

# **Employee Benefit Systems**

## **A Flexible Benefits Plan Summary**

### **What is a Flexible Benefits Plan (IRS Code Section 125 Cafeteria Plan)? How can it save you money?**

A cafeteria plan is simply a program that employers can use to help employees pay for certain expenses, like health insurance and child care, with pre-tax dollars. Employees like cafeteria plans because they can buy benefits with pre-tax dollars, giving them more take home pay.

### **When is the Annual Enrollment Period?**

Annual Enrollment depends on your employer's plan year. For example, if your employer has a calendar plan year, your enrollment period is December 1 through December 31<sup>st</sup>. You can get a Flex Plan Enrollment Form from your personnel office.

### **Examples of Benefits that are available under the Flex Plan:**

- Tax-free Health, Dental and Vision premiums
- Health flexible spending accounts
- Term Life Insurance for Employee and Dependents
- Income replacement – disability Insurance
- Dependent Care Assistant Plan

### **Who is eligible to enroll in the Flex Plan?**

Eligibility is outlined in each employer's Plan document. Normally all full time employees of the plan sponsor are eligible to participate.

### **Who needs to complete a Flexible Benefits Plan Enrollment Form?**

- Employees who wish to join the Flex Plan
- Employees who are participating in the Flex Plan and wish to stop
- Employees who are participating in the Flex Plan and wish to make a change (either at enrollment time or a qualified event)

### **What You Should Know About IRS Rules & Regulations:**

- **When can you change the amount of your Flex Plan Elections?**  
*Elections are irrevocable.* Simply put, this means you cannot change the amount of your elections during the Flex Plan Year ***unless you experience a valid Qualifying Event and have an approved "Change in Status"***.
- **What are Qualifying Events?**  
Examples of Qualifying Events are marriage, divorce, birth of a child, etc. (See a detailed list later in this summary). If you experience a Qualifying Event and wish to change your elections, you must submit a Request for Change to Flex Plan Elections Form, along with proof of the Qualifying Event to your personnel office. (See list of required proof later in this summary).

Please review your Plan document for determination of time you are allowed to make a change due to a Qualifying Event. **Retroactive changes/refunds are not allowed. Requests for a Change in Status cannot be processed until you provide proof of a Qualifying Event.**

- **What about financial hardship?**  
According to the IRS, financial hardship is **not** a Qualifying Event for a Change in Status and may **not** be used to change your elections or drop out of the Flex Plan. Once you enroll in the Flex Plan, you are bound by Flex Plan rules and regulations.
- **Your request for a Change In Status must be consistent with the Qualifying Event.**  
For example, if a dependent becomes ineligible due to age, you may drop the sheltered premium portion only for that dependent, and may not make other changes.
- **How do you get out of the Flex Plan?**  
If you are already enrolled in the Flex Plan and wish to stop your participation for the next Plan Year, you must notify your employer **during the Annual Enrollment Period** that you do not wish to participate during the new plan year. Your participation in the Flex Plan will stop as of the first day of the new Flex Plan Year.
- **What about money left in your Flex Plan Account?**  
**IMPORTANT: Use It or Lose It Rule.** Any money that is in your Flexible Spending Account at the end of the Plan Year that was not "used" to reimburse eligible expenses incurred during the Plan Year, **is forfeited** and will not be returned to you or carried over to the next Flex Plan Year. (As a reminder, most plans provide for a certain number of days after the end of the Flex Plan Year to submit claims for that year). *Calculate your FSA contribution amount carefully.*
- **What is IRS Form 2441?**  
IRS Form 2441 must be attached to the tax return of any participant who receives dependent care benefits or who files for the child-care credit.

## Qualifying Events

### Qualifying Events that may be used to request a Change in Status:

- Marriage, divorce, annulment (Legal Separation is not recognized in Iowa)
- Death of spouse or dependent, birth, adoption or placement for adoption of dependent
- Beginning or end of employment of spouse or dependent (including strike or lockout)

- Change in eligibility or ineligibility of dependent (such as ineligible because of age, marriage, change in full time student status, enlisting in the military etc.)
- Full-time to part-time employment or vice-versa
- Unpaid leave of absence or FMLA
- Acknowledgement, judgement, decree or order to cease or provide coverage for a child
- HIPAA Special Enrollment (When you acquire a dependent through marriage, birth of a child, or adoption of a child and apply for a valid Change in Status within 30 days of that Qualifying Event, you may be able to add any and all eligible dependents to your coverage).
- Medicare or Medicaid (gain or loss of eligibility)
- Change in place of residence or work place (The change must affect your eligibility for coverage - for example, you cannot drop health coverage merely because you moved, unless as a result of the move, you are no longer eligible for a particular health benefit or you no longer reside within your provider network).
- Spouse's annual enrollment changes (You may request election changes to correspond with changes made by your spouse during his/her annual enrollment. You must provide proof that the changes were made; you can make changes **only** to those elections affected by your spouse's changes; and your election changes cannot be effective prior to the effective date of the changes made by your spouse).
- Change in Dependent Care cost or provider.

