

**Benefits Design Group, Inc.**

# **Who We Are & What We Do**



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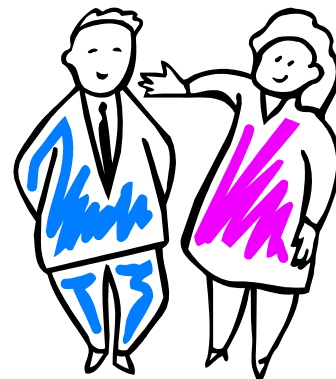


**ELIGIBLE EXPENSES**



# Benefits Design Group, Inc.

# Introduction



Benefits Design Group, Inc. is a third party administrator providing employee benefit plan services for employers which include:

1. Section 125 Flexible Benefit Plans;
2. Health Reimbursement Arrangements (HRA);
3. Section 132 Transportation Plans;
4. COBRA Administration;
5. People's Health Express Medical Discount Plans

Our corporate headquarters and plan administrative center are located in Onalaska, WI. We have marketing support in Minneapolis, MN, Wausau and Onalaska WI. Benefits Design Group, Inc. began designing employee benefit programs in June of 1987 and we currently assist over 1600 employers nationwide ranging in size from as small as 2 to over 6000 employees.

Unlike most administrators, our primary focus is the marketing, implementation, and administration of employee benefits plans.

Benefits Design Group, Inc. can handle the administration of your Flexible Benefit Plan, Health Reimbursement Arrangement, Transportation Plan as well as COBRA Administration. Ask us about our People's Health Express Medical Discount Plan that offers access to Tele-doc, Dental, Vision and RX discounts. We offer a full range of services including protection against loss under the At-Risk Rules for Flexible Benefits Plans, optional funding methods for Flex Plans, HRAs and Transportation Plans, variable reimbursement frequencies, and Internet access to account information.

**Our goal is to provide you with  
unmatchable service!**

# Benefits Design Group, Inc.

## Services



The following pages will provide a more detailed explanation of our services.

The level of service we provide will depend upon your choice of plan options. We tailor services around your needs.

- ◆ **Plan Documentation**
- ◆ **Employee Education**
- ◆ **Anti-Discrimination Testing**
- ◆ **At-Risk Rule Adherence and Accounting**
- ◆ **Claims Processing**
- ◆ **Debit Cards**
- ◆ **Account Maintenance**
- ◆ **Ongoing Employee Communication**
- ◆ **Account Statements**
- ◆ **Optional Account Funding**
- ◆ **Form 5500 Preparation \***
- ◆ **COBRA Compliance Guidelines**
- ◆ **Legal & Technical Support**
- ◆ **Telephone Assistance**
- ◆ **Web Site Updates**

\*if applicable

# Benefits Design Group, Inc.

## Flexible Benefit Plan Services



### Plan Documentation

Benefits Design Group, Inc. provides a complete plan document that meets the IRS requirements for Section 125 Flexible Benefit Plans. Plans are customized and designed to meet employer specifications. Also included with the Plan Document is the Summary Plan Description. All documents are updated as regulatory changes may occur from time to time.

### Employee Communication/Enrollment FSA

“Section 125 Guide for Employees” explains the concept of flexible benefits in an easy to understand question and answer format. It includes answers to the mostly commonly asked questions, worksheets, an illustration of the potential tax savings for flexible spending account participants, a recap of the possible disadvantages of the plan and a listing of the most common eligible expenses.

A communication packet is also available which includes payroll stuffers, an introduction memo, and a group meeting announcement poster. In addition, representatives are available to conduct group or individual employee enrollment meetings.

### Anti-Discrimination Testing

Benefits Design Group, Inc. performs the overall key man concentration tests, the key man test and average benefits test for dependent care at the beginning of the plan year, two months before the plan ends and at the end of the plan year to ensure that the Plan is in compliance with the regulations governing the benefit (full service clients only).

### At-Risk Rule Adherence and Accounting

Compliance with the Section 125 regulations requires that the General-Purpose and/or Limited-Purpose Medical Flexible Spending Accounts exhibit the same risk shifting characteristics of insurance. The employer is required by law to provide 100% reimbursement of incurred expenses up to a maximum annual benefit amount elected by a plan participant at any point during the Plan Year. This is known as the uniform coverage rule. Benefits Design Group, Inc. maintains accounting and audit controls to ensure adherence to this rule.

### Protection Against Losses

#### as a Result of “At Risk” Rules

Potential Employer exposure under the uniform coverage rule is limited to no more than a Plan Year deductible for the entire aggregate plan balance on voluntary terminations. The deductible corresponds with the maximum amount sponsored by the employer for the General-Purpose and/or Limited-Purpose Medical Flexible Spending account. (Please refer to the “At Risk Discussion and Solution” on pages 15 and 16 for a full explanation of the program.)

### Claims Processing

Participants submit claims directly to Benefits Design Group, Inc. A signed Flexible Spending Account (FSA) Claim Form, along with a copies of third party substantiation (i.e. receipts, billing statements, Explanation of Benefits (EOB), etc.) must be submitted for review. Substantiation must include the service date, a description of the service, amount of participant responsibility for processing. The reimbursement process occurs two times per week (Tuesday and Thursday for Service Option 1 only), semi-monthly (Service Option 2), or monthly (Service Option 2). The checks are sent either to the Employer or directly to the Employee’s home address. Approved claims received by the pre-determined claim cut-off date are generally paid within five (5) business days, provided that the funds are available in the account. If the cut-off date falls on a mail holiday or weekend, the cut-off is the previous business day. With each reimbursement check or direct deposit advice, the Employee receives a summary of their account status. Additional FSA Claim forms are available on our website and are sent to participants with their confirmation and benefit statements at the beginning and end of each plan year.

