

Tax Savings For You and Your Employees

Flexible Spending Accounts
Health Savings Accounts
Dependent Day Care Accounts
Adoption Assistance Accounts
Commuter Benefit Accounts
Payroll-Deducted Insurance Premiums

What are flex accounts?

Sometimes referred to as flexible spending accounts, cafeteria plans, Section 125 plans or flex plans, flex accounts let employees set aside a portion of each paycheck into an account – before paying income taxes.

During the year, employees are reimbursed from this account for expenses such as health care, dependent day care and commuting fees. Reimbursements for qualified expenses are tax-free.

How will my employees save money?

The portion of salary which an employee directs to the plan is not taxed. The employee saves:

- ▶ Federal income tax.
- ▶ State and local taxes (where applicable).
- ▶ Social security tax (assuming the employee's salary is below the maximum social security wage base).

Employees will save 25% to 40% in taxes for every dollar they elect.

What happens to the money an employee puts into a flex plan?

The employee's redirected salary is "banked" in an account maintained for the employee. Qualified expenses incurred by the employee are reimbursed tax-free from dollars "banked" in the account.

Who can sponsor a flex plan?

Regular corporations, partnerships, S corporations, limited liability companies (LLCs), sole proprietors, professional corporations and not-for-profits can all save money on taxes by establishing a flex plan.

While Regulations prohibit a sole proprietor, partner, members of an LLC (in most cases) or individuals owning more than 2% of an S corporation from participating in the flex plan, they may still sponsor a plan and benefit from the savings on payroll taxes. "Employee" shareholders of regular corporations may also participate.

Advantages to employers

You'll save payroll taxes

You'll save approximately 8% on every dollar employees set aside from their paychecks to budget for their flex plan. (This is true for employees earning less than the maximum amount taxed for social security.)

Cushion health insurance rate increases

Many employers are passing along a portion of health care premiums to employees. A flex plan can be implemented with a simple change that will lessen the impact on an employee's paycheck.

Lower your health insurance costs

An employer's insurance cost can be lowered by coordinating changes to your health plan with the installation of a flex plan.

Save on retirement plan expense and other insurance premiums

When employees set aside pre-tax payroll deductions for a flex plan, your contributions to 401(k), pensions and workers' comp may also be reduced since they are based on lower taxable salaries.

Plan fees can be paid by employer or participants

Administrative costs are tax deductible and can be paid by you or your employees. Fees can also be collected by pre-tax payroll deduction from the employee's flex plan account.

*FSA tax savings for
me and my employees.*

That's exactly what I need.



Flexible Benefits Accounts

Example of Employer Savings

The IRS has great flex account options to meet your needs.

1. Health Care Account Options

FSA - Flexible Spending Accounts allow employees to set aside a portion of their paychecks (before taxes) into an account to budget for expenses not covered by another health plan. The participant can use the account to pay for over-the-counter medicines, co-pays at the doctor or pharmacy, chiropractic care, eyeglasses, contacts, LASIK, orthodontics and more.

HSA - Health Savings Accounts allow employees to set aside a portion of their paychecks (before taxes) into an "IRA-like" custodial account to save for future medical expenses, or pay current expenses not covered by another health plan. To contribute to an HSA, the employee must also be covered by an IRS qualified high-deductible health plan. Employers may contribute to employees' HSAs. Unlike FSAs, unused funds can be carried forward to the future and/or invested. HSAs are also portable and can be taken to a new employer or used at retirement. An HSA can also be coupled with a "limited" FSA that pays for vision, dental or preventive care expenses that are not covered by another plan.

2. Day Care Account Options

Child Day Care Accounts. Employees set aside pre-tax payroll deductions in this account to budget for the day care expenses of a dependent child under age 13.

Elder Care and Adult Day Care Accounts. Employees set aside pre-tax payroll deductions to budget for the expenses of a dependent adult who cannot physically or mentally care for themselves.

3. Adoption Assistance Accounts are for expenses paid to adopt a qualified child. Employees set aside pre-tax payroll deductions to pay expenses for home study and application fees, reasonable and necessary legal adoption fees, court costs, attorney fees, agency fees, medical services and counseling, travel and lodging fees and other expenses which are directly related to, and the principal purpose of which is for, a legal adoption.

