Under the ACH plan, the employer will be notified each Thursday of the claims amounts via e-mail and the transaction will occur on the following Monday. Administrative fees can also be paid via ACH.

## Web Based Services

### ***Participant Services***

The participant center on our web site is highlighted by plan an inquiry system for participants. Additionally there are forms online for the participants as well as plan information that enhances employees understanding of the operation of the plan.

### ***Employer Services***

Employers have secure access to administrative functions such as adding and terminating participants, account information, administrative manuals and much more. Coming this summer, employers will be able to view their most recent check run online and complete account information will be displayed allowing plan sponsors to check to see if the information in our system is accurate. FlexAmerica will continue to provide full access to plan sponsors as technology permits.

The screenshot shows a web browser window displaying a form titled "Transaction Form". The form is for adding, terminating, or changing employee information. It includes fields for "Completed By", "Company Name", "Email Address", "Change Code" (with a dropdown menu set to "Add"), "Status Change", "Explanation", "Social Security #", "Participant Last Name", "Participant First Name", "Participant DOB" (with a note "(maximum 20 digits)", "Home Address", "City", "State" (with a dropdown menu set to "Alaska"), and "Zip". There are also checkboxes for "Hire Date" and "Termination Date". A message at the top states: "Please complete this form for Additions, Terminations & Changes. All red fields are required for our enrollment team to properly add or term an employee. All enrollment and terminations will be processed within 5 business days."

### ***Enrollment Options***

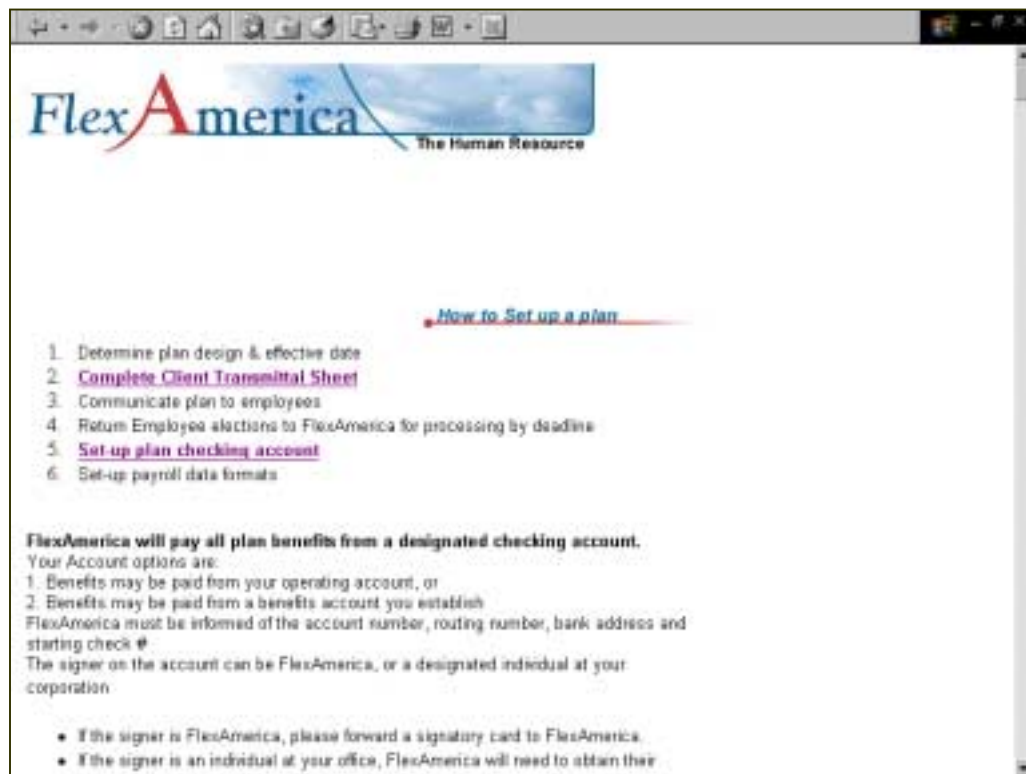
Plan sponsors may opt for a paper enrollment or standard web based enrollment. These services can also be used for new hires as well as your annual open season. FlexAmerica also has the capability to conduct a complete online open enrollment for a complete flex plan. Please contact s for further details regarding our custom enrollment capabilities.

The screenshot shows the FlexAmerica website's "Open Enrollment Login" page. The page features the FlexAmerica logo at the top left, a "Home" button, and a "Welcome back!" message. The main heading is "Open Enrollment Login". Below the heading, there is a "Login" button and a "Username (Email)" input field with a "Login" button next to it. At the bottom of the page, there is a small disclaimer: "We will not disclose any information of our website to any third party. To receive immediate 24-hour coverage or help, please call our 24-hour toll-free number 1-800-455-1111 or visit our website at [www.flexamerica.com](http://www.flexamerica.com)." The page also includes a "Log Out" button in the top right corner.

## Implementation Steps

1. Coordinate with FlexAmerica plan design specification.
2. Submit account application and set-up fee to FlexAmerica.
3. Conduct employee meeting and have participants complete enrollment forms.
4. Return Enrollment Forms to FlexAmerica for processing & submit election data in ASCII format
5. Return requested information for testing to FlexAmerica
6. Select funding mechanism and set-up payroll deductions. (you may need to notify your payroll company that a plan has been instituted and deductions are to be pre-tax).
7. Set up company bank account and provide account information to FlexAmerica
8. An election confirmation report will be e-mailed to you for review

Below is an example of our online capabilities for plan design. When a face to face meeting is not possible, both parties can review the options together and determine what plan options are best for a specific employer through complete disclosure of plan options.



