

Flexible Spending Accounts (FSAs)

A smart choice for employers



Also known as a cafeteria plan, the Section 125 Flexible Spending Account (FSA) is the employee benefit that's beneficial to your company. By giving your employees a way to pay for specific health and childcare expenses with pretax dollars, an FSA not only reduces your employees' taxes, it also reduces the payroll taxes your company pays. This is why more and more companies are adopting an FSA. At PacificSource Administrators we're able to tailor an FSA package to meet your company's specific needs.

Section 125: The Nuts and Bolts

There are three components to the FSA:

1. Premium Payment Component
2. Health FSA Component
3. DCAP Component

Premium Payment Component

This basic plan component allows employees to set aside pretax money to pay for their portion of their health insurance premiums. They also don't have to file any additional tax forms, as their W-2s will simply reflect the lower taxable income.

The Health FSA and DCAP Components share several common features:

- Employees determine their own contributions. They can determine this amount by estimating their out-of-pocket expenses for the plan year.
- Once employees have determined their annual contribution, this amount is divided by the number of pay periods in that year and deducted pretax from each paycheck.

We take care of all the enrollment materials and help you customize informational materials for your employees. We also educate them about the benefits and risks that may come with participating in the plan.

- We'll issue the reimbursement checks or direct deposit amounts to participants within about a week of receiving the requests.
- At the end of the plan year, any unused funds in FSA accounts are forfeited to the employer. However, if you choose to allow it, your employees can each have up to \$500 of unspent FSA dollars carry over to their next plan year's FSA.

Note: This provision must be adopted prior to the end of your plan year.

- You and your participating employees can access FSA information through MyFlex, our secure web portal for FSAs.

Questions?

Not sure who to contact? PSA-TPA Sales and Service can help! Call us at (800) 422-7038 and ask for Sales or email us at psasales@pacificsource.com.

Bend

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Health FSA Component

This account allows employees to set aside pretax money to pay for medically necessary health expenses that aren't covered by a health plan.

General-Purpose Health FSA

With a General-Purpose Health FSA, eligible expenses include deductibles, co-insurance, co-pays, dental, vision, and prescriptions.

Limited-Purpose Health FSA

With a Limited-Purpose Health FSA, your employees can set aside pretax money for qualifying dental and vision expenses for themselves and others on their plan. The benefit of this limitation is that your employees can participate in both limited FSAs and health savings accounts. This also allows you as the employer to enjoy even more savings and tax benefits.

Limited-Scope Health FSA

A Limited-Scope Health FSA is also available for those who do not have group medical coverage.

DCAP Component

This account allows employees to set aside pretax money to pay for dependent care expenses. Employees may either participate in this FSA or take the IRS standard dependent care tax credit, but not for the same expense. Oftentimes, the FSA provides a greater tax savings than the tax credit option.

Questions and Answers

Who is eligible to participate?

Only employees are eligible to participate in the FSA. Therefore, two percent or more owners in an S Corporation, sole proprietors, or partners in a partnership, LLC, or LLP are not eligible to participate in the plan. Talk to your PacificSource Administrators representative to resolve any eligibility questions.

Can employees make changes during the plan year?

Participants can make changes to dependent care accounts if they experience qualified changes in status, such as marriage, divorce, birth, death, adoption, spouses changing employment, or job shift changes for employees or spouses that directly affect

their child care. Changes to the Health FSA are based on a more limited set of qualifying events and can be made only if the plan you have adopted allows changes to this account.

How soon must employees submit claims?

Employees have until 90 days after the end of the plan year to submit requests for reimbursement. If you adopt the grace period, the plan year is extended by an additional two months and 15 days, after which the 90 day period begins.

What if employees want to change their deduction amounts?

With the Health FSA, the deduction amounts may not be changed during the plan year unless your plan allows for qualified changes. The deduction amounts for dependent care may be changed during the plan year, but only if a qualified status change has occurred. To change their deductions, employees simply complete a change form and submit it to their human resources department.

Can a participant be reimbursed before contributing the amount to the account?

It depends on the type of account. With a dependent care account, the eligible reimbursement amount is available only after the funds have been payroll deducted, and PacificSource Administrators has received those funds. For the Health FSA, the reimbursement process will start after the plan year is established. Per IRS regulations, participants have access to their total annual elections at this time.

What is the maximum allowable allocation for an FSA?

It varies by the type of account. For a dependent care account, the maximum is \$5,000 per calendar year, or \$2,500 if married and filing separately. With a health expense account, the maximum annual election is up to you, the employer; however, the maximum is set by the IRS. For a premium contribution plan, a maximum doesn't apply because the premium is the only pretax deduction. There is no maximum contribution for the Premium Only Plan.

About Us

PacificSource Administrators offers a broad range of administrative benefits services, including self-funded insurance plans, Flexible Spending Accounts (FSAs), Health Reimbursement Arrangements (HRAs), Premium-only administration, and COBRA/Retiree administration. We've been serving the Northwest since 1987. We pride ourselves on providing full program administration for the employer, informing employees as to how they will benefit, and providing education and prompt service to participants.