4. Commuter Benefit Accounts Through payroll deduction, employees contribute to an account that saves 25% to 40% on the expense of parking near their place of employment and travel to and from work.

5. Employee-Paid Insurance Premiums The Premium Only Plan is for employees who share in the cost of insurance premiums. The plan saves payroll taxes for you and employees save \$25 to \$40 on every \$100 they contribute through payroll deduction. Premiums may include an employee's share of employer-sponsored health, dental, disability, accident and group-term life insurance.

6. take care® Flex Benefits Visa® Debit Card With the take care Card, participants can pay qualified expenses directly from their flex accounts. Employees appreciate the Card option because they don't have to reach into their pocket to pay qualified expenses and then wait for a reimbursement.

Example of Employer Savings

XYZ GROUP HAS 10 EMPLOYEES	WITHOUT A FLEX PLAN	WITH A FLEX PLAN	YOUR GROUP
Annual payroll	\$300,000	\$300,000	
Payroll-deducted insurance premiums	0	- 24,000*	
Unreimbursed health care expenses		- 3,000*	
Dependent day care expenses		- 10,000*	
Transit expenses		- 2,340	
Parking expenses		- 15,120	
Taxable payroll	\$300,000	\$245,540	
FICA tax (7.65%)	\$22,950	\$18,784	
Annual Savings		\$4,166	

* Based on average plan participation of a 10-life group.

Now, just about every employee will save by signing up

Take a look at three typical examples. While everyone is different, they all enjoy big tax savings.

SINGLE WITHOUT DEPENDENTS	
Co-Pays to doctors and pharmacies	\$135
Drugs (over-the-counter and prescription)	\$540
Eye exams and LASIK	\$80
Prescribed sunglasses and eyeglasses	\$200
Dental cleanings, fillings and x-rays	\$160
Quit smoking program	\$125
Subway or bus to work	\$444
Total budgeted expenses	\$1,684
Annual Savings: \$421 to \$674	

YOUNG COUPLE WITH TWO CHILDREN	
Co-Pays to doctors and pharmacies	\$210
Drugs (over-the-counter and prescription)	\$720
Eye exams, surgery and LASIK	\$160
Prescribed sunglasses and eyeglasses	\$400
Dental cleanings, fillings and x-rays	\$320
Sealants, crowns and bridges	\$200
Braces, spacers and retainers	\$1,500
Chiropractic and podiatrist fees	\$910
After-school care, day camp and pre-k	\$4,080
Parking located near place of employment	\$444
Total budgeted expenses	\$8,944
Annual Savings: \$2,236 to \$3,578	

MATURE COUPLE WITH DEPENDENT ELDER	
Co-Pays to doctors and pharmacies	\$360
Drugs (over-the-counter and prescription)	\$1,260
Prescribed sunglasses and eyeglasses	\$800
Eye exams, surgery and LASIK	\$2,120
Dental cleanings, fillings and x-rays	\$240
Dentures, sealants, crowns and bridges	\$1,200
Chiropractic and podiatrist fees	\$910
Physical therapy	\$1,560
Quit smoking program	\$125
Weight loss program (for specific disease)	\$520
Elder day care for dependent adult	\$5,000
Parking located near place of employment	\$444
Total budgeted expenses	\$14,539
Annual Savings: \$3,635 to \$5,816	

