

Section 125 Cafeteria Plan Flexible Benefit Accounts



Flexible Spending Accounts
Health Savings Accounts
Dependent Daycare Accounts
Adoption Assistance Accounts
Commuter Benefit Accounts
Payroll-Deducted Insurance Premiums

TAX SAVINGS FOR YOU AND YOUR EMPLOYEES

What are flex accounts?

Sometimes referred to as flexible spending accounts, cafeteria plans, Section 125 plans, or flex plans, flex accounts let employees set aside a portion of each paycheck into an account – before paying income taxes.

During the year, employees are reimbursed from this account for expenses such as healthcare, dependent daycare, and commuting fees. Reimbursements for qualified expenses are tax-free.

How will my employees save money?

The portion of salary which an employee directs to the plan is not taxed. The employee saves:

- 1 Federal income tax.
- 2 State and local taxes (where applicable).
- 3 Social security tax (assuming the employee's salary is below the maximum social security wage base).

Employees will save 25% to 40% in taxes for every dollar they elect.

What happens to the money an employee puts into a flex plan?

The employee's redirected salary is "banked" in an account maintained for the employee. Qualified expenses incurred by the employee are reimbursed tax-free from dollars "banked" in the account.

Who can sponsor a flex plan?

Regular corporations, partnerships, S corporations, limited liability companies (LLCs), sole proprietors, professional corporations, and not-for-profits can all save money on taxes by establishing a flex plan.

While Regulations prohibit a sole proprietor, partner, members of an LLC (in most cases), or individuals owning more than 2% of an S corporation from participating in the flex plan, they may still sponsor a plan and benefit from the savings on payroll taxes. "Employee" shareholders of regular corporations may also participate.

ADVANTAGES TO EMPLOYERS

You'll save payroll taxes

You'll save approximately 8% on every dollar employees set aside from their paychecks to budget for their flex plan. (This is true for employees earning less than the maximum amount taxed for social security.)

Cushion health insurance rate increases

Many employers are passing along a portion of healthcare premiums to employees. A flex plan can be implemented with a simple change that will lessen the impact on an employee's paycheck.

Lower your health insurance costs

An employers' insurance cost can be lowered by coordinating changes to your health plan with the installation of a flex plan.

Save on retirement plan expense and other insurance premiums

When employees set aside pre-tax payroll deductions for a flex plan, your contributions to 401(k), pensions, and workers' comp may also be reduced since they are based on lower taxable salaries.

Plan fees can be paid by employer or participants

Administrative costs are tax deductible and can be paid by you or your employees. Fees can also be collected by pre-tax payroll deduction from the employee's flex plan account.

Example of employer savings

XYZ Group has 10 Employees	Without a Flex Plan	With a Flex Plan	Your Group
Annual Payroll	\$ 300,000	\$ 300,000	_____
Payroll-Deducted Insurance Premiums	0	- 24,000 *	_____
Unreimbursed Healthcare Expenses		- 3,000 *	_____
Dependent Daycare Expenses		- 10,000 *	_____
Transit Expenses		- 2,340	_____
Parking Expenses		- 15,120	_____
Taxable Payroll	\$ 300,000	\$ 245,540	_____
FICA Tax (7.65%)	\$ 22,950	\$ 18,784	_____
Annual Savings		\$ 4,166	_____

* Based on average plan participation of a 10-life group.



EMPLOYEES SAVE 25% TO 40% ON EVERYDAY ITEMS

The list of IRS qualified items just keeps getting bigger!

Over-the-counter medicines ■ co-pays at the doctor and pharmacy ■ contact lenses ■ prescription sunglasses ■ LASIK eye surgery ■ dental sealants ■ braces for teeth ■ quit smoking programs ■ prescribed weight loss programs ■ before and after school child care ■ pre-k ■ nursery school ■ day camp for kids under 13 ■ daycare for dependent elders and disabled dependents ■ cost of parking at work ■ mass transit to and from work.

The IRS has great flex account options to meet your needs.

1 – Healthcare Account Options

FSA - Flexible Spending Accounts allow employees to set aside a portion of their paychecks (before taxes) into an account to budget for expenses not covered by another health plan. The participant can use the account to pay for over-the-counter medicines, co-pays at the doctor or pharmacy, chiropractic care, eyeglasses, contacts, LASIK, orthodontics, and more.