### Debit Cards

Debit cards are available for Flexible Spending Accounts (FSA). Many medical expenses can be paid for with debit card technology without need for paper\* claims.

\*Some restrictions apply. Not all claims qualify for auto-substantiation.

### Account Maintenance

Benefits Design Group, Inc. manages all account activity for each participant of the Flexible Spending Account (FSA). Claims history, payment records, and balance information are updated and reconciled on a daily basis.

# Benefits Design Group, Inc.



## Flexible Benefit Plan Services (cont.)

### Ongoing Employee Communication

All Flexible Spending Account (FSA) and Health Savings Account (HSA) participants receive a letter confirming their annual elections at the beginning of the Plan Year. (Participants in the Premium accounts will only receive confirmation upon request.) Reimbursement check stubs contain current claim and year-to-date activity within the accounts. The final two months of the Plan Year, FSA participants receive account statements to remind them that expenses must be incurred by the end of the Plan Year (or grace period if applicable) and to submit claims against their balances before the end of the forfeiture period.

### Optional Account Funding Methods

**BDG Account (Service Option 1)** - On approximately the 20th of the month, billing statements are prepared and sent to the Employer for the next month's payroll deductions. The billing details each Employee's payroll deduction amount for all options under the plan. Group Premium elections are retained by the Employer, and elections under the Flexible Spending Accounts are forwarded to Benefits Design Group, Inc. for deposit to the BDG account and posting to the individual participant accounts. The checks are issued from the BDG account; all maintenance, reconciliation, and costs of the account are the responsibility of Benefits Design Group, Inc. The BDG account is made up of Employer funds, and is not an asset of Benefits Design Group, Inc. Direct Deposit is available only with this funding method.

**Employer Bank Account (Service Option 2)** - The Employer maintains a checking account for purposes of claims reimbursement under the Flexible Spending Accounts. Benefits Design Group, Inc. monitors the activity each pay period. The Employer submits a payroll register for account balance reconciliation with the BDG system. Checks are physically stored at our office, and issued to the Participants as qualified claims are presented for payment. Signing authority on the checks may be assigned to Benefits Design Group, Inc., or the checks may be sent to the Employer for signature. Benefits Design Group, Inc. absorbs the cost of the check printing, and the Employer maintains the control and maintenance of the checking account.

### Form 5500 Preparation (\*As Applicable)

#### **BDG Account (Service Option #1)**

Upon completion of the final accounting for the Plan Year, the Form 5500\* is automatically prepared for the Employer's signature and EBSA filing at no additional charge.

#### **Employer Bank Account (Service Option #2)**

A summary of the account information is forwarded to the Employer upon completion of the Plan Year. It is the Employer's responsibility to complete the Form 5500\* and forward it to the Department of Labor (DOL). Or, if you prefer, Benefits Design Group, Inc. will complete the form for you, upon your request, for an additional fee.

### COBRA Compliance Guidelines

Guidelines are furnished to comply with the current regulatory requirements for continuation of the applicable benefits when a participant separates from service. COBRA services are available for a separate fee.

### Legal & Technical Support

Benefits Design Group, Inc. is an active member of the Employers Council on Flexible Compensation (ECFC), one of the leading national authorities on tax advantaged plans including flexible benefit plans, health reimbursement arrangements, transportation plans and COBRA administration. Our staff includes individuals that have been certified as instructors and specialists in the flexible compensation industry.

### Telephone Assistance

Participants and Plan sponsors have toll-free access to our customer service department, which is open 7:30 a.m. - 4:30 p.m. Monday through Thursday and 7:30 a.m. - 1:00 p.m. Friday (Central Standard Time). After hours, messages left on voicemail will be returned the next business day.

### Web Site Account Access

Participants can access account information at our secure web-site. Each Employee sets up a Personal Identification Number (PIN) at our secure website: [www.bdgflex.com](http://www.bdgflex.com).

# Benefits Design Group, Inc.

## Health Reimbursement Arrangement (HRA) Services



### Plan Documentation

Benefits Design Group, Inc. provides a plan document and Summary Plan Description (SPD) customized to meet employer specifications that meets the IRS requirements for Section 105 Health Reimbursement Arrangements (HRA). All documents are updated as regulatory changes that may occur from time to time.

### Employee Communication/Enrollment HRA

Benefits Design Group, Inc. will customize claim filing instructions based upon your schedule of reimbursement. The instructions will describe the claim filing process for HRA participants. In addition, representatives are available to conduct employee informational meetings.

### Claims Processing

Participants submit claims directly to Benefits Design Group, Inc. A signed HRA Claim Form, along with a copies of third party substantiation (i.e. receipts, billing statements, Explanation of Benefits (EOB), etc.) must be submitted for review. The reimbursement process occur on a monthly or semi-monthly schedule which will be pre-determined according to service arrangement with the employer. Claim forms will be provided and are also available on our website at: [www.bdgflex.com](http://www.bdgflex.com).