Design and Administration

Important information

- ▶ The plan must be in writing and a Summary Plan Description must be distributed to each plan participant.
- ▶ Elections cannot be changed or revoked at any time during the plan year unless the participant has a change of status, or the required contributions to pay premiums for the elected benefits change during the plan year.
- ▶ COBRA continuation forms should be provided to all terminating participants in the medical reimbursement portion of the plan. However, COBRA need not be offered for subsequent plan years.
- ▶ The plan must provide a written statement by January 31 of every calendar year showing the amounts paid or expenses incurred for day care expenses during the previous calendar year. This amount is shown on the employee's W-2.
- ▶ Employers maintaining flex plans with over 100 participants in the health flex plan must file IRS Form 5500 each year.
- ▶ For a health FSA account, the employer must make the full election amount available to participants on the first day of the plan. If an employee leaves employment before fully funding the plan, the employer must complete funding. In case of a deficit in the plan account, the employer must fund this deficit until employee deposits cover the balance. Generally, the employer's FICA savings outweigh this risk. For an HSA account, only amounts contributed are available to pay expenses or withdrawal.
- ▶ Eligible expenses may be incurred during the plan year and up to 2-1/2 months following the plan year end. Funds elected by participants, but unused, will be forfeited to the plan. (This rule does not apply to Health Savings Accounts.)
- ▶ If transit passes are "readily available" to the employer, the employer must provide transit passes instead of reimbursing employees for transit expenses. "Readily available" means that the employer can purchase and distribute transit passes to employees without having the cost incurred by the employer be more than 1% of the value of the transit passes.
- ▶ If disability insurance is paid on a pre-tax basis, benefits received from the insurance carrier by the employee may be taxable. Under most circumstances, it is recommended that disability insurance not be included in the plan.
- ▶ No more than \$50,000 of employer-sponsored group-term life insurance may be provided to employees on a pre-tax basis.
- ▶ Insurance products with a return-of-premium feature cannot be deducted on a pre-tax basis.
- ▶ The plan may not discriminate in favor of highly compensated or key employees.
- ▶ Because employees do not pay any social security tax on income redirected to the plan, their social security benefits at retirement may be slightly reduced.

The list of IRS qualified items just keeps getting bigger!

- | | |
|--------------------------------------|---|
| ▶ Over-the-Counter medicines | ▶ Before- and after-school child care |
| ▶ Co-pays at the doctor and pharmacy | ▶ Pre-k |
| ▶ Contact lenses | ▶ Nursery school |
| ▶ Prescription sunglasses | ▶ Day camp for kids under 13 |
| ▶ LASIK eye surgery | ▶ Day care for dependent elders and disabled dependents |
| ▶ Dental sealants | ▶ Cost of parking at work |
| ▶ Braces for teeth | ▶ Mass transit to and from work |
| ▶ Quit smoking programs | |
| ▶ Prescribed weight loss programs | |

Plan administration is easy with our turnkey service.

Consulting

Upon receiving your application, a flex specialist will contact you about plan options.

Setup kit

The setup kit includes "signature-ready" custom plan documents and forms, an educational video on CD, and a checklist for plan implementation. For existing plans, the service also includes a plan review and amendment, if needed.

Employee enrollment assistance

The enrollment kit includes educational materials such as a video on CD, brochures, posters, mailbox stuffers and enrollment forms (also available electronically and online). Printed and online claim forms plus instructions for filing claims are provided to participants.

Employee account management

Employee contributions are collected for each pay period and added to employees' account balances. Daily services include account balance tracking, claims adjudication and claims payment by check or direct deposit. Payment via debit card is optional.

Participant assistance

Employees have 24-hour access to their accounts via the Internet, or an automated 800-line. Toll-free access to the participant service center is also provided during the day. Employee statements are printed on claim reimbursement stubs. Printed employee statements are also provided.

Annual compliance

Compliance services include reconciliation and reporting of employee account balances, plus compliance with discrimination testing requirements. A "signature-ready" IRS Form 5500 (if required) is provided, along with an Annual Compliance package and information for W-2 Wage and Tax Statements.

How to get started

You can start a flex plan at any time. Plus, you can have a short plan year for the first year so that future plan years coincide with either your fiscal year, calendar year or health plan. The choice is yours.

To set up your flex plan, complete the application located on the following page and fax or mail it to WageWorks. One of our representatives will contact you to design a custom flex plan document and set up administrative procedures.

Since employee participation is vital to the success of this plan, we recommend your plan be implemented no sooner than one month after the flex plan application is submitted.

