



Welcome to Manley

A continuing conversation in many offices where Flexible Spending Accounts are available has to do with allowing mid-year changes in plan elections. With the release of the final Change in Status regulations, the Internal Revenue Service

is attempting to make clear when you can – and cannot – allow participants in Health or Dependent Care flex accounts to make changes.

Of course, 'clear' is a relative term.

To try and help you make sense of all this, we have briefly outlined the rules. As always, if you have questions, feel free to call us.

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If your Plan allows participants to make changes, specifically in the health reimbursement account, then the following is a recap of the allowable changes. Many Plans allow participants to make election changes in their Health FSAs and all of our clients allow changes in the Dependent Care FSA, and the Health Insurance Premium Account. Again, remember that your Plan is not required to allow changes during the Plan Year: It is a matter of Plan design, and if you wish to amend your Plan please give Stan Manley a call.

Changes are allowed by IRS due to:

1. A change in the employee's legal marital status;
2. A change in the number of dependents;
3. A change in employment status;
4. A change wherein a dependent satisfies or ceases to satisfy eligibility requirements;
5. A change in residence; or
6. The commencement or termination of adoption proceedings.

Under the final regulations, it is much easier to allow changes in a Dependent Care FSA than it was before. Events that would permit mid-year election changes under a Dependent Care FSA, if the Plan Document allows it, include:

1. Cost changes, with automatic election increase/decrease;
2. Significant cost increases;
3. Significant coverage curtailment;
4. Addition or elimination of benefit package options; and/or
5. Change in coverage of spouse or dependent under other employer's plan.

There are a few special circumstances under which particular changes can be made. For example:

- A. FMLA Leaves. If an employee starts or ends an FMLA leave, he or she may stop or make a new election under their Health FSA or their Dependent Care FSA.
- B. HIPAA events. If your cafeteria plan is subject to HIPAA, changes can be made to the Health FSA if there is a loss of other coverage, or a new dependent (as in the case of birth, adoption, marriage, etc.). No changes are permitted to the Dependent Care FSA under these circumstances, and no changes are permitted to either FSA due to COBRA events.

- C. Judgement, decree or order. If there is a court order requiring health coverage for a child, the Health FSA election may be

changed to do so. However, no change to the Dependent Care FSA is allowed.

- D. Medicare or Medicaid. Employee may increase or decrease Health FSA amount if the employee, spouse, or dependent enrolled in the employee's plan becomes entitled to Medicare or Medicaid, unless they are covered only for pediatric vaccinations.

The Internal Revenue Service cautions that any changes must be consistent with the actual event. For instance, if the event is a change in daycare arrangements, the Health FSA is not affected and therefore no change to it can be allowed. They also offer a reminder that the list of permissible reasons for a mid-year change is exhaustive; if the reason does not fit into one of the mentioned categories, it will not qualify. If you have a specific situation and are unsure if it falls into one of the noted categories, please feel free to call us to discuss it.

The IRS is also "strongly encouraging" employers to amend their plans to reflect these changes. Manley Services will contact you soon to assist in the process. We also have developed a Status

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Offering COBRA

You Must Offer COBRA With Your FSA-Maybe

Benefit continuation rights under COBRA help employees who have lost their coverage due to a qualifying event by allowing them to maintain access to their benefits. You already know that this rule applies to health insurance. Here's how it may also apply to your Health Flexible Spending Account.

In general, if a qualified beneficiary loses their health FSA because of a qualifying event, they are entitled to COBRA coverage. Under the Internal Revenue Service's 1999 proposal, though, there are some exceptions.

