



Designing a Flexible Benefit Plan

How Do I Design a Flexible Benefit Plan?

When you introduce a new Flexible Benefit Plan for your company make sure to:

- Allow time to understand the options available
- Design a plan to meet your company's benefit objectives
- Determine plan administration procedures
- Train the staff who will be responsible for the operations of your plan
- Educate and enroll the employees prior to the start of the plan year

The options available to you within a Flexible Benefit Plan are listed below. You can choose one or all options to be included as before-tax and/or after-tax choices.

Group Health Insurance

Group health insurance premiums can include group health, dental and/or vision insurance premiums. Supplemental health policies such as cancer, accident and hospital income policies can also be included as before-tax options. Employee-paid portions of any of these premiums can be paid with tax-free dollars. The amount of the employee-share of the group premiums is deducted from the employee's gross wage and paid directly to the insurance carrier on behalf of the employee. **Premium dollars are not reimbursed to the employee under the Health Care Spending Account.** The group insurance should renew with the Flexible Benefit Plan Year to avoid enrollment and election change conflicts.

Note: Once elected, before-tax insurance premium deductions will continue from plan year to plan year until the employee signs a waiver form to discontinue this election. The waiver can only be signed during an open enrollment period or as the result of an eligible status change. Employees can change coverage (i. e. family to single coverage etc. at the annual insurance open enrollment, but this is not a status change allowing a health care spending account election change mid-year.

Group Term Life Insurance

When group-term life is available on a before-tax payroll deduction basis, only individual premiums up to \$50,000 in death benefit are eligible for a before-tax payment. If the employee elects over \$50,000 in death benefits or has other employer-provided term-life insurance, any premium dollars in excess of \$50,000 in total death benefits must be paid with after-tax dollars.

If the employee elects family term-life benefits for the spouse and/or children, then all premium dollars must be paid with after-tax money. Most employers do not offer voluntary term life insurance on a before-tax basis.

Note: The maximum premiums available are specified on the current IRS actuarial table under IRS Code Section 79. The maximums are age based per \$1,000 in death benefit. Each employee's excess premium amounts must be calculated

individually according to the table and may not reflect what is actually paid in premiums.

Disability Insurance

When disability insurance is offered to employees under a Flexible Benefit Plan the following rules apply:

Before-Tax Disability Premium Payment

If the employee pays for the premium with before-tax dollars and becomes disabled, income from the disability claim will be taxable income to the employee.

After-Tax Disability Premium Payment

If the employee pays for the premium with after-tax dollars and becomes disabled, income from the disability claim is tax-free income to the employee.

It is very important that the employee understands how the taxes will apply to the disability benefit payments prior to electing a before-tax or after-tax premium payment method.

Group Voluntary Supplemental Insurance

There are many categories under this option. Voluntary products can include: life (term life and universal life), cancer, short-term disability, long-term disability, intensive care, specific injury, hospital income and accident policies. Taxability of the premiums is based on your plan design.

Dependent Care Spending Account

This is a reimbursement account. The federal government sets the maximum tax-free dependent care limit. It is currently \$5,000 per family per calendar year (single parents and married persons filing a joint return). If a couple is married and filing separate tax returns the maximum allowable amount is \$2,500 per spouse per calendar year.

For IRS eligibility for participation in this account see:

Tax Credit

In most situations it is better for an employee with one child who pays \$5,000 or more in dependent care expenses to use the 100% tax-free advantage of the Dependent Care Spending Account, rather than taking the federal tax credit at the end of the calendar year. Dollars redirected through the spending account can increase the working family's cash flow significantly through reduced taxation. However, new calculations for Earned Income Credit, Child Credits, lower withholding taxes and increased tax credits for Dependent Care make the tax implications vary from person to person. A tax advisor should be consulted to ensure the best tax option is elected.

If an employee chooses to use the federal tax credit at the end of the year for care expenses, then he/she has loaned money to the government interest free all year. The employee has also paid Social Security/Medicare (7.65%), and in most states, state withholding taxes on the care expense dollars.

The tax credit is limited to 20% to 35% of the care expenses as a credit against Federal taxes and is based on the family's adjusted gross income. The employee cannot use the credit if no Federal taxes are paid. The credit limits are 20% to 35% of a maximum of \$3,000 in care expenses for one child or dependent or \$6,000 for two or more children or dependents (may be indexed from time to time). The percentage is based on income. However, the Spending Account limit is \$5,000 per family per calendar year, regardless of the number of children or dependents.

Note: The Child/Dependent Spending Account presents no risk to the employer. You reimburse a valid claim only up to the amount of dollars available in the employee's account at the time of the request. Dollars are reimbursed as the account is funded.

Health Care Spending Account

This is a reimbursement account. The employee estimates the projected out-of-pocket medical, dental and vision expenses (not covered by insurance) for the entire family. The employee, spouse and/or dependents can incur eligible expenses. Knowledge of the company health insurance coverage or individual health insurance coverage is necessary to budget properly within this Spending Account. Expenses must be for services incurred during the plan year while the employee is active in the plan.

Dollars elected for this account are a liability to the employer from the start of the plan year. The employee deductions are payments against the liability. Due to the uniform coverage provision, the employer is at risk for these dollars. This means that whatever the employee elects during open enrollment must be available to the employee at any time during the plan year.

If an employee terminates and has been reimbursed more dollars than were funded by the employee, the employer cannot require the employee to pay back these dollars. However, in most situations, the employer is not required to offer COBRA to the terminating employee who has overspent his/her Health Care Spending Account.

Since there is the potential for loss with the Health Care Spending Account, a reasonable maximum limit should be established when the plan is designed. Once elected no changes are allowed unless the employee documents an eligible status change *through a written request* within 30 days of the eligible event. Election changes must be consistent with the change that occurred.

If termination occurs during the plan year, the employer is required to give the employee an option to continue the plan under COBRA. If an employee has a positive balance in his/her account (has funded more than has been reimbursed), COBRA must be offered through the end of the current plan year. If the employee has been overpaid from the account, (has a negative balance) COBRA need not be offered (unless there are more than 100 Health Care Spending Account participants).

Premium Reimbursement Account

This is a reimbursement account for individually-owned health policies. Premium dollars are deducted from the employee's gross pay and reimbursed to the employee for eligible policy premiums. The individual policy must be issued in the employee's name. The spouse and children can be included in the policy; however, the employee must be the primary insured on the policy. If the policy is not in the employee's name, the premiums are not eligible for tax-free reimbursement under the Flexible Benefit Plan.

Note: Once elected the employee cannot cease or change the insurance coverage until the next Flexible Benefit Plan Open Enrollment or as the result of an eligible status change. However, if the premium increases or decreases during the Plan Year, the premium deduction can automatically change within the Plan. The employee must provide proof of the premium change within thirty days of the change.