Flexible Benefits Account Application

1. Legal Name of Employer Sponsoring the Plan: _____
2. Business Type: C Corp. S Corp Sole Proprietor LLC Partnership Not-For-Profit Government Entity or Church
3. Principal Business Activity: _____
4. Federal Employer Identification Number (Must be nine digits.): -
5. Primary Contact Person: _____ Title: _____
Phone: _____ Fax: _____ Email: _____
Secondary Contact Person: _____ Title: _____
Phone: _____ Fax: _____ Email: _____
6. Street Address (No PO Boxes): _____
City, State, Zip: _____
- 7a. Section 125 Flex Plan Effective Date:
a. A new plan effective as of (date) _____
b. An amendment and restatement of a previously established Section 125 plan of the employer.
(1) This amendment and restatement is effective as of (date) _____
(2) Effective date of the original plan _____
(3) Plan number (consult last Form 5500, if filing was required, for number assigned to your plan(s)) _____
- 7b. Section 132 Commuter Benefit Plan Effective Date:
a. A new plan effective as of (date) _____
b. An amendment and restatement of a previously established Section 132 plan of the employer.
(1) This amendment and restatement is effective as of (date) _____
(2) Effective date of the original plan _____
8. Plan Year End: _____
9. Employer's Principal Office: This Flex Plan shall be governed under the laws of the: State Commonwealth _____
10. Benefits: The benefits below shall be included in the Flex Plan.
 Health care expenses not covered by insurance (check one): FSA HSA Both FSA & HSA
 Adult/child day care expenses Adoption expenses
 Health and other insurance premiums paid via payroll deduction (select coverages below):
 Health insurance Disability insurance² Critical illness insurance Vision care insurance Dental insurance
 Group-term life insurance³ Cancer insurance Accidental death/dismemberment Other insurance (specify) _____
 Commuter Benefits⁴ (check all that apply): Parking Expense Transit pass expense Commuter highway vehicle expense
- ¹ Insurance products with a return-of-premium feature cannot be paid for on a pre-tax basis. ² If disability insurance is paid for on a pre-tax basis, any benefits received are taxable to the employee. Under most circumstances, it is recommended that disability insurance not be included in the plan. ³ Group-term life insurance up to \$50,000 coverage. ⁴ Cash Reimbursement Restrictions: If vouchers, passes, tokens, etc., are "readily available," the employer must provide the vouchers or tokens instead of cash reimbursement.
11. Legal Name(s) of Affiliated Company(ies) that will be Covered by this Plan: _____
12. Total Number of Employees: _____
13. Payroll is prepared: In-house Outsourced (specify payroll company): _____

Pricing information

14. Fee for a New Plan Setup and Restatement: Call for quote.
15. Fee for Participant Services - includes Debit Card Program.
\$5.25 per month for participants with more than one account, i.e. Health FSA plus DCAP, or HSA plus LFSA, or HSA plus DCAP. \$1.90 per month for participants with HSA only.
16. Fee for Annual Plan Compliance: \$50 per month.

Shipping instructions

17. FSA Enrollment Kit is shipped UPS Ground within two business days of receiving completed application and setup fee.

Payment of setup fee

18. Debit my checking account for \$ _____ (form supplied upon request)
 Check enclosed for \$ _____ (payable to WageWorks)
 Charge my credit card for \$ _____ VISA MC AMEX Discover Expiration Date: _____
Credit Card Number: _____ Name on card: _____

To be completed by referral source

- Name of Referral Source: _____ Affiliated Company: _____
Address (No PO Boxes): _____
City, State, Zip: _____
Phone: _____ Fax: _____ Email: _____
The referring company or its representative may earn a fee for services performed in connection with the implementation of this plan.

FAX this completed form to 866-672-3682

Questions? Call 877-887-1080 (Weekdays, 8 am - 5 pm CST)

WageWorks internal use. Client No. _____ Rep. No. _____ Lead Source: WageWorks- _____

About WageWorks

WageWorks is dedicated to being a world-class provider of benefit services delivering the easiest-to-use and most convenient solutions that enable employers, individuals and their families to maximize savings on health, commuting, and other tax-advantaged accounts. Today, WageWorks is the leading provider of tax-advantaged solutions and services in the United States, consistently setting industry standards for high-quality service and innovation. WageWorks specializes in delivering enterprise level functionality and service excellence designed specifically for growth-oriented employers and entrepreneurial businesses.



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