**Requests for Election Changes during the Group Benefits Annual Enrollment:**

Requests for election changes that are made during the Group Benefits Annual Enrollment Period does not require proof of a Qualifying Event. The form **must be signed and dated during the Annual Enrollment time period and must be submitted to your payroll office by the Annual Enrollment Period deadline.** *Changes to your elections will be not effective until the next Flex Plan Year.*

*Required Proof for Qualifying Events:*

**Spouse's Annual Enrollment:** Letter from the spouse's employer stating the time period of the Annual Enrollment, which family members are covered and the effective date of the coverage or change in coverage. **NOTE:** Copies of insurance cards or confirmation statements are **not** acceptable forms of proof.

**Marriage:** Copy of marriage certificate.

**Divorce:** Copy of the final divorce decree

**Birth or Adoption of a Child: Birth:** copy of the birth certificate or copy of the hospital birth letter or letter from obstetrician stating name of mother and child and date of birth. Adoption: copy of final adoption papers.

**Death of a Spouse or Dependent:** Copy of the death certificate. The participating employee should fill out the *Request for Change to Flex Plan Elections Form* and make necessary changes. A copy of the death certificate should be provided when it becomes available.

**Legal Custody of a Child:** Papers from the court stating that the child is now a legal dependent.

**Court Order:** Copy of a court order, acknowledgement, judgement or decree which requires the participating employee to obtain accident and health coverage for a child or that allows cancellation of coverage because the other parent is required to provide it.

**Medicare/Medicaid:** Copy of the Medicare/Medicaid card showing the effective date or proof that the employee is no longer eligible for Medicare/Medicaid coverage.

**Unpaid Leave of Absence or FMLA:** Letter from the Human Resources/Payroll officer stating the date the employee began continuous unpaid leave or FMLA and the anticipated date of return to work.

**Beginning or Ending of Employment of Spouse:** Letter from the employer stating the date of hire, date of eligibility for insurance, and which family members are covered or letter from the employer stating date of termination.

**Change from Full-time to Part-time employment or vice-versa:** Letter from the employer stating exactly what the change was and the effective date.

**\*Change in Dependent Care Cost or Provider:** Mid-Year Election change form.

<p><b>*Proof is not required for changes requested during the Annual Enrollment Period.</b> Requested changes take effect on the first day of the new Plan Year.</p>
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## Medical Care Flexible Spending Account (FSA)

A medical reimbursement plan (flexible spending account) is a program that gives employees the ability to pay certain medical, dental or vision expenses with before tax dollars that cannot be reimbursed through another insurance program. Insurance co-pays (but **not** insurance premiums), deductibles, RX co-pays, unpaid dental, vision and orthodontia expenses are common examples of FSA expenses.

### **Eligible dependents:**

- You can request reimbursement for you the employee, your spouse, and your dependents. See your employers plan document for their definition of a dependent.

### **Eligible Expenses:**

- For an expense to be reimbursable under an FSA, it must meet two requirements:
  1. It must be for “expenses incurred”...for medical care primarily for the prevention or alleviation of a physical or mental defect or illness.
  2. The dates of service must fall in the current plan year. Expenses are treated as having been incurred when the participant is provided with the medical care that gives rise to the medical expenses, and not when the participant is formally billed or charged for, or pays for the medical care.

### **Ineligible expenses:**

- FSA's can not reimburse you for insurance premiums of any kind.
- Expenses reimbursed from any other source can not be run through an FSA.
- Expenses that are “merely” beneficial to the general health of an individual are not reimbursable. Such expenses include vitamins, cosmetic surgery and teeth whitening. Health clubs, Weight Watchers and Y memberships are also not reimbursable.

### **How does the Flexible Spending Account (FSA) work?**

- **You estimate expenses.** You carefully estimate for the year any medical, dental or vision unreimbursable expenses that you will incur. Don't forget to check with your plan document to determine if there is a limit on the dollar amount you can set aside for the year.
- **You have money withheld.** Complete a flexible benefits enrollment form so the deductions from your paycheck can be deposited into your flexible spending account.

