

Flexible Spending Accounts: The Smart Benefit

With a Section 125 Flexible Spending Account, you can add an employee benefit and actually save money.

The Section 125 Flexible Spending Account (FSA) is the employee benefit that's beneficial to your company as well. By enabling employees to pay for specific health and childcare expenses with pre-tax dollars, an FSA not only reduces your employees' taxes; it also reduces the payroll taxes your company pays. For this reason, each year more and more companies consider adopting an FSA, and more are choosing Manley. At Manley Services, we have the capability to tailor an FSA package to meet your company's individual needs.

Section 125: The Nuts and Bolts

Under Section 125, there are three types of accounts: Premium, Healthcare Expense FSA, and Dependent Care. Whichever plans you choose to offer your employees, there are several common features:

- Employees determine their own contributions based on their expected expenses.
- Once employees estimate their out-of-pocket expenses for the plan year, this amount is divided by the number of pay periods in that year and deducted pre-tax from each paycheck.
- We provide all necessary enrollment and educational materials. We also educate employees about the benefits and risks that may be involved in participating in the plan.
- We handle Health Reimbursement Expense reimbursements via check or direct deposit to the participants within a few days.



- For dependent care claims, reimbursement takes a few days from the date we receive the claim, as long as funds have already been payroll deducted and sent to us.
- At the end of the plan year, any unused funds in the FSA account are forfeited to the employer.

Premium Contributions

This basic plan allows employees to set aside pre-tax money to pay for their portion of their health insurance premium. Because employees know in advance how much their premium will be, there is no need to estimate this expense. They also don't have to file any additional tax forms as their W-2 will simply reflect the lower taxable income. Most employees will accomplish enrollment automatically through a negative election.

Healthcare Expense FSA

This account allows employees to set aside pre-tax money to pay for medically necessary healthcare expenses that are not covered by a health plan. Eligible expenses include health insurance deductibles, coinsurance, copayments, dental care, vision care, prescriptions, and over-the-counter drugs.

Dependent Care FSA

This account allows employees to set aside pre-tax money to pay for dependent care expenses. Employees may either participate in this FSA or take the IRS standard dependent care tax credit, but not for the same expense. Many times, the FSA provides a greater tax savings than the tax credit option.

Questions and Answers

Who is eligible to participate?

Only employees are eligible to participate in the FSA. Therefore, two percent or more owners in an S Corporation, sole proprietors, partners in a partnership, LLCs, and LLPs are not eligible to participate in the plan. Your Manley Services representative will work with you to resolve any eligibility questions.

Can employees make changes during the plan year?

Changes to the dependent care account can be made if the participant experiences a qualified change in status (marriage, divorce, birth, death, adoption, a spouse changing employment, or a job shift change for the employee or their spouse that directly affects their child care). Changes to the unreimbursed health expense account are based on a more limited set of qualifying events, and can be made only if the plan you have adopted allows changes to this account.

How soon must employees submit claims?

Employees have until 90 days after the end of the plan year to submit requests for reimbursement. If the employer adopts the grace period, the plan year is extended by an additional two months and 15 days, after which the 90 day period begins.

What if employees want to change their deduction amount?

With the healthcare FSA, the deduction amount may not be changed during the plan year unless your plan document allows for qualified changes. The deduction amount for dependent care may be changed during the plan year, but only if a qualified status change has occurred. To change their deduction, employees simply complete a change form and submit it to their human resources department.

Can a participant be reimbursed before they have contributed the amount to the account?

It depends on the type of account. With a dependent care account, the eligible reimbursement amount is available only after the funds have been payroll deducted and those funds have been received by Manley. For the unreimbursed health expense account, the reimbursement process will start after the plan year is established. Per IRS regulations, participants have access to their total annual election at this time.

What is the maximum allowable allocation for an FSA?

It varies by the type of account. For a dependent care FSA, the maximum is \$5,000 per calendar year, or \$2,500 if married filing separately. With a healthcare spending account, the maximum annual election is up to you, the employer (\$2,500 maximum per IRS limit, effective February 1, 2012). For a premium contribution, no such maximum applies as the premium is the only pre-tax deduction.

About Us

Manley Services, a licensed third party administrator, began operations in 1987 and became part of the PacificSource group of companies in March 2003. We work with insurers, employers, and associations to provide consulting assistance in the design, implementation, and all administrative functions of their benefit plans.

Additional Questions?

If you have any questions or would like more information, please feel free to contact us.



A PacificSource Company

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