



## **Flexible Spending Account Administration**

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# StirlingBenefits®

Evolving the Business of Benefits™

## Stirling Benefits Mission

The mission of Stirling Benefits is to provide prompt, accurate, courteous and cost effective group administration services delivered by a highly skilled workforce and leading edge technology.

## Our Objective

Provide our clients with solutions to meet the needs of their employees and reduce the cost of their benefit program.

## Who We Are

Stirling Benefits is a Third Party Administrator (TPA) that offers a comprehensive array of services to organizations who provide group sponsored benefit plans. We are constantly looking at new ways to improve service, offer innovative solutions, and assist our clients in controlling their benefit plan costs.

We have three basic business units:

- Consumer Products including Section 125 Flexible spending accounts, HRA and HSA programs, Fringe Benefits section 132 – Transportation and Parking Reimbursements
- Full service partially self-funded group plan administration, including COBRA, HIPAA, claim adjudication and disease management services, and
- Retiree Supplemental Medical Plan administration

Our services are distributed exclusively through brokers, agents and consultants. We rely on these professionals to guide the plan sponsor through the complex market of health administration services and products.

Our staff is trained in HIPAA privacy policies and practices to safeguard all plan information. Information is available to both the sponsor and the member through a secure connection.

We invite you to visit our office, meet our staff and gain an understanding of the Stirling Advantage.

# Flexible Spending Accounts

## How the Plan works

Stirling Benefits has made the administration of your Flexible Spending Account easier for both you and your employees.

A Flexible Spending Account or FSA is an account established by an employer that allows his employees to contribute a portion of their salary each month, income tax-free to them and salary tax-free to their employer, for the purpose of paying for their health care expenses and any portion of health insurance premiums for which the employee may be responsible. Frequently referred to as a Section 125 plan or Cafeteria Plans, these programs provide attractive alternatives to paying predictable health care and dependent day care expenses.

## Four Categories of Expenses Covered as FSA Eligible

1. That portion of an employee's health insurance premiums paid for by the employee each month.
2. Health care related expenses that are not reimbursed by the group health insurance plan.
3. Dependent day care expenses for children or adult dependents.
4. Other health related premiums paid by the employee such as vision coverage, or dental insurance policy offered through the employer.

## Plan May be Established as a Premium Only Plan (POP)

A Premium Only Plan (POP) can be established for categories 1 and 4 above covering that portion of group health insurance premiums paid by the employee and premiums on any other qualifying supplemental insurance policies offered through the employer on a payroll deduction basis. Including categories 2 and 3 involves the establishment of an account for employee funds and invokes the use-it-or-use-it-provision below

## Annual Election and Dollar Commitment with a Use-It-or Lose-It Provision

At the annual plan renewal date, each employee must decide whether he or she wants to participate in the plan for the coming year. An employee who decides to participate must also decide how much is to be withheld from his or her paycheck each month. This, at best, is an educated guess as to how much of the deductible and coinsurance amounts might be required, what other qualifying expenses such as dental and vision will be used, and what dependent day care costs will be. This amount cannot be changed during the year except for certain qualifying events.

In 2005, the IRS released a Notice (2005-42) that permits plans to allow a 75-day grace period after the end of each plan year, during which participants can incur eligible expenses and apply them to any funds remaining in the prior years' account. After that point, any funds left in an employees' account at the end of the year are lost and belong to the employer. The employer can only use those funds for the benefit of all employees, as would be the case with an employee benefit such as an Employee Assistance Program (EAP). The majority of our clients

have adopted the grace period provision although the plan sponsor is not obligated to implement it for its members.

#### Planning Ahead and potential problems of the Grace Period for the Sponsor:

There are some issues to consider when adopting the grace period provision. First, the amount of funds forfeited by members will be less since they are given additional time to clear their old account... some employers like having a "slush fund" at the beginning of the next year to off-set early withdrawals. Second, the grace period extension may affect member contributions under a Health Savings Account if the employer chooses to offer this option in the future. Any updates from the Department of Treasury should be considered when implementing the grace period.

Stirling Benefits automates the process of paying for eligible pre-tax expenses. We enable employees to use the debit card only at eligible FSA locations wherever MasterCard or Visa is accepted - from physician and dental offices to pharmacies and vision centers. Approved expenses are automatically deducted from their pre-tax account. The card can also be used for Dependent Care, Transit and Parking programs.

### **Employer's Responsibility**

All plans must have the following legal items in place:

- Plan document: We use an Adoption Agreement and standard document that defines the plan parameters
- Corporate Resolution: The Board of the corporation must decide to implement the plan by completing the Plan Document/Adoption Agreement
- Account set up. Employers must establish a checking account for the processing of claims. The account does not need to be pre-funded, but funds do need to be available when transfers are made
- A plan year must be selected. The IRS guidelines require that a plan year be no more than 12 months
- The guidelines require that the plan is installed to be of benefit to all employees and not exclusively for the highly compensated or owners. (Non-discrimination testing is performed by Stirling Benefits)
- All plans must forbid election changes unless a change in status occurs
- All monies not claimed by the end of the plan year are forfeited back to the employer

## **With the Stirling Debit Card, *Everyone Benefits***

### **Employers**

An employer reduces his payroll for payroll tax purposes by the amount of employee contributions to the plan. This savings on FICA and FUTA taxes amounts to a 7.65% savings. The employer would reduce his tax bill by \$76.50 for each \$1,000 contributed to the plan by his employees. This program will:

- Drive FICA tax savings by increasing Flex account participation and contributions
- Help employers realize additional savings (average 60% increase) with the debit card in overall dollars contributed to their Flex account plans
- Add Value to employee benefits at no additional net cost
- Provide means of offsetting rising healthcare costs
- Reduce paperwork and administrative burdens

### **Employees**

An employee saves money by not having to pay income tax on the money withheld for the FSA. Let's say an employee is in the 30% tax bracket for payroll withholding tax purposes. That means the employee's paycheck would increase \$30 for every \$100 put in the FSA each month compared to spending the same \$100 without an FSA plan in place. The \$30 increase comes from savings on income taxes that would otherwise be paid. This program will:

- Provide instant access to Flex account funds
- Reduce need to use out-of-pocket dollars
- Virtually eliminate claim forms or paper submissions for Section 213(d) eligible expenses
- Eliminate wait for reimbursement checks when the debit card is used
- Direct Deposit available for reimbursements when the debit card is not used
- Allow transactions for Healthcare, Dependent Care, Transit and Parking benefits all on one card
- Offer Employees access to check their available account balance 24 hours a day via secure Internet access

## **Important Advantages: The Stirling Debit Card Flex System**

### **Who has the money?**

Unlike some administrators that require the use of your money, The Stirling Benefits plan allows you to keep your funds in your own account. There is no need to transfer funds to us each payroll. The sponsor is notified via e-mail each day with the amount of funds that will debit from the employers account the following day. The transaction is handled using an ACH transfer. Under this process, funds do not need to be available until a claim is actually paid.

### **Legal Framework**

Flexible Spending Accounts are established under the Internal Revenue Code (IRC) sections 125 and 129. It is sometimes referred to as a Section 125 plan after the IRC section number. The IRS sets the rules governing the operation of the plan. Generally, the IRS allows employees to set aside part of their pay to be used for deductible healthcare, and dependent care expenses. These deductions are exempt from Federal, State and FICA taxes. It is not available for self-employed individuals or individual employees on their own.

We administer your plan under the guidelines established by the IRS to ensure that it meets all requirements under the IRC. We prepare a compliant Plan document for the employees and an easy to read description of the plan. Please review our descriptive materials. We think you will find they will be of benefit to your staff. All material is provided in a Word formatted document that can easily be customized to meet your needs or corporate image.

We will handle all the administration details of designing and implementing a flexible spending account with your broker or consultant.

### **Technology Features**

- On-line, real time adjudication
- Debit Card transaction convenience
- Direct Deposit for reimbursements if debit card is not used for transaction
- On-line viewing of account history and balances
- E-mail additions and terminations of covered employees
- Debit Card is "reloaded" at annual election for administrative convenience
- If IRS permitted extension is elected by the Plan, the Debit Card will automatically clear the prior year funds before using the newly elected funds

## Claim Adjudication

- Works in conjunction with any fully insured or self-funded plan
- Plan parameters are loaded into Stirling Benefits' system to assist adjudication
- We enable MasterCard and Visa outlets that offer services that are deductible under the IRS guidelines, and turn off those that are not. The card does work at doctor's offices, dentists, pharmacies and hospitals
- Flexible enough to "turn on" a particular vendor for a particular employee. *For instance if an employees' dependent gets prescriptions at a "general store" in rural New Mexico, we can turn on that vendor for that member, even though the store is not registered as a pharmacy.*
- Point of purchase adjudication of claim based on your plans characteristics
- Real time account balances, not batch processing. This is important to make sure the balance is not overspent.

## Plan Design

- Employer establishes the maximum amount of annual contributions
- Ability to customize:
  - waiting periods
  - run-out periods
  - enrollment parameters
  - covered items (under IRC guidelines)
- Can be combined with a HSA program to limit to non-medical expenses

## Installation

We will

- Prepare:
  - Agreements
  - Plan Document
  - Summary Plan Description
  - Print-ready Employee Flex Guide for employer distribution
  - Customized Enrollment forms
- Provide:
  - Employee introduction stuffers
  - All necessary claim forms
  - Customer service representatives for employees to call with questions
  - Dedicated Employer service contact person
  - Listing of members with contributions
  - Accounting of employee expenditures
- Enroll all members from copies of their enrollment form
- Confirm payroll list at startup
- Handle 25% concentration discrimination testing

# Flexible Spending Account Administration Investment

## Installation

Includes the following:

- Plan Document
- Plan Set for up to two plan designs
- Participant enrollments by excel spreadsheet
- Client administration training
- Payroll stuffers
- Print ready flex guide customized for your plan design
- Debit cards (and extra cards for spouse and dependents over age 18 at no additional charge)
- Customer service toll free access and 24/7 Internet access for on-line claims information.
- Includes 2 hours onsite meetings for groups with over 100 eligible employees. Additional meetings available at \$120/half day, plus travel (accommodations if necessary) if outside Connecticut

## Renewal for Subsequent Plan Years:

Includes:

- Print ready enrollment forms
- Reenrollment of existing and new members
- Discrimination testing (25% concentration testing only)
- Amendments to plan document and SPD if required by law
- Ongoing customer service

## Debit Card Flex Administration Fees

Fee per participant in either (or both) Healthcare and Dependent Care Plans, includes:

- Debit card adjudication of claims
- Customer service via toll free number
- Paper claim submission option
- 24/7 online account access