### Account Maintenance

Benefits Design Group, Inc. manages all account activity for each participant of the Health Reimbursement Account (HRA). Claims history, payment records, and balance information are updated and reconciled on a daily basis.

### Ongoing Employee Communication

HRA Reimbursement check stubs contain current claim and year-to-date activity within the accounts. Employers will receive payment history with each HRA reimbursement process. The last month of the Plan Year, HRA participants receive an account statement to remind them that expenses must be incurred by the end of the Plan Year and to submit claims against their balances before the end of the forfeiture period.

### Optional Account Funding Methods

**Employer will choose one of the following methods:**

1. Employers will be invoiced for funds needed to process HRA payments on the pre-determined reimbursement schedule. Employer will send a check for required funds. HRA payments will be sent to participants from the BDG Account upon receipt of required funds.
2. Employers will be invoiced for funds needed to process HRA payments on the pre-determined reimbursement schedule. Employers will wire transfer funds needed to

issue HRA payments. HRA payments will be sent to participants from the BDG account upon receipt of required funds.

3. Employers will authorize Benefits Design Group, Inc. to withdraw funds electronically from employer bank account for funds needed to issue HRA payments based upon a pre-determined schedule.
4. Employers will deposit funds needed to process HRA payments into an employer bank account. Benefits Design Group, Inc. will process HRA payments on an employer checking account.
5. Benefits Design Group, Inc. will review all HRA Claim Forms. We will process a list of HRA participants who are scheduled for payment, send it to the Employer on a pre-determined schedule and the Employer will process the actual HRA payments.

### Form 5500 Preparation (\*As Applicable)

A summary of the final plan year end account information is forwarded to the Employer upon completion of the Plan Year. It is the Employer's responsibility to complete the Form 5500\* and forward it to the DOL. Or, if you prefer, Benefits Design Group, Inc. will complete the form for you, upon your request, for an additional fee.

### COBRA Compliance Guidelines

Guidelines are furnished to comply with the current regulatory requirements for continuation of the applicable benefits when a participant separates from service. COBRA services available for a separate fee.

### Legal & Technical Support

Benefits Design Group, Inc. is an active member of the Employers Council on Flexible Compensation (ECFC), one of the leading national authorities on tax advantaged plans including flexible benefit plans, health reimbursement arrangements, transportation plans and COBRA administration. Our staff includes individuals that have been certified as instructors and specialists in the flexible benefits field.

### Telephone Assistance

Participants and Plan sponsors have toll-free access to our customer service department, which is open 7:30 a.m. - 4:30 p.m. Monday through Thursday and 7:30 a.m. - 1:00 p.m. Friday (Central Standard Time). Messages left on voicemail will be returned the next business day.

### Web Site Account Access

Participants can access account information at our secure web-site with a Personal Identification Number (PIN) at our secure website: [www.bdgflex.com](http://www.bdgflex.com).

# Benefits Design Group, Inc.

# Client Responsibilities



We have developed a stream-lined system for Employee benefit administration. It's administration made simple! Once the Plan is up and running, Employers can expect to spend merely a few short hours each month on Section 105 Health Reimbursement Arrangements and/or Section 125 Flexible Benefit Plans.

You will be responsible for a few tasks to ensure the Plan runs smoothly and that you stay within legal and accounting guidelines.

- ◆ **Employee Education and Initial Plan Installation**
- ◆ **Plan Documentation**
- ◆ **Account Funding**
- ◆ **Forms**
- ◆ **Payroll Processing**
- ◆ **Re-enrollment Process**

# Benefits Design Group, Inc.



## Client Responsibilities Flexible Benefit Plans

### Employee Education/Plan Installation

- Employee attendance at the scheduled group meeting(s) is very important to participation. For greatest success, the meeting(s) should be scheduled during normal working hours and employees should be paid while attending the meeting.
- Scheduling of Eligible Employees to meet with an individual enroller, if applicable.

### Plan Documentation

- Execute the written plan document and maintain a permanent file for future reference.
- Provide each participating Employee with a copy of Summary Plan Description (SPD).
- Provide written notification of plan amendments or plan termination to each participant.

### Account Funding

- Submit funds to Benefits Design Group, Inc. monthly for the corresponding payroll deductions and any excess amounts necessary to comply with uniform coverage rules for the General Purpose and/or Limited-Purpose Medical FSAs. (Service Option 1 only)
- Maintain a checking account in the name of the Employer, providing Benefits Design Group, Inc. with a MICR spacing chart from that account. Checks will be ordered and printed at no charge by Benefits Design Group, Inc. (Service Option 2 only)
- Transfer of funds into the checking account as transactions warrant (Service Option 2 only).
- Reconcile the bank statement. (Benefits Design Group, Inc. will provide a check register each check run date to assist in this process.) (Service Option 2 only)
- Forward payment of the monthly Administration Fees to Benefits Design Group, Inc. as billed.

### Forms

- Distribute necessary forms to plan participants (enrollment forms, change of status forms, and FSA Claim Forms). Benefits Design Group, Inc. will supply these forms upon request of the Employer, free of charge. Forms can also be downloaded from our website at: [www.bdgflex.com](http://www.bdgflex.com)

### Payroll Processing

- Submit the Payroll Reconciliation Report following each pay period, indicating all changes. All payroll reports must be received and verified before reimbursement checks may be issued for that pay period. (Service Option 2 only)
- Provide participating Employees with the appropriate Change of Status form to document and apply for any changes of election.
- Communicate any additions or terminations in a timely manner.

