

Flexible Benefit Administration Available to Business Health Trust Member Companies

Flexible Benefit/Cafeteria Plan

Flexible benefit plans are covered under Section 125 of the Internal Revenue Code. Often referred to as cafeteria plans, they provide plan sponsors and their employees with a simple and convenient solution for paying out-of-pocket premium, health care and dependent day care expenses with pre-tax dollars. A cafeteria plan is a written benefit plan maintained by an employer for the benefit of its employees. The plan must allow employees to choose between two or more benefits consisting of cash (or a taxable benefit that is treated as cash) and certain other qualified benefits.

Who May Sponsor a Plan

- ◆ C-Corporation owners may sponsor and participate in a cafeteria plan.
- ◆ Subchapter S-Corporation shareholders of more than 2% ownership may not participate in a cafeteria plan, but they may sponsor a plan for their employees. In addition, the family members and certain relatives of the shareholder may not participate.
- ◆ Members of a LLC, LLP and Sole Proprietorship may not participate in a cafeteria plan. However, they too may sponsor a plan for their employees. Additionally, in some cases, a member's spouse, if a bona fide employee of the company, may participate and benefit the other family members.

The term employee includes both present and former employees, but not self-employed individuals as described in section 401(c). The plan may not be established primarily to benefit key or former employees.

Employer Benefits

- ◆ Immediate tax advantages. The employer saves 7.65% - the employer share of FICA taxes on the employee elected pre-tax benefit amount.
- ◆ Delivers better control of payroll and benefit costs.
- ◆ Improves employee perception and appreciation of the company benefit package. The employer is offering tax breaks to employees that would otherwise be unavailable to them.

Employee Benefits

- ◆ Immediate tax advantages. The employee saves the 7.65% on their pre-tax benefit election as well as federal income tax (15% to 40% depending on the employee's tax bracket).
- ◆ Increased take-home pay.
- ◆ Increased awareness of their employer's benefits package.

Drawbacks

- ◆ The employer's payroll system must accommodate pre-tax deductions.
- ◆ Both in design and operation, the plan must follow IRS rules.
- ◆ Exemption from FICA taxes reduces the wage base of the employee, which may also reduce the employee's disability or retirement benefit under the Social Security System.
- ◆ Money set aside in a flexible spending account that is in excess of expenses incurred during the plan year is subject to forfeiture at plan year-end.

Salary Reduction

Employer contributions to the cafeteria plan are usually made pursuant to salary reduction agreements made between the employer and employee in which the employee agrees to contribute a portion of his or her salary on a pre-tax basis to pay for the qualified benefit(s). The participant does not constructively receive the salary reduction contribution. Therefore, those contributions are not considered wages for federal income tax purposes. In addition, those sums are not subject to FICA and FUTA taxes.

Election Requirements

To avoid constructive receipt of taxable benefits, the plan must offer the election opportunity and participants must elect the amounts and types of benefit coverage to be received prior to the beginning of the plan year. When salary reduction is permitted as the benefit payment option, that salary reduction election must be made prior to the beginning of the plan year.

Revocation of Elections

The plan may not allow a participant to revoke or change his or her benefit election during the period of coverage unless the revocation or change is due to a qualifying event. Following are a few examples of qualified events:

- ◆ HIPAA Special Enrollment Rights
- ◆ Qualified change in status – including change in marital status, number of dependents and employment status
- ◆ Judgment, decree or order
- ◆ Entitlement to Medicare or Medicaid
- ◆ Significant change in cost or coverage
- ◆ FMLA

Our claims adjudication and payment process is enhanced by the availability of multiple claim payment options. Along with the traditional payment by check, options are available for direct ACH transfer to the participant bank account or paperless payment via payroll check.

Documents

- ◆ Plan Design and Consultation
- ◆ Plan Document
- ◆ Summary Plan Description
- ◆ Corporate Resolution

Benefit Administration - Dependent Care, Health Care, HRA, QTP

- ◆ Customized Reimbursement Forms
- ◆ Claims Adjudication
- ◆ Participant Explanation of Benefits (EOB)
- ◆ Payment of Approved Claims
- ◆ EFT Claim Reimbursement (Optional)
- ◆ Debit Card Technology (Optional)
- ◆ Raw data payroll interface (Optional)
- ◆ Employee Statements
- ◆ Plan Sponsor Financial Reports
- ◆ Internet Account Access
- ◆ Customer Service Center
- ◆ Maintain and Reconcile Funding Accounts

Compliance

- ◆ IRS Required Dependent Care Claim Payment Report
- ◆ Required Non-Discrimination Testing

Fee Schedule

There may be direct charges from third parties that we pass onto the client. Any fees not covered by the commission schedule will be detailed in writing before any billing and agreed upon by both BAC and Company. Any changes to this arrangement will be made in writing no less than 30 days from the intended effective date.

Plan Setup

Flat Fee	\$300
Per Participant Fee	\$4.00*

***Waived for those employers providing BAC with electronic enrollment.**

Annual Fees

Renewal Fee	\$150
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Monthly Administration

Base Monthly Fee	\$0
Minimum Monthly Fee	\$50
Per FSA Participant (Including Broker Commission)	\$5.00
Debit Card (Optional – Per Card Per Month)	\$1.50

Special Services

Stop Payment Request	\$30
NSF Checks	\$25
Printing of Plan Forms or Documents	Direct Charges
Travel Outside of Seattle Metropolitan Area	Direct Charges
Overnight/Courier Delivery Services	Direct Charges
Annual Re-Enrollment Meetings	Included
Direct Mailing of Employee Statements or Other Special Mailings	\$0.85
Special Copy Projects	Quote
Special Check Runs	Hourly Rates
Ad-Hoc Reporting	Hourly Rates

Hourly Rates*

***Hourly rates are billed at the lowest appropriate level.**

Managing Consultant	\$175
Senior Administrator	\$80
Technical Staff	\$75
Clerical Staff	\$55

For Additional Information please contact: Korri Treves 206-812-1325 x 251