First, you do not need to offer COBRA coverage at all if your Section 125 Plan is not subject to the Health Insurance Portability and Accountability Act (HIPAA), and both of the following conditions apply:

- The maximum annual COBRA premium for the health FSA is equal to or more than the maximum annual health FSA coverage amount. For example, if the annual coverage amount is \$1,200, and the annual COBRA

premium is also \$1,200 (or more, with the permitted 2% surcharge); and

- If the participant has "overspent" his health FSA account, as of the date of the qualifying event. For example, if an employee submitted \$1,400 of claims before terminating employment, but his year-to-date salary reductions plus any employer contribution amount to only \$1,200. If you are required to extend COBRA coverage to an individual, the coverage can be discontinued at the end of the plan year during which the qualifying event occurred under certain circumstances. First, the plan must be exempt from HIPAA. Second, as in the rule above, the maximum annual COBRA premium equals or exceeds the maximum annual health FSA coverage amount.

In a situation where a qualified beneficiary underspends his health FSA account, you must offer COBRA coverage. "Underspending" is best illustrated by an example.

An employee has a qualifying event on May 31, 2002. She elected a \$1,200 salary reduction for the plan year in this calendar year plan. As of May 31, she had submitted claims totaling \$300, leaving \$900 remaining. In this example the employee must be offered COBRA for the Health Care FSA through the end of the Plan Year. The employee would then have access to the annual election with qualified expenses.

These rules are complex and involved. As always there are Plan design issues that may change the answer you receive. If you made it through this article, congratulations! If you skipped to the end but still want the information, feel free to call us for clarification. We're here to help.

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Change Matrix that will assist you in determining qualified changes.

Of course, these new regulations create some administrative issues. For instance, your plan may allow a change in the Health FSA with a qualifying event, but there may be restrictions in the underlying insurance policy. Be sure to look into the specific terms of the policy.

There is also the question of substantiation. Although the IRS does not specifically address how you should substantiate an event which would allow an election change, it would be wise to require the employee to certify in writing what event occurred and how the requested change is consistent with that event. This can be accomplished by a Change in Status Form that is signed by both the participant and the employer.

We hope this clarifies things for you. If you still have questions, though, about this or any other Section 125 topic, please call us. We're happy to help.

Employee Profile Denise Apo

Manley Services is a family run business in the truest sense. Not only are there several blood relationships running through the place, but employees think of each other as family, too. Denise Apo, our featured employee for this issue, has the benefit of both definitions of family. Her sister, Kim, works alongside her, and of course, she considers all her coworkers to be family.

Denise has been Manley's receptionist for about six of the nine years she's been employed at Manley. She loves her job. "I consider it a compliment," she says, "that they like the way I do my job." Of course, she is familiar with the administration work at Manley, but feels she has found her true calling as the main phone representative for Manley Services. "I absolutely love it," she gushes. "I've never worked for a better, more generous company."

Denise was born in Eugene, and split her childhood between family there and in Hawaii. "I love the Eugene/Springfield area," she says. "We're an hour from the mountains, and an hour from the beach. I love them both!" Because of her family ties, Denise has the opportunity to indulge her love of snow skiing, and two distinct kinds of beaches – those in Oregon and those in Hawaii.

Denise came to Manley Services through a "friend of a friend of a friend" situation. While vacationing in California, she got a call from Manley, asking her if she wanted to interview for a job. "My mom's neighbor knew Gene Manley, and told my mom." Whether she was playing hard to get, or just really needed to finish her vacation may never be known. But the bottom

line is that the call came with a week remaining of Denise's vacation. She told them she'd be happy to interview, but that she'd be gone another week. It was worth the wait for everyone involved; Denise was hired the same day she interviewed. "My old job was also a family business," she recalls. "There was always a lot of bickering in the office. At Manley, we all get along; everyone works together."

Denise is raising a son, 16-year-old Chris. A Junior in high school, Chris is an active athlete, playing football, watersports, and hunting. "My father still lives in Hawaii," Denise says, "and he's going to teach Chris how to surf." Besides his outdoors lifestyle, Chris is handy to have in the house, too. "He cooks for me!" says his proud mom. "He's the love of my life."