## COBRA

Healthcare flexible spending accounts are subject to COBRA. This means that your employees who are participating in a health FSA and terminate employment should be offered the right to continue coverage in the plan subject to certain rules. Employers who are subject to COBRA should notify their COBRA administrator in order to have the proper plan notification processed if FlexAmerica is not administering the COBRA for the employer's group health plan(s).

## FREQUENTLY ASKED QUESTIONS

**Q. What are the maximums for the plan?**

A. The maximum election for the dependent care is \$5,000 per year per family. The employer has the ability to set the maximum for the medical expense account.

**Q. What are the disadvantages for employers?**

A. Employers are at risk for employees who terminate employment with a negative healthcare spending account balance. There is also the added responsibility of plan compliance and reporting.

**Q. What are the risks of the plan to an employee?**

A. Employees who do not use their elected benefits by the end of the plan year lose their money, and if an employee leaves with a negative account balance, the money cannot be withheld. IRS regulations prohibit employees from carrying a negative dependent care account balance.

**Q. What are the government requirements?**

A. The plan must file a Form 5500 annually, perform a discrimination test on the total benefits and dependent care benefits. The healthcare spending account is subject to COBRA.

**Q. Are there any ineligible employees?**

A. Yes partners, 2% owners of "S" corporations, LLC members and in some cases their direct family members.

**Q. Who are eligible employees?**

A. Usually plans allow employees who are participants in their group health insurance plans to enter flex plans. Additionally, affiliated employers and companies who have 80% common ownership must be included.

**Q. What should our accounting/HR department expect to do?**

A. Submit employee deferrals, new hire, and terminations to FlexAmerica on a regular basis.

**Q. What happens with the money left over at the end of the plan year?**

A. Employees have until the end of a grace period, usually 90 days past the end of the plan year, to submit expenses. Remaining funds are retained by the employer. These funds cannot be given back to the employees who have account balances. Most employers use the money to offset plan costs.

**Q. Can employees change their elections during the plan year?**

A. Yes, but only if they have a change in status (birth, death, adoption, marriage, divorce, or change in employment status of a spouse).

**Q. Are there any ineligible expenses?**

A. Yes. The most common are: health clubs, spas, non-prescription medicine, weight loss programs, smoking cessation program fees, hair transplants, teeth whitening, and cosmetic surgery.

**Q. What should I expect as my average deferral from my employees.**

A. FlexAmerica's average deferral is \$1,500 yielding savings of \$120 per year on FICA costs.

**Q. Are there any benefits I should not run through the plan?**

A. Yes, Disability premiums paid by employees through a cafeteria plan in turn makes the benefits taxable, and therefore they should not run through these plans.

**Q. Do we have to purchase any additional products in order to have FlexAmerica administer our plan?**

A. No, FlexAmerica is strictly interested in administering your FSA plan, not in selling additional products

**Q. What are 401(k) earnings based upon?**

A. The earnings are based on your gross salary before deductions. This is called "safe harbor" earnings.

# Application

## Basic Corporate Data Fax to 301-564-5191

Company Name	Application Type: <input type="checkbox"/> New Plan <input type="checkbox"/> Takeover of existing plan <input type="checkbox"/> Conversion from POP to FSA <input type="checkbox"/> Other	Corporation Type <input type="checkbox"/> C Corp <input type="checkbox"/> PC <input type="checkbox"/> S Corp* <input type="checkbox"/> Partnership* <input type="checkbox"/> Nonprofit <input type="checkbox"/> LLC* <input type="checkbox"/> Other _____ <small>*owners not eligible to participate in FSA plan(s)</small>
Effective Date (date plan will start)	Employer Tax ID #	Current # of Employees
Primary Contact (Name & Title)	Email Address	Phone Fax
What is your payroll Schedule (s)	Healthcare FSA Maximum	Healthcare FSA Minimum
Internet Enrollment <input type="checkbox"/> Yes <input type="checkbox"/> No	Claims will be pay by <input type="checkbox"/> ACH <input type="checkbox"/> Out of Employer account	Flex MasterCard offered <input type="checkbox"/> Yes <input type="checkbox"/> No
<b>Sold Case Checklist</b> <input type="checkbox"/> Signed Agreement & check for set-up <input type="checkbox"/> Conduct Employee meetings  <b>Takeover Plans</b> <input type="checkbox"/> Copy of old plan document (if applicable) <input type="checkbox"/> Copy of Most recent 5500 (if applicable) <input type="checkbox"/> Takeover effective Date _____ <input type="checkbox"/> Claims reports year to date with employee census information ( SS#, Name, DOH, address)		

## Time Line to Set- Up Plans

<u>Item</u>	<u>Days prior to effective date</u>
Employer plan design meeting	60
Test file for deposits(if necessary)	50
Employee Meetings	45
Employee Elections to FlexAmerica	30
Testing results and census completion	25
Pre-note checking accounts	30
Confirmation of deductions to client	20
Plan Binder Delivery	15
Web Site Activation	15

\*If you have over 300 employees you should add 30 days to the attached timeline for best results.