### Re-enrollment Process

- Assist in re-enrollment process by distributing forms and supplying information requested for the new Plan Year.
- Return all completed forms to Benefits Design Group, Inc. by the deadline date, to ensure adequate processing time. (Pre-printed enrollment forms will automatically be supplied at no additional charge at plan renewal.)
- **On-line enrollment available.** Specific criteria is necessary to qualify. Contact our office for specific details.

# Benefits Design Group, Inc.



## Client Responsibilities Health Reimbursement Arrangements (HRA)

### Employee Education/Plan Installation

- Employee attendance at the scheduled group meeting(s) is very important. For greatest success, the meeting(s) should be scheduled during normal working hours and employees should be paid while attending the meeting.
- Provide claim filing instructions and claim forms to newly eligible HRA participants.
- Report newly eligible employees to Benefits Design Group, Inc. to establish HRA accounts.
- Review and update census data as required by Medicare for purposes of any applicable mandatory Medicare reporting.

### Plan Documentation

- Execute the written plan document and maintain a file for future reference.
- Provide each participating Employee with a copy of the Summary Plan Description (SPD).
- Provide written notification of plan amendments or plan termination to each participant.

### Account Funding

- Submit funds to Benefits Design Group, Inc. on pre-determined schedule for HRA payments as needed.

#### OR

- Establish a checking account in the name of the Employer, providing Benefits Design Group, Inc. with a MICR spacing chart from that account. Checks will be ordered and printed at no charge by Benefits Design Group, Inc. (Service Option 2 only)
- Transfer of funds into the checking account as transactions warrant (Service Option 2 only).

#### OR

- Provide Authorization to Benefits Design Group, Inc. to withdraw funds electronically as needed to issue HRA payments.
- Forward payment of the monthly Administration Fees to Benefits Design Group, Inc. as billed.

### Forms

- Distribute necessary HRA Claim Forms to plan participants. Benefits Design Group, Inc. will supply these forms upon request of the Employer, free of charge. Forms can also be downloaded from our website at: [www.bdgflex.com](http://www.bdgflex.com)
- File Form 5500 as applicable.

### Ongoing Administration

- Communicate any additions or terminations in a timely manner.

### Re-enrollment Process

- Assist in re-enrollment process by reviewing employee census and report any coverage changes as soon as possible.

# **Benefits Design Group, Inc.**

## **Reporting & Documentation**



As part of our service, we provide you with various reports throughout the Plan Year that you will use to set up and maintain your employee benefit plan.

- ◆ **Employee Confirmation Statement**
- ◆ **Employee Elections Listing**
- ◆ **Deposit Processing**
- ◆ **Check Registers**
- ◆ **Flexible Benefits Account Statement**
- ◆ **Account Activity Summary**
- ◆ **Plan Year-End Processing**
- ◆ **“At-Risk” Protection**
- ◆ **Form 5500 Filing (If applicable)**
- ◆ **Dependent Care Reporting**
- ◆ **HSA Reporting**

# Benefits Design Group, Inc.

## Flexible Benefit Plan Reporting & Documentation



### FLEXIBLE SPENDING ACCOUNT(FSA) CONFIRMATION STATEMENT

At the beginning of the Plan Year (or after the effective date of participation for new hires), the Employees participating in the Flexible Spending Account (FSA) will receive a statement that confirms the FSA elections that were processed for the current plan year. Employees have 10 days to report any corrections to our office.

### EMPLOYEE ELECTIONS LISTING

The Employee Elections Listing is the initial report the Employer receives from Benefits Design Group, Inc. upon completion of the Employee enrollments. This report lists all participating Employees in alphabetical order, along with their corresponding payroll elections. The election is broken down into the per pay period pre-tax and post-tax deductions, if applicable. Please note that Employees declining participation will not appear on this report. Payroll taxes are calculated on the adjusted gross salary.

#### EXAMPLE:

Monthly Gross Salary	2,000.00
Monthly Flexible Benefits Election	- 200.00
Monthly Adjusted Gross Salary	\$1,800.00

In our example above, taxes should be applied to the \$1,800.00. The adjusted gross salary is used when computing the **Federal, State, and Social Security** taxes payable by the Employee. This amount is also used on the W-2 at the end of the tax year. **NOTE:** The treatment of Section 125 salary reductions may differ from state to state. Please consult your state tax laws for proper treatment.

In addition, the Employer may reduce his contributions to the **FICA** and **FUTA** taxes based on the Employee's elections. The Employer may realize additional savings on State Unemployment taxes depending upon individual state laws.

