



Northwest Marketing Resources, Inc.

# FLEXIBLE SPENDING ACCOUNT

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## Tax Savings for You and Your Employees

### What is a Flexible Spending Account Plan?

Sometimes referred to as a cafeteria plan, flex plan, or a Section 125 plan, a Flexible Spending Account (FSA) lets employees set aside a certain amount of each paycheck into an account—before paying income taxes. During the year, employees are reimbursed from this account for expenses such as healthcare and dependent daycare.

Reimbursements of qualified expenses are tax-free.

When employees use tax-free dollars to pay for these expenses, they realize an increase in spending power and substantial tax savings.

The company saves too—about 8% (FICA match) on every dollar employees contribute to the plan.

### What benefits can an employer include in an FSA Plan?

#### Plan 1 Employee-paid insurance premiums.

Payroll-deducted health insurance plan premiums and other employer-sponsored insurance coverages, including dental, disability, accident, and group-term life insurance premiums.

#### Plan 2 Medical Expenses not covered by insurance.

Typical expenses include eye exams, eyeglasses, eye surgery, contact lenses and solutions, dental visits, orthodontic care, medical examinations, mental health-care, chiropractic services, prescription drugs, insurance co-pays and deductibles, and expenses that are not reimbursed by health insurance.

**Plan 3 Adult and child daycare expenses.** The cost to care for a dependent while the employee and spouse (if married) work.

**Plan 4 Adoption expenses.** Qualified adoption expenses include those fees and related expenses incurred for the adoption of a qualified child

## Who Can Sponsor an FSA 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 an FSA plan.

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

### Northwest Marketing Resources

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# Benefits To You

## Your company will recognize the following savings with an FSA Plan.

- 1 You will save 8% or more on every dollar your employees redirect to the FSA plan. That's because social security taxes will not be owed on amounts contributed to the plan by participating employees. (This is true of employees earning less than the maximum amount taxed for social security.)
- 2 Insurance premiums may be reduced for coverages that are based on employees' taxable salaries.
- 3 Your Company's retirement plan expenses may also be reduced, since profit sharing and pension plans may be based on employees' taxable salaries.
- 4 Your Company's health insurance cost can be lowered by combining certain changes to your insurance plan with the installation of an FSA plan.
- 5 Because of significant cost increases for health insurance and other fringe benefits, many companies would like to modify the insurance coverage they provide to their employees. An FSA plan can be implemented at the same time a change is made, and thus significantly reduce the impact on the employee.
- 6 You can increase your employees' share of insurance premiums without reducing their take-home pay.
- 7 Administrative costs are tax deductible and can be paid by you, your employees, or a combinations of employer/participant dollars. Fees can be collected by payroll deduction on a pre-tax basis.

## Example of Employer Savings

XYZ Company Has 10 EE's	Without an FSA Plan	With an FSA Plan	Your Company
Annual Payroll	\$ 300,000	\$ 300,000	_____
Employee-Paid Premiums	0	- 24,000 *	_____
Unreimbursed Medical Expenses		- 3,000 **	_____
Dependent Daycare Expenses		- 10,000 ***	_____
Taxable Payroll	\$ 300,000	\$ 263,000	_____
FICA Payroll	\$ 300,000	\$ 263,000	_____
Savings		\$ 2,830	_____

\* Based on insurance premiums averaging \$200 per month per employee.  
 \*\* Based on four employees contributing an average of \$62.50 per month.  
 \*\*\* Based on two employees contributing an average of \$417.00 per month.

# Benefiting The Employee

## How will my employees save money?

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

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

Your employee's savings will depend on the amount directed to the FSA plan and the employee's tax rate.

The Example below illustrates how one employee increased his monthly take-home pay by \$27 through participation in his employee's FSA plan.

## Example of Employee Savings

	Without an FSA Plan	With an FSA Plan	Benefit Bank
Salary .....	\$ 1,000	\$ 1,000	
To FSA Plan .....		-100	➔ \$ 100
Taxable Salary .....	1,000	900	
Income Tax (20%) .....	-200	-180	
Social Security Tax (7.65%) .....	-76	-69	
Salary After Taxes .....	\$ 724	\$ 651	
Medical Expenses .....	-100	-100	
Take-Home Pay .....	\$ 624	\$ 551	
From FSA Plan .....		100	➔ \$ 100
Net Take-Home Pay .....	\$ 624	\$ 651	
Net Savings with a Plan .....		\$ 27	

# Plan Design & Administration

## Plan setup and ongoing administration is easy with our turnkey service.

Simply complete the EZFlexPlus FSA Application and we take care of the rest.

- 1 Plan Consulting.** Upon receiving your application, a plan specialist will contact you about plan options.
- 2 Plan Setup.** The setup kit includes 'signature-ready' custom plan documents and forms and a checklist for plan implementation. For existing plans, the service also includes a plan review and amendment, if needed.
- 3 Employee Enrollment Assistance.** The enrollment kit includes educational materials such as a CD, brochures, and enrollment forms (also available in electronic formats, including e-mail and internet-enabled enrollment services).

Confirmation of annual elections, claim forms, and instructions for filing are provided to all participants.

