



**AMERICAN BENEFITS GROUP**

*Empowering Technology. Exceptional Service.*

## **Flexible Spending Accounts Employer Guide**

## Frequently Asked Questions

### Who can offer an FSA plan?

Most employers can offer an FSA, with a few exceptions. You may want to check with your legal or tax advisor regarding your special situation.

### Who may contribute to an FSA?

Employees who are eligible for your group health plans (they do not have to be enrolled in these plans). Employees contribute to their own FSA through pre-tax salary deductions. You can also contribute up to \$500 to your employees' FSAs.

### Can an FSA be offered with any health plan?

Yes. An FSA plan can be offered alongside any medical or dental plan. However, according to IRS regulations, if employees contribute to an HSA, they can only enroll in a Limited Purpose FSA.

### What regulations should I be aware of?

Healthcare FSAs are governed by section 125 of the IRC when offered through a cafeteria plan. They are subject to ERISA, COBRA and HIPAA.

### What is the Grace Period option?

The Grace Period allows employees up to 2½ months beyond the end of the plan year to use their contributed funds in their Health FSA or Dependent Care FSA. After the grace period any used funds will be forfeited. Employers may offer the Grace Period or the Carryover Provision (see below), but not both.

### What is the Carryover Provision?

Allows up to 20% of the IRS maximum contribution limit for the Health FSA to rollover into your next plan year when the current plan year ends. Your employer may require you to make a minimum new plan year election. Employers may offer the Grace Period (see above) or the Carryover Provision, but not both.

### Is a domestic partner covered under an FSA?

Only medical expenses of a domestic partner who is a tax dependent of the employee are eligible for tax-free reimbursement from the employee's health FSA. Medical expenses for a domestic partner who is not the employee's tax dependent are not eligible, even if the employer offers domestic partner health insurance benefits.

## Flexible Spending Accounts

Employer sponsored Flexible Spending Accounts allow employees to set aside a portion of their earnings on a pre-tax basis to pay for qualified medical and/or dependent care expenses.

You and your employees both get to enjoy tax savings on recurring expenses with Health Flexible Spending Accounts, Dependent Care Assistance Plans and Limited Purpose FSAs. Plus, you get peace of mind knowing that we are here to guide you through every step of the way – saving you precious time and energy. As a trusted CDHC administrator, we offer a first class experience for you and your employees that puts you in control and includes:

- Fast reimbursement of FSA-eligible expenses
- The multi-purse stacked ABG Benefits Card
- Secure participant and HR Administrator web portals with online claim submission, real time account information, reporting options and more

A Flexible Spending Account or FSA is a tax-advantaged benefit program established by an employer for their employees. This consumer driven account allows employees to use pre-tax money for eligible Section 213d healthcare and dependent care expenses. Based on their needs, employees may elect up to the IRS Maximum Limit of their annual salary for Health and Limited Purpose FSAs and \$5,000 (per house-hold) for a Dependent Care Assistance Plan.

The total employee election for an FSA is divided by the number of pay periods in the plan year and deducted on a pre-tax basis from the employee's paycheck. As a result, the employee's taxable income is reduced by the election amount and therefore reduces the amount of taxes the employee will have to pay. Employers also save in payroll taxes for every dollar an employee elects, which results in a mutually beneficial program.

## Integration of the ABG Benefits Card

American Benefits Group offers all clients the ABG Benefits Card that allows employees to pay for eligible RX expenses at the point-of-service with no out of pocket cost and eliminating the need to submit claim forms. Participants use the card to pay for eligible Rx expenses at valid locations and sophisticated IAS (Inventory Information Approval System) technology separates eligible and ineligible items at point-of-sale and provides for

automatic debit card substantiation. The card is linked directly to the participant's individual account, and participants have 24/7 access to view their account balance, claims status and account activity through our secure web portal.



## Health Flexible Spending Account (Health FSA)

The most common type of FSA is used to pay for medical expenses not covered by insurance; this usually means deductibles, copayments, and coinsurance for the employee's health plan, also includes other expenses not covered by the health plan such as dental and vision expenses.

A Health FSA cannot pay for health insurance premiums, cosmetic items, cosmetic surgery, controlled substances, or items that improve "general health". All items must be intended to treat or prevent a specific medical condition. Generally, allowable items are the same as those allowable for the medical tax deduction, as outlined in IRS publication 502.

The Health FSA is federally capped each plan year. The employee's annual election for the Health FSA is available for the employee and his/her eligible dependents at any time within the plan year after the employee has enrolled and is an active participant in the Plan. This is known as the Uniform Coverage Rule.