### DEPOSIT PROCESSING

#### BDG Account (Service Option 1)

On or about the 20th of each month, Benefits Design Group, Inc. will generate a billing statement for the following month's funding. You should indicate any changes for the month (*of the billing statement*) on the bill, return a copy to Benefits Design Group, Inc. with your payment. Your payment is due at any time during the billing month. Deposits will be made to the appropriate accounts upon receipt of payment. The billing details each Employee's payroll deduction amount for all options under the plan. Group Premium and HSA elections appear for informational tracking purposes only and are retained by the employer. Elections under the Flexible Spending Accounts (FSA) are forwarded to Benefits Design Group, Inc. for deposit to the BDG account and posting to the individual participant accounts. The Employee reimbursements are issued from the BDG account; all maintenance, reconciliation, and costs of the account are the responsibility of Benefits Design Group, Inc. The BDG account is made up of Employer funds. ***Direct Deposit into participant bank accounts is available for this funding method.***

#### Employer Bank Account (Service Option 2)

The Employer maintains a checking account as a vehicle for FSA reimbursements. Benefits Design Group, Inc. monitors the activity each pay period. Employee account balances are accurately maintained by reconciling our system with a payroll register submitted by the Employer each payroll. Check stock is stored at our office, and are issued to the Participants' as claims are presented for payment. Signing authority on the account may be assigned to Benefits Design Group, Inc. or the checks may be sent to the Employer for signature. We absorb the cost of the check printing, and the Employer maintains the control and maintenance of the checking account.

# Benefits Design Group, Inc.



## Flexible Benefit Plan Reporting & Documentation (cont.)

### CHECK REGISTERS

Employers are sent a listing of all Employee reimbursement check transactions each processing Period (Service Option 2). If requested, we will supply a check register for Service Option 1 clients.

### FLEXIBLE BENEFITS ACCOUNT STATEMENT

During the last two months of the Plan Year, the Employees participating in the Flexible Spending Accounts will receive an individual account statement. The statement will identify the annual election, amounts contributed, amounts reimbursed, annual election remaining, and unpaid claims for each Participant. (Participants in just the Group premiums or the HSA categories will only receive a statement upon written request.) The statement includes a reminder of the various deadlines for claim filing and the Use-Or-Lose provisions of Section 125. If a Participant does not claim all funds in the FSA by the forfeiture deadline, any remaining account balances will be forfeited. All forfeitures are returned to the Employer to offset Plan expenses, when the final accounting is completed for the Plan Year (See Plan Year-End Processing). Participants generally are allowed an additional sixty days to submit expenses incurred prior to the end of the Plan Year, but may vary by Plan design.

The Treasury and IRS released IR Notice 2005-42 on May 18, 2005, in an attempt to improve flexible spending accounts (FSA). The notice, **immediately** allowed Employers to implement a provision or amend their existing plans to permit an additional 2 ½ month period at the end of the plan year to **incur** expenses towards the prior years balance. Therefore, if an employer implements a provision or amends their plan to incorporate the new grace period, a participant could have up to 14 ½ months to incur expenses towards their spending accounts. Although it is not required by the notice, the plan may also extend a forfeiture period beyond the 2 ½ month extension in which the participant is given additional time to gather or receive the required substantiation of expenses from the extension period. In the event that an Employer wishes to add this new feature to an existing plan design, the amendment must occur prior to the end of the plan year in which the feature will be added.

**As a reminder the grace period, if adopted, would work as follows for a calendar year plan:**

Claims incurred from 01/01 - 12/31 for Dependent Care and Individual Medical or Medical-related Premium Reimbursement must be filed no later than sixty (60) days following the Plan Year (12/31). However, a Participant may receive reimbursement for expenses that are eligible for reimbursement under the General-Purpose and/or Limited Purpose Flexible Spending Account and incurred during the two and one-half (2 ½) months (03/15) immediately following the last day of each Plan Year ("grace period"). A Participant will have until the last day of the first full month following the expiration of the grace period (04/30) to submit applications for reimbursement for Qualified Medical Expenses.

### ACCOUNT ACTIVITY SUMMARY

As a plan draws close to the end of the Plan Year, many Employers are concerned about the Participants who have funds remaining in their accounts. The Employer will receive a detailed statement during the last 2 months of the Plan Year (Service Option 1), or monthly (Service Option 2). The summary lists (by Participant) the Plan elections, year-to-date contributions and payments, as well as Employee balances. This will provide the Employer with the opportunity to notify the Participants of their balance in addition to the benefit statements already sent to the individual Participants.

### PLAN YEAR-END PROCESSING

Upon completion of the Plan Year, the participants generally have an additional 60 days to submit any expenses that were incurred prior to the Plan end date (45 days following grace period plans). Forty-five days later, a final Employer statement is generated, which summarizes the funds that were processed for each category under the plan. It also indicates total remaining unclaimed balances as of the statement date for all Participants. The numbers reported on the final statement provide the majority of the information which is needed to prepare the year end Use-Or-Lose checks/Indemnification payment and the Form 5500\*. \*(As applicable)

# Benefits Design Group, Inc.

## Flexible Benefit Plan Reporting & Documentation (cont.)



### FORFEITURE REPORT

Any unclaimed balances are subject to the Use-Or-Lose Provisions of the IRS Code. If the Employer receives a return of benefit surplus under the Use-Or-Lose Rule, they have several options of what to do with the remaining account balances. A specific option will be chosen and defined in the Plan Document.