- **You submit a claim to be reimbursed for your expenses.**
  1. You are required to submit a written statement from an independent third party (such as the doctor's bill) verifying that the expense was incurred, date of service, patient, provider, type of visit and cost of the expense.
  2. You must also sign a written statement (the request form) stating the medical expense has not been reimbursed or is not reimbursable from any other health plan coverage.

#### **IRS requirements for a FSA:**

- The uniform coverage rule requires that "the maximum amount of reimbursement under a health FSA must be available at all times during the period of coverage". The amount reimbursed can not be limited to only the amount that has been contributed so far.
- The use it or lose it rule. Contributions made to the plan that are not used during the coverage period may not be carried over to the next plan year, nor will they be refunded to the participant.

#### ***Frequently asked questions***

##### **Q: Do my expenses have to be paid for?**

No, the expenses need only be incurred during the plan year.

##### **Q: How often can I be reimbursed?**

This is up to the individual employer according to their plan document. The IRS requires reimbursement be available at least monthly.

##### **Q: Do I get my money for my expenses up front?**

The dollar amount you set aside for the year is available to you at any time during the year. You can be reimbursed the full amount you have set aside during the first month of the plan year if you have qualified expenses.

##### **Q: My teeth have become stained from coffee and I'd like to have them whitened?**

This expense would be considered cosmetic and therefore not reimbursable through a flex account.

# Dependent Care Assistance Plan (DCAP)

Working parents can benefit from a Dependent Care Assistance Plan (DCAP). Child care can be very expensive. Many people are also caring for elderly or disabled dependents who are unable to care for themselves. With a Dependent Care FSA, you can redirect a part of your pay into a tax-free account and then reimburse yourself for eligible expenses. You save money because taxes never have to be paid on the money that is set aside in the account. Dependent Care expenses must meet IRS requirements. The expenses must be necessary for you to continue working. If married, you and your spouse must both be working, or your spouse must be a full-time student or disabled. You cannot claim reimbursed expenses for income tax purposes

## **Eligible Dependents:**

- children under age 13 residing in your household OR
- adults or children who are physically or mentally incapable of self-support, and who spend at least 8 hours a day in the employee's home.

## **Eligible Expenses:**

The following expenses can be reimbursed:

- child (day) care services inside the employee's home or someone else's home
- charges by a licensed day care facility
- preschool tuition
- adult day care in the employee's home or someone else's home
- expenses for summer day camp

## **Ineligible Expenses:**

The following expenses are not eligible. However, if an expense is incident to, and cannot be separated from the cost of caring for the qualified person, you may claim it.

- Deposits, Registration Fees, Activity Fees, Books, T-shirts or Supplies
- Tuition, Meals or Diapers
- Transportation Fees · Learning Disability Schools
- \*\*\*Kindergarten Tuition and fees are NOT eligible for reimbursement

## **How does the Dependent Care Assistance Plan (DCAP) work?**

- **You estimate expenses.** You carefully estimate your dependent or elderly care expenses for the Flex Plan Year.
- **You have money withheld.** Complete a Flexible Benefits Enrollment form so that deductions from your paycheck can be deposited into your Dependent Care account.

- **You submit a claim to be reimbursed for your expenses.** As soon as you receive the necessary proof of your expenses, you can submit a claim to be reimbursed for what you spent. You will be reimbursed for each claim up to the amount that is in your account. (You can not receive reimbursement for dates of care not yet incurred).

## **How much should I deposit into a Dependent Care Account?**

This amount cannot exceed the established annual limits as listed below:

- Married and filing jointly, or Single and Head of Household, your maximum contribution is \$5,000.
- If you and your spouse earn less than \$5,000 a year, the maximum contribution is equal to the lower of the two incomes.
- Married and filing separately, the maximum contribution is \$2,500.
- If your spouse is a full-time student or incapable of self-care, the maximum contribution is \$2,500/year for one dependent and \$5,000/year for two or more dependents.

The maximum contribution per family is \$5,000 for the taxable year as well as for the Flex Plan Year. If an employee and spouse are enrolled in separate Dependent Care Flexible Spending Accounts, they may both make contributions and submit claims, but the total for both may not exceed \$5,000.

### ***DEPENDENT CARE -vs- CHILD CARE TAX CREDIT***

Generally employees having an adjusted gross income of \$24,000 or greater benefit more from the Dependent Care than from the Child Care Tax Credit because it provides a greater tax savings. Of course, individual circumstances, such as income, dependent care expenses, and the number of dependents will affect the choice of one tax savings method over the other. Please consult your tax advisor to determine which method is best for you.

