

## Benefit Fact Sheet

### What is it?

A Health Care Flexible Spending Account (FSA) is a type of cafeteria plan which allows participants to fund qualified un-reimbursed health care expenses with pre-tax contributions made to an individual health care FSA account. Employees estimate their health care expenses prior to the start of the plan year and elect an amount to be deducted from their paycheck over the course of the plan year. Expenses can be for the employee and their eligible dependents up to an annual plan maximum established by the employer.

### Why offer it?

- Little or no cost to the employer
- Reduced employer liability for FICA and FUTA taxes, and workers compensation premiums in some states
- Reduces employee's taxable income
- Provides tax-favored employee funding of certain benefits that the employer may not elect to cover (e.g., orthodontia, vision, chiropractic, etc.)

### What types of employers offer it?

Employers wishing to offer additional employee benefits with little employer cost

### What size employers offer it?

Generally offered by employers with 50 or more employees; plan must pass annual discrimination testing. Smaller employers are more likely to have trouble meeting the non-discrimination testing requirements.

### What are the critical underwriting or participation requirements?

- Administration fees are based on the size of the group and plan participation.
- The plan must meet non-discrimination requirements in order to obtain favorable tax treatment.

### What's new in this area?

- The Heroes Earnings Assistance and Relief Tax Act of 2008 allows plan sponsors to amend their plan to permit eligible reservists to take a Qualified Reservist Distribution (QRD) from their health FSA if called to active duty for a period of 180 days or more. Distributions are reported as income earned on the employee's Form W-2.
- Many administrators offer participants debit cards as a way to pay for healthcare expenses. The funds in your healthcare spending account can then be automatically accessed with the debit card. This is growing in popularity because it can alleviate paperwork and expedite claim processing.

### How much does it cost?

Most employers elect to outsource plan administration. General fee ranges:

- Set up/Renewal fees: \$1,000-\$3,000
- Monthly per participant fees: \$3 to \$6
- Other services such as: debit cards, discrimination testing, plan document, summary plan description and Form 5500 preparation may be included in set up/renewal fees or charged on a per service basis.

Employer costs are fully or partially offset through savings from payroll reduction leading to lower FICA and FUTA taxes, and in some states workers compensation premiums.

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### Informational link(s)

- [Flexible Spending Accounts](#) (FlexAmerica)
- [Flexible Spending Account Eligible Expenses](#) (AFA Company)
- [Eligible Medical and Dental Expenses](#) (IRS)
- [Flexible-Spending Accounts Get a Little More Flexibility](#) (USA Today)

### Pros and cons

#### Pros

- Enhances benefit program at minimal to no cost to employer
- Reduces employee's taxable income
- Outsourcing provides employer ease of administration
- Many administrators now offer a debit card for FSA reimbursements, easing participant administration

#### Cons

- Strict rules apply, which can create employee relations issues if not communicated properly
- Employee contributions are "use it or lose it"
- Potential liability to the employer in the event that an employee terminates employment prior to fully funding their account
- Employees who participate in the health FSA are not eligible to participate in a Health Saving Account (HSA)

### Notes

- Health FSA must be offered as a COBRA benefit.
- Employees can be reimbursed for expenses that are not yet funded through payroll deduction. For example:  
*Employee elects to contribute \$1,200 annually (\$50 per pay period) to their Health Care FSA beginning January 1. Employee submits a Health FSA claim on February 1 for \$1,200 in eligible expenses. Although the employee has only contributed \$100 to their account year to date, the employee will receive reimbursement for the full \$1,200.*
- Due to employer liability associated with the plan, most employers limit plan maximums to \$2,000-\$5,000.
- The 2 ½ month "grace period" allowed by the IRS is optional to employers.
- If debit cards are used, employees should still keep receipts in the event of questions during processing the claim.

This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization. A menu of additional topics is available online at: [www.arlengroup.com/facts](http://www.arlengroup.com/facts).