HSA - Health Savings Accounts allow employees to set aside a portion of their paychecks (before taxes) into an “IRA-like” custodial account to save for future medi-

cal expenses, or pay current expenses not covered by another health plan. To contribute to an HSA, the employee must also be covered by an IRS qualified high-deductible health plan. Employers may contribute to employees’ HSAs. Unlike FSAs, unused funds can be carried forward to the future and/or invested. HSAs are also portable and can be taken to a new employer or used at retirement. An HSA can also be coupled with a “limited” FSA that pays for vision, dental, or preventive care expenses that are not covered by another plan.

2 – Daycare Account Options

Child Daycare Accounts. Employees set aside pre-tax payroll deductions in this account to budget for the daycare expenses of a dependent child under age 13.

Elder Care and Adult Daycare Accounts. Employees set aside pre-tax payroll deductions to budget for the expenses of a dependent adult who cannot physically or mentally care for themselves.

3 – Adoption Assistance Accounts are for expenses paid to adopt a qualified child. Employees set aside pre-tax payroll deductions to pay expenses for home study and application fees, reasonable and necessary legal adoption fees, court costs, attorney fees, agency fees, medical

services and counseling, travel and lodging fees, and other expenses which are directly related to, and the principal purpose of which is for, a legal adoption.

4 – Commuter Benefit Accounts

Through payroll deduction, employees contribute to an account that saves 25% to 40% on the expense of parking near their place of employment and travel to and from work.

5 – Employee-Paid Insurance

Premiums The Premium Only Plan is for employees who share in the cost of insurance premiums. The plan saves payroll taxes for you and employees save \$25 to \$40 on every \$100 they contribute through payroll deduction. Premiums may include an employee’s share of employer-sponsored health, dental, disability, accident, and group-term life insurance.

6 – take care flex benefits card

With the take care flex benefits card, participants can pay qualified expenses directly from their flex accounts. Employees appreciate the card option because they don’t have to reach into their pocket to pay qualified expenses and then wait for a reimbursement.



NOW, JUST ABOUT EVERY EMPLOYEE WILL SAVE BY SIGNING UP

Take a look at three typical examples. While everyone is different, they all enjoy big tax savings.

Single without dependents	
■ Co-pays to doctors & pharmacies	\$ 135
■ Drugs (over-the-counter & prescription)	540
■ Eye exams & LASIK	80
■ Prescribed sunglasses & eyeglasses	200
■ Dental cleanings, fillings & x-rays	160
■ Quit smoking program	125
■ Subway or bus to work	444
TOTAL BUDGETED EXPENSES	\$ 1,684
Annual Savings \$421 to \$674	

Young couple with two children	
■ Co-pays to doctors & pharmacies	\$ 210
■ Drugs (over-the-counter & prescription)	720
■ Eye exams, surgery & LASIK	160
■ Prescribed sunglasses & eyeglasses	400
■ Dental cleanings, fillings & x-rays	320
■ Sealants, crowns & bridges	200
■ Braces, spacers & retainers	1,500
■ Chiropractic & podiatrist fees	910
■ After-school care, day camp & pre-k	4,080
■ Parking located near place of employment	444
TOTAL BUDGETED EXPENSES	\$ 8,944
Annual Savings \$2,236 to \$3,578	

Mature couple with dependent elder	
■ Co-pays to doctors & pharmacies	\$ 360
■ Drugs (over-the-counter & prescription)	1,260
■ Prescribed sunglasses & eyeglasses	800
■ Eye exams, surgery & LASIK	2,120
■ Dental cleanings, fillings & x-rays	240
■ Dentures, sealants, crowns & bridges	1,200
■ Chiropractic & podiatrist fees	910
■ Physical therapy	1,560
■ Quit smoking program	125
■ Weight loss program (for specific disease)	520
■ Elder daycare for dependent adult	5,000
■ Parking located near place of employment	444
TOTAL BUDGETED EXPENSES	\$ 14,539
Annual Savings \$3,635 to \$5,816	

The take care flex benefits Visa® card is issued by M&I Bank FSB pursuant to a license from Visa U.S.A. Inc. TAKE CARE plans are not administered by M&I Bank FSB.