Denise is proud of her company. "At Manley Services," she says, "we work together as a team. That's extremely important. We return calls ASAP. We're right on top of things, and we're willing to work with you." And that's how families should be.



Client Profile Willamalane Park & Recreation District

You can tell by her title that Pam Caples has many varied responsibilities. As the Human Resources/Finance Manager for the Willamalane Park & Recreation District in Springfield, Oregon, she is responsible for a lot of different areas. "Being part of a small District," she says, "I and my staff need to wear many different hats." Because of her involvement in so many things, it can be difficult to be an expert in every area. So she hires experts to help her sort things out. One of those experts is Manley Services.

One of the hats Caples doesn't need to wear is the one that says 'Section 125 Expert.' That's because the Willamalane Park & Recreation District, which serves the people of Springfield, hired Manley Services to administer their Section 125 Flex Plan. Willamalane has used Manley from the beginning,

because, as Caples puts it, "Manley knows their stuff. They provide a comprehensive, well managed service." She appreciates their expertise and ability to communicate to the employees of her District. "Some of the tax laws are difficult to keep up with," she says. "Manley comes in to explain details to employees and answer questions, plus they provide support to our administrative staff with reporting."

Ultimately, Pam Caples' job is to make the people of Springfield happy through their public parks and recreational opportunities. And she is best able to do that when she doesn't have to worry about the details of her 125 program. She reports that her District employees are "very happy" with Manley Services. And, just maybe, that translates into happier Springfield residents.

IRC Section 125 Plan

What type of employee benefit can actually save the company money? What type of employee benefit can reduce an employee's taxes? And finally, why doesn't your company have this benefit?

The answer to the first two questions is easy. It is called an IRC Section 125 Plan. This plan allows employees to pay for certain health expenses and/or childcare with pre-tax income. The employee saves on their income and FICA tax, and the company saves the matching FICA taxes. It is a beautiful thing.

Answering the last question should soon become moot, because now nearly every business should adopt this benefit.

There are a couple of different ways that companies can adopt a Section 125 Plan. One is called a Premium Only Plan. This program allows your employees to pay their portion of the health insurance with pre-tax dollars. It will save your employees approximately 30% on their cost of health related insurance. Many employers start with this type of program, then soon realize there is more available with Section 125. A Flexible Spending Account can be added to the Premium Only Plan. The spending account allows employees to set pre-tax dollars aside to pay for health expenses that are not covered by their insurance. Expenses like doctor co-pays, prescription co-pays, deductibles, dental and vision expenses and more. Within a Section 125 Plan employee can even pay for their childcare with pre-tax money.

How do companies decide to adopt a Section 125 Plan? Mike Warner, Human Resource Director for Marathon Coach in Coburg, Oregon had an idea. "About six years ago we were hit with somewhere between a 20% and 30% increase in our insurance rates. Our employees pay to have their dependents covered, so it was a pretty big hit. We adopted the Section 125 to help them offset that increase." Right now employees are saving about \$80 off the cost of family health insurance coverage by paying for their insurance with pre-tax money. Marathon Coach, Inc. builds upscale luxury recreational vehicles and now employs nearly 400 people.

In 1999 Marathon added the Flexible Spending Account. Warner says, "When we started the Section 125, we didn't really see a need for the spending accounts. A lot of our employees were young, single types. But as our group got a little older and began having families, the flexible spending account has really worked well."

Kathy Neckels of Marathon Coach has been a participant for the past two years in addition to helping administer the Plan. "We use it for prescriptions, doctor co-pays and vision expenses. With a large family it really has paid off for us in tax savings, as well as being able to budget for our health care."

"We brought in a 401(k) Plan, Warner continued," and then the Section 125, and spent some time educating our employees. Some of these plans seem too good to be true, but as time went by our people really took advantage of them. Having the 401(k) and Premium Plan in place made it seem easier to explain the Spending Accounts to the employees. I wish more of our people would take advantage of it. I think we have around 100 participants out of 392 employees. I thought it would take three or four years before it really took off."