1. Retained by the Employer to offset expenses
2. Distributed to participants per capita

**The Internal Revenue Code § 125 specifically states that the Employer may NOT return the funds directly to the Employee who forfeited the money. The Employee forfeiting the funds may not receive the funds, even if they are returned on a taxable basis.**

### “AT-RISK” PROTECTION

Benefits Design Group, Inc. will audit the Plan for any potential claims under the “At-Risk” protection feature. A negative balance (loss) in General-Purpose and/or Limited-Purpose Medical created as a result of any Employees who voluntarily terminated will be eligible under the calculation. Losses are subject to a deductible (based upon the annual maximum), and are offset by the positive balance of any Use-Or-Lose funds remaining at the end of the Plan Year. Any remaining aggregate loss is covered under the Indemnification feature of our service. (For complete discussion See “At Risk” on Pages 15 & 16.)

### FORM 5500 FILING (\*If Applicable)

An IRS Form 5500\* is prepared and forwarded to the plan sponsor for signature by an authorized representative of the sponsoring company. (Automatic with Service Option 1, optional with Service Option 2 if applicable). All Form 5500's must be filed electronically using EFAST2 effective for all filings in 2010. Benefits Design Group, Inc. will maintain a copy of the Form 5500, but it is the Employer's responsibility to retain a hardcopy of the electronically filed return. Form 5500 is due by the last day of the seventh (7) month following the last day of your Plan Year.

### DEPENDENT CARE REPORTING

For tax years 1989 and after, the IRS requires that the Employer report the benefit amount elected by the Employee for Dependent Care on the Employee's W-2 Form.

The Employer is required to report total Dependent Care elections in Box 10 (marked "DCB") on the W-2 for each Employee who has elected to participate in the Dependent Care FSA. Benefits Design Group, Inc. will send you a statement in December as a reminder of your W-2 reporting requirements. The value of benefits provided should not be reflected in the taxable income of the Employee. The amount reported should be the amount **elected**, not the amount actually paid out in claims. Employers are encouraged to reconcile the year-to-date deducted for Dependent Care on their payroll register with the amount on this report, and report discrepancies as soon as possible.

To assist Participants, who have non-calendar year plan years, avoid exceeding the calendar year statutory limit, a report is generated upon completion of each Employer's enrollment and renewal information. Should an employee exceed the limit, the Employer will be notified so that adjustments can be made.

Daycare providers are required to issue W-10 Forms to those using their services. The W-10 is a certification of the daycare provider's Tax ID Number and the amount paid by the Employee for their services. The information on that form needs to be included on the taxpayer's Schedule 2441.

### HSA REPORTING

Employers are required to report any HSA contributions provided by the employer and/or withheld through salary reduction in Box 12 of the W-2. We will provide a report in December to remind you of this obligation if applicable.

# Benefits Design Group, Inc.

## Health Reimbursement Arrangements (HRA) Reporting & Documentation



### HRA CONFIRMATION STATEMENT AND ANNUAL CHIP NOTICE

At the beginning of the Plan Year (or after the effective date of participation for new hires), the Employees participating in the Health Reimbursement Arrangements (HRA) will receive a statement that confirms the level of HRA participation. In addition, to meet the annual notice requirement under the Children's Health Insurance Plan (CHIP), we will prepare and send the notice at the same time.

### FLEXIBLE BENEFITS ACCOUNT STATEMENT

During the last month of the Plan Year, the Employees participating in the Health Reimbursement Arrangements (HRA) will receive an individual account statement. The statement will identify the maximum reimbursement, amounts contributed/reimbursed, eligible reimbursement amounts remaining, and unpaid claims for each Participant. The statement includes a reminder of the various deadlines for claim filing. Generally, if a Participant does not claim all funds in the HRA by the forfeiture deadline, any remaining account balances will be forfeited. Some plans will permit the carryover of unused funds from one year to the next. Participants generally are allowed an additional sixty days to submit expenses incurred prior to the end of the Plan Year, but may vary by Plan design.

### ACCOUNT ACTIVITY SUMMARY

Each HRA processing period, the employer is sent an Account Activity Summary. This will provide an accounting of claims that are processed towards the HRA deductible, as well as, an accounting of any HRA payments processed by individual and for the entire group.

### PLAN YEAR-END PROCESSING

Upon completion of the Plan Year, the participants generally have an additional 60 days to submit any expenses that were incurred prior to the Plan end date. Forty-five days later, a final Employer statement is generated, which summarizes the funds that were processed for each category under the plan. It also indicates total remaining unclaimed balances as of the statement date for all Participants. The numbers reported on the final statement provide the majority of the information which is needed to prepare the Form 5500\*. \*(As applicable)

### FORM 5500 FILING (\*If Applicable)

A summary of the final plan year end account information is forwarded to the Employer upon completion of the Plan Year. It is the Employer's responsibility to electronically complete and file the Form 5500\* and forward it by the seventh (7) month following the last day of your Plan Year. If you prefer, Benefits Design Group, Inc. will complete the form for you, upon your request, for an additional fee.

# Benefits Design Group, Inc.

## “At Risk” Protection



In an effort to assist you in understanding the "At Risk" (uniform coverage) rules for the General-Purpose and/or Limited-Purpose Medical Flexible Spending Accounts, we offer the following analysis:

### OVERVIEW OF THE AT RISK RULE

Internal Revenue Code § 1.125-2 identifies the Employer's responsibility to provide uniform coverage to those Employees' who participate in either the General-Purpose or the Limited-Purpose Medical Flexible Spending Account. This portion of the Code became effective January 1, 1990.