## Limited Purpose FSA (LPF)

If you offer an HSA compatible HDHP paired with a Health Savings Account (HSA), a participant and their spouse cannot make contributions to their HSA if they are enrolled in a General Purpose Health FSA. By offering a Limited Purpose FSA (LPF) which limits reimbursements to vision and dental expenses, participants can continue to take advantage of an FSA for these expenses while also being able to make contributions to their HSA.

## Dependent Care Assistance Plan (DCAP)

FSAs can also be established to pay for certain expenses needed to care for your dependents while you are at work. While this most commonly covers child care for dependent children up to age 13, it can also be used for adult day care for senior citizen dependents that live with you, such as parents or spouses. It cannot be used for summer camps (other than "day camps") or for long term care for parents that live elsewhere (such as in a nursing home).

The maximum exclusion under a DCAP for married individuals filing a joint return (or for an unmarried parent) is \$5,000. Married individuals filing separately are subject to a lower exclusion (\$2,500). However, the \$5,000/\$2,500 limit is further reduced to the lesser of the participant's earned income or the spouse's earned income.

Reimbursements can only be processed for dependent expenses that have already been provided – for example, deposits for summer programs are not reimbursable until the camp has been in session. Though employees can use the ABG Benefits Card to pay child care providers who accept this form of payment, in most cases these claims are submitted manually and the participant will be reimbursed for their expenses via direct deposit or check from the balance available in their DCAP account.

## The Importance of Planning

Employee pre-tax contributions are made in equal installments over each pay period throughout the plan year. Funds not utilized during the Plan Year will be forfeited. This is commonly known as the "use it or lose it" rule. Terminated employees may elect COBRA to access funds remaining in their account(s). Employees who elect a Health or Limited Purpose FSA may also elect a Dependent Care Assistance Plan, however funds cannot be transferred from one account to another. Also, the annual FSA contribution amount is an annual binding election. As such the election must remain the same throughout the year unless certain qualifying "change of status" events occur, such as a change in marital status or in the number of eligible dependents.

## How does the grace period affect the ability to contribute to an HSA?

An employee who's enrolled in a general purpose health FSA with a grace period can contribute to an HSA only if there's no money left in the FSA at the end of the plan year or the end of the grace period.

## Can owners or partners participate in an FSA?

No. According to IRS guidelines, anyone with two percent or more ownership in a schedule S corporation, LLC, LLP, PC, sole proprietorship, or partnership may not participate. C-corporation owners and their families are eligible to participate in FSA plans because they are considered to be W-2 common law employees.

## Do nondiscrimination rules apply?

Yes. Based on requirements set by the Internal Revenue Service (IRS) Section 125 Cafeteria Plan, Flexible Spending Accounts cannot discriminate in favor of highly compensated or key employees. To ensure that employers are in compliance with these rules, nondiscrimination testing is required annually.

## What options does an employer have with unused FSA funds?

Employers can use leftover funds to apply to administrative costs incurred during the plan year.

## Is the employer taxed on unused funds forfeited from an employee's FSA?

No, the employer is not taxed on forfeited balances.

## How can employers limit risk of loss associated with early terminations?

Employers assume a level of risk similar to that the employee takes under the use-or-lose rule. Potential forfeitures offset the risk of early termination losses for many employers. Flexible plan design options allow you to limit your risk.

## About American Benefits Group

American Benefits Group (ABG) is a wholly owned subsidiary of National Financial Partners, (NFP). NFP is a powerful, national partnership of over 180 owned and 350 affiliated independent corporate benefits consulting and diversified financial service firms that provide informed and innovative benefits strategies customized for over 40,000 employers of all sizes. As the national platform partner for NFP Benefits, American Benefits Group provides Flexible Spending Accounts, HRA, HSA, Section 132 Transit, and COBRA & Direct Premium Billing administrative services to the employer clients of NFP companies nationwide.

## Unmatched Expertise

Our professional benefits administrative staff is knowledgeable in every aspect of employee benefits plan design, compliance and reimbursement account administration. All of our administration team members are professionally certified and receive continuous advanced training. With over 100 years of combined industry experience in Cafeteria Plans, Flexible Spending Accounts and COBRA administration, American Benefits Group's team is dedicated to sharing our expertise with you and your employees.

## A Concierge and Boutique Service Model

Every employer client works with a dedicated account service team that manages all aspects of their program. Your account service team pays careful attention to understanding the needs of your company, your participants and the scope of your plan.

*Our mission is to deliver a level of service that is unmatched in the industry today, and that exceeds our client's expectations in every way.*



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