



Why Employers Should Provide Flexible Benefit Plans

An austere economy is no reason for employers to skimp on all employee benefits. Why? Because a Section 125 Flexible Spending Account (FSA) plan saves employers and employees money on plenty of different health insurance premiums, healthcare and dependent care expenses.

Although they don't get a check from the government, FSAs pay out tax savings every pay period. It's one of the fastest and easiest ways to deliver more benefits to employees without spending any money. Generally the tax savings to the employer far outweighs any administrative fees paid.

Employer Savings

For every \$1,000 of benefits employees deduct (pre-tax) from their payroll checks, the employer saves over \$76 in FICA taxes. That could result in hundreds, if not thousands of dollars in savings. An average small employer with 10 employees redirecting \$300 each month to an FSA can save over \$2,700 in payroll taxes!

When premium costs increase, employers have the leverage to decide how much and when to increase the employee portion. And remember, the increase in premiums passed along to employees are paid with untaxed dollars. That means their take-home pay is not affected dollar for dollar with the premium increase.

Voluntary benefits are a breeze. Employees get the benefits they want, and employers don't pay extra. In fact, the more voluntary benefits employees purchase, the more the employer saves in FICA taxes.

Employee Savings

Employees save on federal, social security, and state or local taxes (where applicable) on contributions to an FSA plan. That could add up to a 25% to 40% or more in savings on items they already buy.

Employees are happier because they have more money to spend and a no-hassle benefit. Especially paying premiums on a pre-tax basis. Sign up— and then forget about it. They know that they are paying less tax and keeping more of the money they earn. And let's face it, who wants to pay more taxes than they have to?

Individual Policies Increase Savings

Even if the employer is no longer offering health insurance, there are still ways for them and their employees to save. The IRS formally approved employer-paid individually-owned policy premiums. IRS Revenue Ruling 61-146 details how an employer may reimburse or pay for these type of premiums on a pre-tax basis.

What kind of premiums can everyone save taxes on?

Employer-sponsored plans:

- Low-deductible or traditional group health insurance
- High-deductible health coverage
- Accident or Accidental Death Dismemberment (ADD) coverage
- Hospital indemnity insurance
- Prescription drug coverage
- Dental and/or Vision coverage
- Group-term life insurance
- Short-term disability insurance
- Long-term disability insurance

Employee individual plans:

- Low- or high-deductible health insurance
- Employer and/or employee Health Savings Account (HSA) contributions
- Limited indemnity health insurance (mini meds)
- Limited benefit coverage
- Short-term medical insurance
- Hospital, hospital indemnity, or hospital intensive care coverage
- Hospital per-diem coverage

An FSA is one of the fastest and easiest ways to deliver more benefits to employees without spending any money.

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- Cancer, or Critical Illness coverage
- Heart/Stroke coverage
- Dental and/or Vision coverage
- Disability insurance

Employers should notify the carrier of an individual health insurance plan and consult with their legal counsel. Also keep in mind that if disability coverage is paid on a pre-tax basis, any future benefits received will be taxable to the employee.

Healthcare Expenses

Eligible medical expenses are typically what we think of as normal medical charges. You know, the trips to the doctor, dentist, or optometrist. Medical care comes in three flavors – fees, prescriptions, and medical equipment.

Fees

- Insurance co-payments
- Insurance deductibles
- Physician fees like office visits
- Hospital bills
- Most dental expenses that are not cosmetic
- Vision expenses can include surgery to correct vision problems. These procedures are sometimes called LASIK or laser surgery.
- Diagnostic fees

Prescriptions and over-the-counter drugs:

- Prescriptions are anything that is ingested, injected or rubbed on. These items must be drugs that can only be obtained with a prescription.
- Over-the-counter drugs like aspirin and decongestant pass the test as medically necessary and may be reimbursed from the medical benefit.
- But what about herbs and vitamins? These types of items are considered for the general health of a participant. Claims for herbs or vitamins must be recommended by a doctor.

Medical Equipment:

- Contact Lenses and the solution to maintain them
- Dentures
- Eyeglasses
- Hearing devices and batteries
- Be careful when including big-ticket items in a cafeteria plan like an elevator installed in a home. It still has to be associated with a specific disease, and the cost of improvements that increase the value of the property may only be partly included as a medical expense. This type of expenditure is a capital expense. The cost of the improvement is reduced by the increase in the value of the property.
- What about a phone especially equipped for the hearing impaired? Only the excess cost would be considered a medical expense. Excess cost meaning the cost of the unique phone over and above the cost of a similar phone without the special equipment.

Child and Elder Care Expenses

This benefit reimburses the participant for daycare expenses. The expenses must be incurred for an eligible child or adult and must allow the participant and their spouse, if they are married, to work or look for work.

Eligible daycare expenses include:

- Nanny expenses, for services provided inside the home, are eligible to the extent they are attributable to dependent care expenses and expenses of incidental household services.
- Dependent care expenses incurred for services outside the home, provided they are incurred for the care of a qualifying dependent that regularly spends at least eight hours per day in the home.
- Registration fees to a daycare facility are eligible as long as the fees are allocable to actual care and not described as materials or other fees.

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- Nursery school expenses are eligible, even if the school also furnishes lunch and educational services.
- Expenses paid to a relative – e.g. child, parent, or grandparent of participant are eligible. However, the relative cannot be under age 19 or a tax dependent of the participant.
- FICA and FUTA payroll taxes of daycare provider are eligible.

The reimbursement may not exceed the smaller of the following limits:

- The maximum allowed under the Plan.
- \$5,000 (if filing a joint tax return) or \$2,500 if separate returns are filed.
- Participant's taxable compensation (after all salary redirections).
- If married, the spouse's actual or deemed earned income.

This benefit will get more notice as baby boomers age and have responsibility for their parents. The older adult must be a dependent of the participant, be unable of self care and live with them at least eight hours per day.

A dependent care credit is available that can be included in a family's tax return filing. Whether to participate in the daycare portion of a cafeteria plan or to take the tax credit depends on the individual's filing status, number of dependents and annual daycare expenses. ○

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