

Flexible Spending Account (FSA)

AN EMPLOYER GUIDE TO DESIGN AND IMPLEMENTATION



A plan for life.

Flexible Spending Accounts: An Overview

A flexible spending account enables employees to save tax dollars while receiving more for their employee benefits dollar. By participating in a flexible spending plan, employees can pay for certain health care expenses and adult and child day care expenses with pre-tax dollars.

Everyone Saves

Employer

- ▶ Since employees' salaries are voluntarily decreased, your Social Security payments and other payroll-related expenses may also be reduced

Employee

- ▶ Since it uses pre-tax dollars, employees reduce their taxable salary, thereby reducing income taxes and increasing their net take-home pay

Designing Your FSA

Your broker or CDPHP representative will work with you to build an FSA that best fits your needs by determining what expenses to cover, employer contribution, and employee contribution limits, among other details.

What's Covered (Reimbursable Expenses)

You may choose to offer an FSA that covers health or dependent care, or both.

Health Care: A general-purpose health FSA can be used to pay for qualified out-of-pocket medical, prescription, dental, and vision expenses that are not covered under your health plan. Eligible expenses include expenses considered deductible by the IRS for Federal income tax purposes.

CDPHP also offers limited purpose FSAs, giving you the power to decide which services are reimbursable: medical (covered and non-covered), dental, vision, prescription, or any combination of these options.

Enrolled participants may also receive a debit card to pay for qualified services and items as soon as the plan begins.

Dependent Care: A dependent care FSA allows for reimbursement for child or elder day care in order to allow the subscriber and spouse to work. Some examples in addition to daycare include after school programs, such as the YMCA or recreational programs, babysitting, and preschool. Once the services have been completed, the enrollee must file a claim for reimbursement. Unlike the health FSA, employees

must have funds saved up in their dependent FSA account before they can use them, and debit cards cannot be used for these expenses.

Funding

Employee contributions are made through payroll deductions. The employer is responsible for coordinating the payroll deductions and maintaining the bank account with the FSA funds. CDPHP and the debit card designee will access the employer's account to pay for FSA reimbursements.

Pledge Limits

Annually, employees elect a pre-determined amount to be voluntarily withheld from their pay by their employer (often called a salary reduction agreement). The statutory maximum amounts are determined by the IRS. Visit www.IRS.gov for the latest guidance.

Plan Year Rules

Health FSA: Employers may allow employees to carry over up to the statutory maximum amount as determined by the IRS. Visit www.IRS.gov for the latest guidance, or you may include a grace period that extends the current plan year by 77 days. You can also choose to allow neither. In this case, employees would forfeit any unused funds at the end of the year to the employer. Employees have a 90-day run-out period at the end of the plan year to submit claims for expenses that occurred that year.

Dependent Care FSA: Depending on your plan design, your plan may include a grace period that extends your plan year by 77 days. Any eligible dependent care expenses accrued during this grace period can be reimbursed with funds remaining in the FSA from the prior plan year. Funds not used by the end of the plan year (after the run-out period) will be forfeited.

Stacking Your Health FSA

Combining with an HRA

To provide even more savings, you can offer a health reimbursement arrangement (HRA) for qualified medical expenses in conjunction with your health FSA. An HRA is an account funded by the employer on behalf of the employee that can be used to reimburse qualified health care expenses as determined by the employer. If you choose to offer both an HRA and health FSA, you will need to specify which account should pay first.

Please note: If the FSA is set up to pay first (an uncommon setup), employees' entire annual election will need to be spent before they can access any HRA funds. Please speak with your broker or CDPHP representative to determine how the health FSA and HRA work together.

Combining with an HSA

A health savings account (HSA) may be offered in conjunction with a dependent care FSA and/or a limited purpose FSA. An HSA is an interest-bearing account owned by the employee. Talk to your broker or CDPHP representative for more details.

How It Works

Eligibility and Enrollment

Any employee is eligible to participate, based on the terms of the contract, including those without a CDPHP health plan. Employees are not automatically enrolled, and therefore, must enroll during the group's open enrollment period or a qualifying event. To enroll, employees must fill out the Annual Election of Benefits Form and submit it along with the member medical plan enrollment application when applicable.

Important: Because unused funds may be forfeited to the employer at the end of the plan year, employees should carefully review their anticipated expenses before making an election. They may not make any changes to their contribution during the plan year unless they experience a qualifying event, such as a family status change.

Debit Card

Health FSA – Participants may receive a debit card that can be used for medical bills and other eligible expenses under IRS guidelines. For a full list, go to www.IRS.gov. The debit card can be used immediately for qualified services and items, as the full amount of the employee's annual contribution is available as soon as the plan begins.

Dependent Care FSA – The FSA debit card does not apply to dependent care expenses. Participants must file a claim to recoup the payments after they make them, and will need to have enough funds in their account to cover them.

Claims Submission (Substantiation)

To protect you and ensure that funds are being used appropriately, as allowed by law, CDPHP verifies reimbursed expenses through the substantiation process. Claims can be submitted with an FSA Claim Form, available online at www.cdphp.com or you may log in to your account and submit an online claim.