DESIGN AND ADMINISTRATION

Plan administration is easy with our turnkey service.

Consulting

Upon receiving your application, a flex specialist will contact you about plan options.

Setup Kit

The setup kit includes "signature-ready" custom plan documents and forms, an educational video on CD, and a checklist for plan implementation. For existing plans, the service also includes a plan review and amendment, if needed.

Employee Enrollment Assistance

The enrollment kit includes educational materials such as a video on CD, brochures, posters, mailbox stuffers, and enrollment forms (also available electronically and online). Printed and online claim forms plus instructions for filing claims are provided to participants.

Employee Account Management

Employee contributions are collected for each pay period and added to employees' account balances. Daily services include account balance tracking, claims adjudication, and claims payment by check or direct deposit. Payment via debit card is optional.

Participant Assistance

Employees have 24-hour access to their accounts via the Internet, or an automated 800-line. Toll-free access to the participant service center is also provided during the day. Employee statements are printed on claim reimbursement stubs. Printed employee statements are also provided.

Annual Compliance

Compliance services include reconciliation and reporting of employee account balances, plus compliance with discrimination testing requirements. A "signature-ready" IRS Form 5500 (if required) is provided, along with an Annual Compliance package and information for W-2 Wage and Tax Statements.

Important Information

- The plan must be in writing and a Summary Plan Description must be distributed to each plan participant.
- Elections cannot be changed or revoked at any time during the plan year unless the participant has a change of status, or the required contributions to pay premiums for the elected benefits change during the plan year.
- COBRA continuation forms should be provided to all terminating participants in the medical reimbursement portion of the plan. However, COBRA need not be offered for subsequent plan years.
- The plan must provide a written statement by January 31 of every calendar year showing the amounts paid or expenses incurred for daycare expenses during the previous calendar year. This amount is shown on the employee's W-2.
- Employers maintaining flex plans with over 100 participants in the health flex plan must file IRS Form 5500 each year.
- For a health FSA account, the employer must make the full election amount available to participants on the first day of the plan. If an employee leaves employment before fully funding the plan, the employer must complete funding. In case of a deficit in the plan account, the employer must fund this deficit until employee deposits cover the balance. Generally, the employer's FICA savings outweigh this risk. For an HSA account,



only amounts contributed are available to pay expenses or withdrawal.

- Eligible expenses may be incurred during the plan year and up to 2-1/2 months following the plan year end. Funds elected by participants, but unused, will be forfeited to the plan. (This rule does not apply to Health Savings Accounts.)
- If transit passes are "readily available" to the employer, the employer must provide transit passes instead of reimbursing employees for transit expenses. "Readily available" means that the employer can purchase and distribute transit passes to employees without having the cost incurred by the employer be more than 1% of the value of the transit passes.
- If disability insurance is paid on a pre-tax basis, benefits received from the insurance carrier by the employee may be taxable. Under most circumstances, it is recommended that disability insurance not be included in the plan.
- No more than \$50,000 of employer-sponsored group-term life insurance may be provided to employees on a pre-tax basis.
- Insurance products with a return-of-premium feature cannot be deducted on a pre-tax basis.
- The plan may not discriminate in favor of highly compensated or key employees.
- Because employees do not pay any social security tax on income redirected to the plan, their social security benefits at retirement may be slightly reduced.

How to Get Started

You can start a flex plan at any time. Plus, you can have a short plan year for the first year so that future plan years coincide with either your fiscal year, calendar year, or health plan. The choice is yours.

To set up your flex plan, complete the application located on the following page and fax or mail it to MHM Resources. One of our representatives will contact you to design a custom flex plan document and set up administrative procedures.

Since employee participation is vital to the success of this plan, we recommend your plan be implemented no sooner than one month after the flex plan application is submitted.