**4 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. Weekly services included claims payment by check or direct deposit.

**5 Participant Assistance.** Employees have 24-hour access to their accounts via the Internet and 800-line interactive voice response, and daytime access to our 800-line call center. Employee statements are included on claim reimbursements and on demand.

**6 Annual Plan Compliance.** Services include reconciliation and reporting of employee account balances, plus compliance with discrimination testing requirements. 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.
- 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 paid for on a pre-tax basis.
- The plan may not discriminate in favor of highly compensated or key employees.
- 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 FSA plans with over 100 participants in the medical FSA must file IRS Form 5500 each year.
- For medical FSA, 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 company must complete funding. In case of a deficit in the plan account, the company must fund this deficit until employee deposits cover the balance. Generally, the employer's FICA savings outweigh this risk.
- Eligible expenses must be incurred during the plan year. Funds elected by participants, but unused at the end of the year, will be forfeited to the plan.
- Because employees do not pay any social security tax on income redirected to the plan, their social security benefits may be slightly reduced.

## How to Get Started

You can start an FSA 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 FSA plan, complete the application located on the following page and fax or mail to Northwest Marketing Resources (NMR). One of our representatives will contact you to design a custom FSA 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 FSA application is submitted. We will educate and enroll your employees while you simply watch the savings multiply for you and your employees.

# NMR EZFlex FSA Plan Application

If you require assistance completing this form, call 1.800.565.0313

1. Legal Name of Company Sponsoring Plan: \_\_\_\_\_
2. Business Entity Type:  C Corporation  Sole Proprietorship  Partnership  
 S Corporation  Limited Liability Company  Not-For-Profit
3. Principal Business Activity: \_\_\_\_\_
4. Federal Employer Identification Number (Must be 9 digits): \_\_\_\_\_ - \_\_\_\_\_
5. Contact Person: \_\_\_\_\_ Title: \_\_\_\_\_
6. Street Address (No PO Boxes): \_\_\_\_\_  
City, State, Zip: \_\_\_\_\_
7. Phone: \_\_\_\_\_ Fax: \_\_\_\_\_ E-mail: \_\_\_\_\_
8. Effective Date—This FSA Plan will be:
  - 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) State the effective date of the original plan \_\_\_\_\_
    - (3) State the plan number (consult last Form 5500, if filing was required, for number assigned to your plan) \_\_\_\_\_
9. Plan Year End: \_\_\_\_\_
10. Employer's Principal Office—This FSA plan shall be governed under the laws of the :  
State of \_\_\_\_\_
11. Benefits—The benefits selected below shall be included in the FSA plan:  
(If the employer is putting money into the plan please attach a schedule of contributions the employer will be making)
  - Medical expenses not covered by insurance. Maximum Annual Election per employee \_\_\_\_\_
  - Adult/child daycare expenses
  - Adoption Expenses
  - Health and other insurance (select coverages below):
    - Health insurance premiums  Disability insurance\*\*  Critical illness insurance  HSA Contributions
    - Dental insurance  Vision care insurance  Accidental death/dismemberment
    - Group-term life insurance\*  Cancer insurance  Other insurance (specify) \_\_\_\_\_

\* Group-term life insurance up to \$50,000 coverage  
\*\* If disability insurance is paid for on a pre-tax basis, any benefits received are taxable to the employee.  
under most circumstances, it is recommended that disability insurance not be included in the plan.  
Note: Insurance products with a return-of-premium feature cannot be paid for on a pre-tax basis.
12. Legal Name's of Affiliated Company(ies) that will be covered by this Plan: \_\_\_\_\_
13. Total Number of Employees: \_\_\_\_\_ Eligible Employees \_\_\_\_\_
14. Eligibility matches medical enrollment Yes  or No  Or Employee are eligible after \_\_\_\_\_ days of employment.
15. Do you have an HSA Plan in Place or will you when this plan goes into effect? Yes  or No
16. Do you want to include the 2 1/2 month extension at the end of the plan year for employees to incur claims? Yes  or No   
(The 2 1/2 month extension requires an additional fee of \$75.00 per year.)

## Pricing Information

17. Fee for a New Plan Setup and Restatement \$400.00.
18. Fee for Participant Services. \$4.50 per month per participant. Client is billed by NMR each month.
19. Fee for Annual Compliance. NMR Bills \$225.00 at the beginning of new plan year.

## Shipping Instructions

20. The FSA Kit will be mailed to:  Sponsoring Company  Agent

## Payment

21. Check enclosed for \$ \_\_\_\_\_ (payable to NMR, Inc.)

22. Plan Administrator Signature: \_\_\_\_\_ Date: \_\_\_\_\_

\*This should be the employer or its designee. NMR, Inc. will provide administrative services, but will not be the Plan Administrator.

## Agent Information

Referring Agent Name \_\_\_\_\_ Agency/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.

**FAX this completed form to NMR: 360.754.1931**

PO Box 447, Olympia, WA 98507 ~ 800.565.0313

### For NMR Use Only

Client#: \_\_\_\_\_  
Rep#: \_\_\_\_\_  
Source: \_\_\_\_\_