Health FSA – Participants must keep all receipts. Claim and proof of payment submission is not required for most prescriptions that are paid for with the debit card. However, participants are often required to submit receipts when using a merchant or provider that does not provide all the information the IRS requires to automatically substantiate a purchase at the point of sale. Substantiation can be done online by logging in to www.cdphp.com and clicking on **FSA Claim Form** in the right-hand navigation bar.

Dependent Care FSA – Participants must pay these expenses out of pocket, and then file a claim to recoup payment. The services for which they are being reimbursed must have occurred in the past (e.g., you cannot receive reimbursement for a summer camp program until it is completed). Unlike the health FSA, participants need to have the funds saved up in their account before they can use them.

Implementation Checklist

- ☐ **Choose a Plan Type.** While an FSA can be paired with any kind of plan design, choosing a higher deductible plan offers a lower premium. You may wish to devote some of these savings to fund the FSA. If a deductible plan is new to your employees, this can help them adjust to the change in out-of-pocket expenses.
- ☐ **Design Your FSA.** Your broker or CDPHP® representative will work with you to build your FSA by determining what expenses to cover and how much to contribute, among other details.
- ☐ **Educate Your Employees.** The perceived value of your benefits can be enhanced with an effective communication strategy.
 - ▶ Start communicating early to familiarize them with new plan designs.
 - ▶ Consider holding both company-wide and departmental enrollment meetings.
 - ▶ Check in frequently to gauge understanding and buy-in.

- ☐ **Submit a Signed Administration Agreement.** Your broker or CDPHP representative can help you fill out this form. In addition to the details of your plan design, you will need:

BANK ACCOUNT INFORMATION. Capital District Physicians' Healthcare Network, Inc. (CDPHN) needs your bank account information to retrieve the funds when employees submit claims or use the debit card for qualified expenses. In order to do this, please keep the following guidelines in mind:

- ▶ You will need two Automated Clearing House (ACH) Authorization Forms: one for CDPHN and one for the debit card vendor. CDPHN or the debit card vendor will pull the funds directly from your bank account.

BUSINESS ASSOCIATE CONTRACT. Please complete this as part of the Administration Agreement.

When applicable, your medical plan group enrollment application should also be submitted at this time.

- ☐ **Sign Contracts.** You will be sent Plan Document and Summary Plan Description (SPD) templates for your authorization and signature. You should have your own employee benefits lawyers review the content of this document before adapting for your own use.

A final copy of the executed plan document (or a substitute document of your choosing, if you do not use this template) should be maintained by the employer and provided to plan participants upon request. It is your responsibility to then share the SPD with your employees

- ☐ **Hold Open Enrollment.**

NOTE: Employees need to enroll by completing the Annual Election of Benefits form. This form and the member enrollment application must be submitted together.

Frequently Asked Questions

Can an employer participate?

Self-employed individuals, including partners in a partnership and more-than-2% shareholders in an S corporation cannot participate on a tax-favored basis. Speak with your legal or tax advisor for further guidance.

Do non-discrimination rules apply?

Based on requirements set by the Internal Revenue Service (IRS), Section 125 Cafeteria/Flexible Spending Accounts cannot discriminate in favor of highly compensated or key employees. To ensure that employers are in compliance with these rules, **non-discrimination testing is required annually**. Non-discrimination testing collects demographic and earnings data for all employees within a company and analyzes it in the context of FSA plan eligibility, contributions, and benefits. The results are then documented for each Section 125 plan and subject to audit by the IRS. Speak with your legal or tax advisor for further guidance.

Is a domestic partner covered under an FSA?

Medical expenses of a domestic partner who is a tax dependent of the employee are eligible for tax-free reimbursement from the employee's health FSA. Medical expenses for a domestic partner who is not the employee's tax dependent are not eligible for tax-free reimbursement from the employee's health FSA, even if the employer offers domestic partner health insurance benefits.

If the employer does not choose the carryover option, will they be taxed on unused funds that are forfeited from an employee's FSA?

No, the employer is not taxed on unused funds.

Access **monthly reports** by logging in.

What resources are available to help me manage my group's FSA?

You will have access to monthly reports by logging in to www.cdphp.com to assist you with managing your group's FSA. Reports detailing membership enrollment, transaction history, enrollee account balances, total contributions, and summary statements are all designed to provide you with the information you need to effectively administer the FSA.

What resources are available for my employees?

Employees can log in at member.cdphp.com to or download the My CDPHP app to:

- ▶ track claims, deductibles, and account balances
- ▶ submit online claims
- ▶ substantiate debit card transactions
- ▶ request additional debit cards
- ▶ create direct deposit for online and paper claims
- ▶ set up recurring expenses

Employees can also contact the CDPHP health funding department at (518) 641-3770 or 1-877-793-3960. Or, they can visit our consumer-directed health website at www.cdphp.com/consumer-directed-health for tips and tools for making the most of their funding account.



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A plan for life.

Contact your broker or call your CDPHP account executive at **1-800-993-7299**.

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