FLEX PLAN APPLICATION

1. Legal Name of Company Sponsoring Plan: _____
 2. Business Type: C Corp. S Corp. Sole Proprietor LLC Partnership Not-For-Profit Government Entity or Church
 3. Principal Business Activity: _____
 4. Federal Employer Identification Number (Must be 9 digits.): -
 5. Primary Contact Person: _____ Title: _____
Phone: _____ Fax: _____ E-mail: _____
Secondary Contact Person: _____ Title: _____
Phone: _____ Fax: _____ E-mail: _____
 6. Street Address (No PO Boxes): _____
City, State, Zip: _____
 7. Phone: _____ Fax: _____ E-mail: _____
 - 8a. Section 125 Flex Plan Effective Date:
 - a. A new plan effective as of (date) _____
 - b. An amendment and restatement of a previously established Section 125 plan of the employer.
 - (1) This amendment and restatement is effective as of (date) _____
 - (2) Effective date of the original plan _____
 - (3) Plan number (consult last Form 5500, if filing was required, for number assigned to your plan): _____
 - 8b. Section 132 Commuter Benefit Plan Effective Date:
 - a. A new plan effective as of (date) _____
 - b. An amendment and restatement of a previously established Section 132 plan of the employer.
 - (1) This amendment and restatement is effective as of (date) _____
 - (2) Effective date of the original plan _____
 9. Plan Year End: _____
 10. Employer's Principal Office - This Flex plan shall be governed under the laws of: State Commonwealth _____
 11. Benefits - The benefits below shall be included in the Flex plan:
 - Healthcare expenses not covered by insurance (check one): FSA HSA Both FSA & HSA
 - Adult/child daycare expenses
 - Adoption expenses
 - Health and other insurance premiums paid via payroll deduction (select coverages below)¹:
 - Health insurance Disability insurance² Critical illness insurance Vision care insurance Dental insurance
 - Group-term life insurance³ Cancer insurance Accidental death/dismemberment Other insurance (specify) _____
 - Commuter Benefits⁴ (check all that apply): Parking Expense Transit pass expense Commuter highway vehicle expense
12. Legal Name(s) of Affiliated Company(ies) that will be covered by this Plan: _____
13. Total Number of Employees: _____
14. Payroll is prepared: In-house Outsourced (specify payroll company) _____

Pricing information

15. Fee for a New Plan Setup and Restatement: Call for quote.
16. Fee for Participant Services: \$5.25 per month/participant - includes flex benefit card program. (Additional fees may apply to HSA option).
17. Fee for Annual Plan Compliance: \$55 per month.

Shipping

18. FSA Enrollment Kit is shipped UPS Ground within two business days of receiving completed application and setup fee.

Payment of setup fee

19. Debit my checking account for \$ _____ (form supplied upon request) Check enclosed for \$ _____ (payable to MHM Resources LLC)
 Charge my credit card for \$ _____. VISA MC AMEX Discover Expiration Date: _____
Credit Card Number: _____ Name on card: _____

To be completed by referral source

- Name of Referral Source: _____ Affiliated Company: _____
Address (No PO Boxes): _____
City, State, Zip: _____
Phone: _____ Fax: _____ E-mail: _____
The referring company or its representative may earn a fee for services performed in connection with the installation of this plan.

**FAQ this completed form
to MHM: 877-782-8889**

Questions? Call 1-877-887-1080



MHM Resources LLC
Your Total Flexible Benefits Solution

For MHM internal use

Rep. #: _____
Client #: _____
Lead Source: _____

MHMR-FSAAPP1209



YOUR SERVICE PROVIDER

Your Total Flexible Benefits Solution.

As a leader in Flexible Benefits and consumer-driven health, MHM Resources is dedicated to empowering employers and individuals to get the most from their flexible benefits program. That's because we have...

Experience... Innovative technology... Industry Leaders

MHM Resources has provided flexible benefits technology and support systems for over two decades. You might remember us as Mayer Hoffman McCann, the independent CPA firm that founded our company. In 1998 the firm spun off MHM Resources so we could focus all our energy on flexible benefit plans that really work.

Through years of experience, we constantly interact with the top administrators in the country. This allows us to identify their Best Practices, and integrate the "Best of the Best" into our system.

Plus, for over twenty years, we've provided turnkey flex administration for thousands of groups. So when you talk with the more than 1,000 third-party administrators, or the 35 insurance carriers who have partnered with us, they'll tell you the same thing: they can count on MHM.



MHM Resources LLC **Your Total Flexible Benefits Solution**

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