

Flexible Spending Accounts



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FLEXIBLE SPENDING ACCOUNTS



FEDFLEX BENEFITS PLAN

- * Needed to qualify as a cafeteria plan under Internal Revenue Service Code (IRC) section 125
- * Was created before premium conversion implementation; now being revised
- * It will include:
 - ✓ A Health Care Flexible Spending Account (FSA)
 - ✓ A Dependent Care FSA



WHY FLEXIBLE SPENDING ACCOUNTS?

- * To remain competitive with private sector for recruitment and retention
 - ✓ 87% of employers surveyed offer some form of flex benefits
 - ✓ We are just coming on board



Definition

* Cafeteria Plan:

A plan meeting requirements of IRC section 125 that allows employee choice between pre-tax benefits and cash.

Under FedFlex:

- ✓ Allotment of salary
- ✓ Deducted from gross salary for tax purposes, not pension



Examples

- * Paying health insurance premiums with before tax dollars (Premium Conversion)
- * Health Care FSA
- * Dependent Care FSA



Types of FSAs

* Health Care FSA

- ✓ For health plan deductibles, copayments, coinsurance and non-covered but tax-deductible expenses, e.g., non-covered dental services; lasik surgery

* Dependent Care FSA

- ✓ Eligible children and adults
- ✓ Expense must be necessary to allow employee to work



Cafeteria Plan -- Sec.125 Rules

What Benefits Could Be Included?

- * Medical Benefits
- * Vision Benefits
- * Prescription Drug Plan
- * Dental Benefits
- * Group Term Life
- * Dependent Care Assistance Plans
- * Long-Term and Short-Term Disability
- * Accidental Death and Dismemberment Insurance
- * **Must include CASH option**



Congressional Interest

- * Representative Weldon held recent hearing on cafeteria plans
- * Explored the full range of options available
- * Appropriations Committee supported extension of FSAs to the federal workforce and directed OPM to report on implementation efforts



Where are we right now?

- * Premium Conversion
 - ✓ Positive declination

- * Flexible Spending Accounts
 - ✓ Positive election each year
 - ✓ Health Care FSA
 - ✓ Dependent Care FSA



Premium Conversion Plan

* Concept:

- ✓ A cafeteria benefit plan that allows an employee to pay premiums for health care benefits with pre-tax dollars

* Advantage:

- ✓ Employee take-home pay is greater than for same premium paid on a traditional after-tax basis
- ✓ Agency saves money (FICA)
- ✓ No budget impact



Premium Conversion

How It Works

* Mutual Agreement

- ✓ Employee agrees to reduce pay by allotment
- ✓ Agency agrees to contribute exact amount reduced from the employee's pay



Flexible Spending Accounts

* Concept:

- ✓ Use pre-tax dollars to pay for:
 - ✓ Deductible medical expenses not covered by employer's plan
 - ✓ Eligible dependent care costs

* Advantages:

- ✓ Employee saves money on taxes
- ✓ Government can compete better with private sector for employees



Flexible Spending Accounts

How They Work

* Mutual Agreement

- ✓ Employee chooses to reduce pay for the next year by a selected amount through allotment
- ✓ Agency agrees to put that amount into the employee's FSA
- ✓ Medical and dependent care accounts are separate
- ✓ No changes without a qualifying life event (QLE)



Flexible Spending Accounts

How They Work

ADMINISTRATION

- * Employer self-administers
 - ✓ Seldom done

- * Third-party administrator (TPA)
 - ✓ One TPA typical



Flexible Spending Accounts

How They Work

* Claims Reimbursement

- ✓ Employee submits claim against FSA account
- ✓ Valid claims are reimbursed on pre-tax basis
- ✓ Amounts not claimed at end of year are forfeited
 - * Usually 90 to 180 days after end of year to submit claims
 - * “Use it or lose it” provision; President’s budget recommends \$500 rollover



FSA Start-Up Funding

- * Typically, with FSAs, the employer is fully liable

- * With FedFlex, the TPA will take on a significant amount of responsibility
 - ✓ Employer liability
 - ✓ Education/communication
 - ✓ Employee elections

- * There will be payroll office interface



Flexible Spending Accounts

TPA Sources of Funds

- * Forfeitures

- ✓ Money not used for allowable expenses by end of year

- * Interest

- ✓ Money that “sits” in account draws interest

- * Charge per account



Flexible Spending Accounts

- * No new legislation required
- * Can be done administratively under current law



Flexible Spending Accounts

Next Steps: OPM

- * Modify FedFlex Plan Document
- * Issue No Cost Request For Proposal
- * Select TPA
- * Issue Regulations
- * Start-up goal: Mid-2003