"Some of the people here were a little afraid of the risks in the Spending Accounts," said Neckels, "but I think our employees do a pretty good job of

planning. It's such a simple and fast process to be reimbursed for the health expenses, and every year we get more participation."

Wendy Powell, an accountant for Oregon Forest Industries Council, says their employees "just love the Plan. We have 8 employees, and we are in our seventh plan year. Two of the staff use the childcare account and the rest participate in the health care spending account. We contract with Manley Services to assist in the administration, and service is the reason. They are willing to meet with all employees face to face to make sure they understand what they're doing. On top of that, the cost of administering the program is only half of what the Council saves in FICA tax."

We've heard from a Human Resources manager and an accountant. Now, let's hear from an employee benefits professional. Ted Lacock is with CFP in Salem. CFP provides a variety of employee benefits to employers throughout Oregon. Ted says, "Well, I always recommend a 125 Plan because it is really the only way that employees can get a tax savings on their health care. We always recommend that our clients use Manley Services to help with the administration. We introduce Manley to our clients, and then don't have to worry about that part of the benefit plan. They are the only ones we know that provide full-time permanent enrollment assistance anywhere in the State. And they aren't trying to sell any other insurance, they just educate the staff about (Section) 125."

Adopting the Section 125 Plan is easy. It's affordable, and for some of your employees, this will be the best benefit you can offer. Most companies can afford to offer this program, and in some cases simply cannot afford not to offer Section 125. Manley Services provides Section 125 Plan services to over 1,800 different employers in the Pacific Northwest. Manley can assist all employees in determining the best Plan for their group and the most cost-effective way to implement the Plan. In most cases, the cost of the program will be completely offset by the employer's tax savings.

Why wait? Can your Health Insurance representative or Manley Services today. Find out if a Section 125 benefit is right for your company.

Typical Employer Savings

	Participants	Premium	Total
Insurance Premium	30	\$100	\$3,000
Monthly Payroll Reduction			\$3,000
Annual Payroll Reduction			\$36,000
ANNUAL FICA SAVINGS @7.65%			\$2,754

Typical Employee Savings

	Without Section 125	With Section 125
Gross Monthly Salary	\$1,000	\$1,000
Insurance	\$0.00	\$100
Taxable Salary	\$1,000	\$900
Income Tax (22%)	\$220	\$198
FICA (7.65%)	\$76.50	\$68.85
Total Taxes	\$296.50	\$266.85
Net Salary	\$703.50	\$633.15
Insurance	\$100	\$0.00
Take Home Pay	\$603.50	\$633.15

Reminders



Once again it's the time of year to congratulate employees for planning ahead by taking advantage of their Flexible Spending Accounts. By utilizing the arrangement, they've saved themselves money.

It's also a good time to remind employees that they must use up the money they've set aside, before the end of the year, or risk losing it. Participants have 90 days following the end of the plan year to file claims for expenses incurred during the plan year. If they don't use up the amount they've set aside, the money is forfeited. If they work this into their year-end to do list, rather than pushing the deadline, they won't risk losing their hard-earned funds.

If your Flex plan's participation is not as high as you'd like, why not take this opportunity to advertise it a bit? We can provide you with payroll stuffers, or articles for your company newsletter. These, along with the word of mouth from happy participants, can help increase participation.

Fall is also time to schedule your renewal meetings. Call our office and we'll be happy to set up a time for you.

Manley Services has celebrated our second anniversary in our new offices in Coburg. If you haven't stopped in yet, feel free to come by. As a reminder, our mailing address is P.O. Box 70168, Eugene, OR 97401-0110, and our phone number is 541-485-7488 or 800-422-7038. If you still have forms that include our old address, let us know and we'll be happy to replace them for you.

Visit our website at www.manleyserv.com. Our email address for customer service is sales@manleyserv.com.

MANLEY
SERVICES

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