



The Personnel e.bulletin

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Should You Offer Employees a Flexible Spending Account Option?

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In a word - Yes! Flexible Spending Accounts help your employees save substantial tax dollars, and offer tax saving for the company too.

Flexible Spending Account Basics

Flexible Spending Accounts (FSAs) are comprised of two separate reimbursement accounts:

1. Health Care Reimbursement Account (HCA) – for expenses related to health care, dental, vision, and even some over-the-counter products.
2. Dependent Care Assistance Account (DCA) – expenses that are incurred for caring for dependents while an employee is at work including care for children under the age of 13, for children of any age who are physically or mentally incapable of self-care, and for adult day care for senior citizens living with an employee.

Flexible Spending Accounts help employees reduce their tax liability by putting money aside pretax – they pay no Federal, FICA or State taxes on the amount that is deducted from his/her pay.

Each year during open enrollment, participants in the flexible spending benefit option are given the opportunity to estimate the amount of money they expect to spend on out-of-pocket health and/or dependent daycare services for the upcoming year. The election is prorated over the course of the year and deducted from the participant's paycheck. When the participant incurs out-of-pocket health and/or dependent daycare expenses, they may request reimbursement from their Flexible Spending Account.

The extent to which you will experience tax savings and other advantages depends on the type of benefit plan you have, the nature of your workforce, and in some cases state and local laws. In all cases, you will not be required to pay the employer portion of the Social Security tax, which amounts to 7.65% of each employee's taxable income, on employee FSA deductions. For example, if you have:

- 25 employees participate in a Health Care Account (HCA), each electing \$1,000 annually – you will save 7.65% of \$25,000 or **\$1,913**
- 10 employees participate in a Dependent Care Account (DCA), each electing \$5,000 annually – you will save 7.65% of \$50,000 or **\$3,825**
- Your total savings will be **\$5,738**

Flexible Spending Account Implementation Best Practices

Now that you know that Flexible Spending Accounts will benefit you and your employees, here are some best practices to help you take advantage of all that FSA's have to offer.

- Offer at least three distinct reimbursement options. Empowering your employees with multiple payment options allows them to choose the reimbursement method that works best for their individual circumstances and ultimately increases participant satisfaction. You should be able to offer your employees at least three reimbursement options:
 - ▶ A compliant health care debit card
 - ▶ Online bill pay
 - ▶ Check reimbursement
 - ▶ Direct deposit
 - ▶ Carrier feeds
- Be prepared for the inevitable by partnering with an FSA administrator that can keep track of changing regulations. With healthcare reform at the top of the nation's agenda, it's more important than ever to partner with an FSA administrator that can quickly adapt to new regulations.
- Report FICA savings. A well-run FSA can deliver more than just employee satisfaction – it can also significantly reduce benefits costs through FICA savings. While more and more companies recognize the potential for savings, measuring and reporting the return on investment (ROI) to management can be a challenge with most programs. A good plan and administrator will have established reports that will enable you to easily track the ROI for your FSA program.
- Consolidate vendors to reduce the cost of ownership, increase ROI, and simplify the management experience. No one needs another username and password. Providing a single access point makes life easier for everyone involved (i.e., one login, one password, one account manager). Not only can consolidating vendors help simplify the participant and management experience of your benefit programs, it can also reduce the total cost of ownership and increase your overall ROI. Look for an administrative partner that can offer an integrated platform that can accommodate any combination of participant programs (e.g., FSA, HSA, and HRA, commuter or gym).
- Debit cards can increase employee satisfaction, but only if you offer one that works. When the health care debit card was first introduced in 2002, the industry was abuzz with the changes it would bring to FSAs in terms of ease of use and convenience. But for many administrators, the reality has not quite lived up to the hype. Most struggle to keep up and adapt to changing IRS regulation for the use of debit cards. Partner with a FSA administrator that can offer card adjudication rates well above 80%.
- Select one consumer-directed administrator with integrated programs that can help eliminate confusion and increase employee satisfaction. The best FSA administrators will offer your employees a single point of access for managing healthcare spending,

including a consolidated account statement that details up-to-the-minute information on all of their accounts. They will also allow your employees to access their account information 24 hours a day, seven days a week.

- Break up the monopoly. While your health care carrier may seem like a natural partner for your FSA program, an independent administrator may be a better choice if you value quality, flexibility and negotiating leverage. Typically, administrators that only offer FSAs and similar benefits will be able provide a higher quality product for the simple reason that it is their sole focus and core competency. Decoupling your FSA from your health coverage also provides you with more flexibility to switch carriers if need be and the additional negotiating leverage that comes with being able to walk away from your current vendor if it doesn't meet your needs.
- Protect your employees' privacy. With all of the threats in today's digital world, no company can risk the theft or inadvertent release of their employees' personal information. Look for an FSA administrator that understands the importance of data stewardship and takes seriously the responsibility of protecting your HR data. At a minimum your vendor's information security program should be based on the ISO 17799/27002 information security management framework.
- Engage and educate your employees on the program's benefits. Program effectiveness is frequently determined by how well employers and administrators engage and educate employees. Education will strengthen your employees' knowledge and their savings – there's no substitute for knowledge when it comes to making smart choices about big expenses such as health and dependent care.
- Develop a targeted communications plan. One of the most important factors in increasing FSA participation rates is to develop a comprehensive pre-enrollment and post-enrollment communications campaign. To get the most out of your FSA program, look for an administrator that can execute a tailored employee communications campaign that leverages a wide array of communication materials.

Off you go to savings for you and your employees!

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