The General-Purpose and/or Limited-Purpose Medical category of Flexible Spending Accounts (FSA) allows Employees to set aside, either by Employer contribution or pre-tax salary reduction, dollar amounts for reimbursement for medical-related expenses. Generally, this provides the only means of tax savings on uncovered medical expenses without a minimum level of participation. The tax deduction for medical expenses on Schedule A of the Form 1040, allows a deduction only if the aggregate uncovered medical expenses of a taxpayer and dependents exceed 7.5% of adjusted gross income. Barring some catastrophic illness or injury, most people rarely accumulate enough out-of-pocket medical expenses to take advantage of this tax deduction.

The IRS regulations require that the General-Purpose and/or Limited-Purpose Medical Flexible Spending Account exhibit the risk shifting characteristics of an insurance policy. This means that the General-Purpose and/or Limited-Purpose Medical FSA must provide 100% reimbursement of incurred expenses up to the plan participant's maximum annual election at any time during the Plan Year. For example, if an Employee elects through payroll deduction to reduce his salary a total of

\$600.00 (or \$50.00 per month) for the Plan Year, the Employer at any time during the Plan Year upon substantiation of valid medical expense, must advance up to \$600.00 to that Employee, even though the Employee may not have yet had the deduction taken from his pay. If the Employee continues to be employed for the remainder of the Plan Year, he/she would eventually "pay back" the Plan through salary reductions for the remainder of the Plan Year.

The potential "risk" exists when the Employee terminates after receiving the advance on the annual election, but prior to repaying the Employer through payroll deduction. This places the Employer in a position of absorbing the loss for any excess paid out of the General-Purpose and/or Limited-Purpose Medical FSA prior to termination of employment. The loss may be offset by the FSA forfeitures from the plan under the "Use-Or-Lose" provision.

### THE SOLUTION

Employers and advisors alike have examined many methods to reduce or eliminate the potential risk to plan sponsors. The alternatives have ranged from not offering the benefit at all to limiting the use or the allowable maximums of the General-Purpose and/or Limited-Purpose Medical Reimbursement Account. These methods tend to offset the inherent benefits of a flexible benefit plan. Since 1990, our experience has been that, in the majority of cases, the FICA savings realized through offering the program and the potential for forfeitures under the "Use-Or-Lose" provisions offset the risk of major loss under the At Risk Rules.

# Benefits Design Group, Inc.



## At Risk (cont.)

Recognizing that some Employers are not comfortable with the "At Risk" concept, Benefits Design Group, Inc. provides protection against loss in the form of a stop loss provision under both service options. The program limits the Employer's out of pocket losses for any Employees who voluntarily terminate employment during the Plan Year. The cost of the protection is built into the monthly administration fee.

### Here are some of the program's characteristics:

- Program is automatic as part of the administration service. It is a courtesy arrangement between Benefits Design Group, Inc. and our clients to help offset some of the potential financial exposure for the Employer.
- Eligible reimbursements will be calculated and disbursed approximately 120 days after the end of the Plan Year.
- Employers will be reimbursed for eligible losses (not to exceed the maximum limit defined in the plan), less forfeitures under the "Use-Or-Lose" provisions, less the Plan Year deductible as defined below.
- To be eligible for the loss coverage, the Employee termination must be voluntary.
- The Plan Year deductible under this agreement is based upon the maximum limit available under the General-Purpose and/or Limited-Purpose Medical Reimbursement accounts. The deductible applies to the aggregate Plan balance at the end of the Plan Year and is not applied to each individual Participant balance.

The following table defines those limits and corresponding deductibles:

<u>Plan Year Maximum</u>	<u>Plan Year Deductible</u>
\$1800 (\$150 per month)	\$250.00
\$3000 (\$250 per month)	\$500.00
\$5000 (\$416.66 per month)	\$750.00

## Example Of Savings With BDG "At Risk Protection"

Effective January 1st ABC Company sponsors a calendar year Section 125 Plan that includes a General-Purpose Medical Flexible Spending Account (FSA) with a \$3,000 Plan Year maximum. ABC Company has Ten employees. Eight Employees elect \$500 each, one employee elects \$3,000 and the last employee elects \$2,500.

In February, the employee with the \$3,000 election, files a request for reimbursement in the amount of \$3,000 for eligible expenses and is reimbursed in full as required by the Uniform Coverage Rule. In June, this same employee resigns effective June 30<sup>th</sup>.

Nine of the remaining employees are employed through the end of the calendar Plan Year and 8 employees end the Plan Year with a zero balance and 1 employee forfeits \$100.

The aggregate balance for the Plan Year ending December 31<sup>st</sup> is -\$1,400, which is a direct result of the termination of the employee on June 30<sup>th</sup>.

### The "At Risk" Calculation is as follows:

At Risk Dollars	-\$ 1,500
Less Involuntary Terminations	<u>\$ 0</u>
Eligible At Risk Dollars	\$ 1,500
Less "Use-Or-Lose" Balances	\$ 100
Less "At Risk Deductible:	<u>-\$ 500</u>

At Risk Payment to Employer \$ 900\*

**\*Based upon a negative aggregate balance as a result of a voluntary termination (employee quits) and the \$500 Deductible associated with the \$3,000 limit on the General-Purpose Medical FSA. Involuntary terminations (i.e. employee who is fired or laid off) are not covered under the agreement.**

# Benefits Design Group, Inc.

# Eligible Expenses



## Examples of General-Purpose Medical Reimbursement Expenses

Some expenses do require a doctor's letter stating that the treatment is medically necessary.