## Tax-Free Dependent Care Worksheet

1. **Number of weeks:** \_\_\_\_\_

Include dependent care expenses for your Flex Plan Year. Subtract holidays, vacations and other times that you may not be paying for eligible child or elder care. Remember to plan for only as much as you know you'll use during the Flex Plan Year. You must use this money for eligible dependent care expenses that are actually incurred during the Flex Plan Year or you lose it.

2. **Multiply by:** \_\_\_\_\_

Multiply by the amount of money you expect to spend each week.

3. **Subtotal:** \_\_\_\_\_

Cannot exceed IRS limits.

4. **Divide:** \_\_\_\_\_

Divide by the number of pay periods (12, 18, or 24).

5. **This is your per pay period contribution:** \_\_\_\_\_

**Remember to calculate carefully! It is better to under-estimate than over-estimate. Money left in your DCAP that cannot be claimed will be forfeited!**

## Dependent Care and FSA Reimbursement Claim Process

Most dependent care and health FSAs provide a period of time after the end of the plan year, known as the “run-out period”, during which claims incurred prior to the end of the plan year can be submitted. The run-out period should be distinguished from allowing for reimbursement of claims *incurred after coverage terminates*.

### Frequently Asked Questions

**Q: How long do I have to submit my "Request for Change to Flex Plan Elections" Form?**

The plan document will outline the time period (usually 30 days) allowed to submit your request of change form. *It is to your advantage to submit your request for a Change in Status as soon after a Qualifying Event as possible.*

**Q: If my employer knows I'm pregnant, won't my baby be added to my coverage automatically? Won't the amount of my sheltered premium be changed automatically?**

No. You must notify your Personnel/Payroll office by submitting a Flex Plan Change in Status Form (with a copy of the birth certificate) within 30 days of the date of the birth.

***Q: If I'm dissatisfied with the service that I have received from an insurance company, can I cancel my policy and stop paying the premium?***

Yes and No. You can drop your coverage at any time, however your sheltered premium is governed by the rules and regulations of the Flex Plan. Dissatisfaction with service is **not** a Qualifying Event for a Change in Status and may not be used to drop your sheltered premium, even if you drop the policy.

***Q: I did not enroll in Flexible Benefits during the Annual Enrollment for this Flex Plan Year. However, my spouse recently lost his job and I will now be paying the insurance premiums for my family. Can I join the Flex Plan and shelter my premiums?***

Employees who are eligible to participate in a cafeteria plan, but who elect not to take benefits cannot, absent a change in status, elect benefits until the next open enrollment period. If a change in status has occurred, most plans allow individuals who did not previously take benefits to elect benefits mid-year pursuant to the change in status, so long as the election change is consistent with and attributable to the status change.

***Q: Why does the Flex Plan require a "Qualifying Event" to allow changes to my coverage? It's my money, isn't it?***

Yes, it's your money. However, you paid your premiums on a pre-tax dollar basis. Because it is a tremendous endeavor for the IRS to monitor pre-taxation laws, there are rules to prohibit people from changing their deductions except at specific times. Please refer to "IRS Rules & Regulations" and "What are the Qualifying Events?" in this booklet for more information about how to make election changes at times other than Annual Enrollment.

***Q: I am having financial difficulty and would like to change my elections and get out of the Flex Plan. Can I do that?***

No. Financial difficulty is not a Qualifying Event for a Change in Status.

***Q: I am divorced and have custody of my children, although my former spouse claims them as dependents on his tax return. Can I still open a Dependent Care Assistant Plan?***

Yes. You don't have to declare your children as dependents on your tax return to qualify for a Dependent Care Assistant Plan. However, you must be the custodial parent. (The child must reside with you for more than half the year).

***Q: One of my relatives takes care of our children while we work. Is this an eligible expense for Dependent Care?***

Yes, as long as you or your spouse cannot claim this relative as a dependent and the relative is not under age 19. For instance, if you pay your daughter for dependent care and you want to be reimbursed through your Dependent Care Assistant Plan, your daughter cannot be your dependent and she must be at least age 19 by the end of the Flex Plan Year.

***Q: If I join the Flexible Benefits plan, will I ever have to pay taxes on the money that I put into the plan?***

Never. As a Section 125 benefit, it's tax-free. Your W-2 shows your gross income less any Flexible Benefit contributions. The DCAP contribution is reported on the nontaxable wages and income box on your W-2. If the IRS audits you, you will need to show total expenses and receipts from your service provider(s). Keep a copy of your reimbursement request forms and receipts for your records.

**NOTICE**

This Benefits Guide is intended and provided only as a general outline of the Section 125 "Cafeteria" Plan. If you should have any further questions concerning the 125 Cafeteria Plan, please feel free to contact EBS at 1-319-752-3200.