Acupuncture  
Allergist  
Ambulance hire  
Artificial limbs  
Birth control  
Braces (knee/ankle/wrist, etc.)  
Braille books and magazines  
Bridges/Caps/Crowns  
Car controls for the handicapped  
Chiropractors  
Christian Science practitioners' fees  
Co-insurance payments  
Contact lenses and supplies  
Costs for physical or mental illness confinement  
Crutches  
Deductibles  
Dental fees  
Dental deductible or co-pays  
Dentures  
Diabetic supplies (insulin, test strips, etc.)  
Diagnostic fees  
Drug and medical supplies  
Electrolysis for treatment of specific medical condition  
Eyeglasses, including examination fees  
Family or individual therapy (marriage counseling is **not** eligible)  
Fee associated with the education and medical care of individuals with developmental disabilities  
Fees of licensed osteopaths  
Fluoride treatments  
Guide dog and upkeep  
Health club dues if doctor prescribed for treatment of specific medical condition  
Hearing devices and batteries  
Home improvements (capital expenditures) necessitated by medical conditions  
Hospital bills  
Hypnosis for treatment of an illness  
Immunization  
Laboratory fees  
Lead-base paint removal from walls to prevent lead poisoning  
Mammography  
Medical information plan  
Nursing fees (including room, board and Social Security where paid by taxpayer)  
Obstetrical expenses  
Ophthalmologist  
Optometrist  
Oral surgery  
Orthodontia  
Orthopedic shoes  
Oxygen  
Periodontist  
Physical therapy  
Physician fees  
Physician-prescribed pool/spa equipment costs and maintenance motivated by medical considerations  
Podiatrist  
Prescribed medicine  
Prescribed over-the-counter (OTC) medication  
Psychiatric care  
Psychologist's fees  
Rental of medical equipment  
Routine physicals and other non-diagnostic services or treatments  
Smoking cessation programs and prescriptions  
Special communication equipment for the deaf  
Special diets  
Special education for the blind  
Special plumbing for the handicapped  
Surgical fees  
Therapeutic care for drug and alcohol addiction  
Therapy treatments related to medical conditions  
Transportation expenses primarily for rendering of medical services (i.e. railroad fare to hospital or to recuperation home, cab fare in obstetrical cases)  
Tuition at special school for handicapped  
Tuition fee (part), if college or private school furnishes breakdown of medical charges  
Vision correction procedures  
Vitamins by prescription  
Walker  
Wheelchair  
Wigs (if hair loss is a result of a medical condition)  
X-rays

If you request reimbursement from the Plan for medical expenses that do not constitute dental, vision, or preventative care coverage under IRC §223, you, your spouse and dependents are not eligible to contribute to a Health Savings Account under IRC§223.

# Benefits Design Group, Inc.

## Eligible Expenses (cont.)



### Examples of Limited-Purpose Medical Reimbursement Expenses

The Limited Purpose Medical Flexible Spending Account (FSA) generally covers dental, vision, and preventative care items not covered under an insurance program or reimbursable through another source. This account can be used in combination with a IRC §223 Health Savings Accounts (HSA), as dental, vision, and preventative care items are permissible coverage.

### Examples of Individual Premium Reimbursement Expenses

Individual Premium Reimbursement **does** cover employee owned policies as follows:

- \*Health
- \*Dental
- \*Vision
- \*Hospital Indemnity
- \*Cancer
- \*Medicare Supplement
- \*Health Supplement (GAP Plan)
- \*Intensive Care
- \*Disability\*\*
- \*Accident
- \*Contact Lens Agreements
- \*Medical Discount Cards

\*\*Any benefits received under this type of policy will be taxed if you elect to pre-tax the premiums for this coverage.

The following types of policies are **NOT eligible** for reimbursement under this program:

- \*Life Insurance (whole, term, universal)
- \*Policies with cash surrender value or return of premium feature
- \*COBRA policies from a previous Employer
- \*Policies that are owned by someone other than the Employee
- \*Employer-sponsored spousal premiums

### Examples of Dependent Care Reimbursement Expenses

- \*Care for dependents (under age 13) of gainfully employed parent or guardian
- \*Care for dependents who are mentally or physically incapable of self-care
- \*Baby-sitter, daycare provider, home care provider
- \*Preschool
- \*Daycare centers caring for less than 6 non-resident people
- \*Daytime camps or training programs
- \*Latch key programs
- \*Licensed daycare centers caring for more than 6 non-resident people

The following types of expenses are **NOT eligible** for reimbursement under this program:

- \*Care provided by child/stepchild under age 19 at end of the Plan Year
- \*Care provided by person(s) claimed as a dependent on your, or your spouse's, tax return (i.e. minor child)
- \*Care provided by someone not reporting their daycare income
- \*Cost of food, clothing, entertainment unless costs are incidental to care
- \*Educational programs
- \*Summer educational programs
- \*Field trips
- \*Overnight camps and transportation

**Only those dependent care expenses which allow you (and your spouse, if you are married) to be gainfully employed, searching for employment, or going to school, are eligible.**