

CONSUMER-DIRECTED HEALTH PROGRAMS (CDHPs)

Guide For Employers



Consumer-Directed Health Programs (CDHP) are the next generation of managed health care plans. CDHPs take an active approach to engaging members in health care spending and health management, and ultimately support a healthier workforce and better management of health plan costs.

Employers can choose to introduce CDHP plans as a full replacement to the existing health benefits program, or can offer CDHP options alongside other managed care options. Incentives can be designed to encourage members to participate and better manage their health.

FlexSave of America provides a comprehensive selection of services that enables employers to tailor programs that best fit their corporate objectives and workforce needs.

Key components of a successful CDHP plan include:

FSA's

HRA's

HSA's



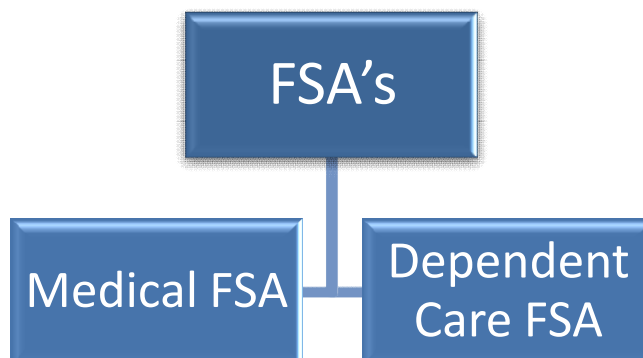
FSA's

Flexible Spending Accounts have become increasingly popular vehicles for reducing the ever-rising health care and dependent care costs. The burgeoning popularity of FSAs is mainly attributed to their widely acknowledged win-win nature. That is, both employers and employees have much to gain from offering and utilizing FSAs. An FSA allows both you and your employees to save money without sacrificing coverage.

Flexible Spending Account – What is it?

Often referred to as a Cafeteria Plan or FSA, a Flexible Spending Account allows employees to set aside pre-taxed dollars into an account that allows them to pay for their portion of out-of-pocket health and dependent care expenses completely tax-free throughout the course of the year.

FlexSave of America offers two types of FSA's to meet your needs – Medical FSA's and Dependent Care FSA's. One is for qualified medical expenses and the other is for qualified dependent care expenses. Participation in one type of FSA does not affect participation in another type of FSA, but funds cannot be transferred from one FSA to another.





Medical FSA

A Medical FSA is an excellent way for employees to pay for their medical expenses not covered under your medical coverage (such as deductibles, co-pays, dental and vision expense etc) as well as other qualifying healthcare expenses.

Dependent Care FSA

A Dependent Care FSA is a good choice for employees who have dependent expenses, such as child care or elder care. You set minimum and maximum contribution levels with Internal Revenue Service Guidelines. Employees must fund the account prior to using funds; thus, there is no risk to the employer.

How Does An FSA Work?

Participants determine how much money to put into their FSA accounts (medical and/or dependent care) during the enrollment period prior to the employer's plan year.

The elections are irrevocable unless there is a "status change" such as a marriage, divorce, birth or adoption of a child, death of a family member or an employment status change. Participants must re-enroll and make a new election each year during open enrollment if they want to participate in subsequent plan years. Then when they incur eligible expenses, they receive tax-free reimbursements from their FSA account.

What Happens When an Individual Incurs an Expense?

- Debit card users can pay for eligible expenses with their debit card (provided by FlexSave of America) at the point of service and the funds are automatically deducted from their FSA account.
 - This is a great advantage to participants as it automates the payment process and eliminates the normal paper claims process as well as the worries of forgotten purchases or lost receipts (Receipts are still required to be kept with tax records and can be requested by the IRS during an audit).
- If the FSA isn't sufficiently funded to pay the claim, the member is responsible for the balance of the bill.

Employer Advantages

- **Save on Payroll Taxes**
 - You'll save approximately 7.65% on the FICA tax for every dollar that your employees allocate to their FSAs.
- **Cushion Health Insurance Rate Increases**
 - A Flex plan can lessen the financial impact on the employees paycheck of passing along a portion of healthcare premiums.
- **Lower Your Health Insurance Costs**
 - An employer's insurance cost can be lowered by coordinating changes to your health plan with the addition of a Flex plan.
 - Additionally, any remaining money in the FSA at the end of the plan year is forfeited back to the employer.
- **Save on Retirement Plan Expense and Other Insurance Premiums**
 - Your contributions to 401(k), pensions, and workers' comp may also be reduced since they are now based on lower taxable salaries.
- **Plan Fees Can be Paid by Employer or Participants**
 - Administrative costs are tax deductible and can be paid by you or your employees. Fees can also be collected by pre-tax payroll deduction from the employee's flex plan account.

Employee Advantages

- Reduces employee taxable income and increases disposable income
 - Employees will save 25-40% in taxes for every dollar they allocate to their FSA account.
- Obtain more control over how money is spent for medical and dependent care.
- Easy to track and manage an FSA either on-line or by calling customer service.

How The Employee and Employer Save

Key Take Away

A mature Flex Plan can yield more dollars in tax savings than the fees spent to administer the plan!

Employee Joe Smith	Without FSA	With FSA
Annual Gross Income	\$30,000	\$30,000
Annual FSA Contribution	\$0	\$1,000
Taxable Income	\$30,000	\$29,000
Federal, State, FICA (25% Tax Bracket) *	\$7,500	\$7,250
Annual Employee Savings	\$0.00	\$250

ABC Company Has 100 Employees	Without FSA	With FSA
Annual Salaries	\$5,000,000	\$5,000,000
FSA Contributions		\$200,000
Taxable Salaries	\$5,000,000	\$4,800,000
FICA (Soc Sec)Tax (7.65%)	\$382,500	\$367,200
Annual Co. Savings		\$15,300

**This amount will vary based on the individual's tax bracket



Guidelines

Who Can Sponsor an FSA?

C-corps, partnerships, S-corps, Partners, Limited Liability Corporations (LLC), Sole Proprietors, Professional Corporations and Not-for-Profit Organizations.

Are There Restrictions?

While regulations prohibit a sole proprietor, partner, members of an LLC (in most cases), or individuals owning more than 2% stock of an S-Corp from participating in the FSA, they may still sponsor a plan for their employees.

The employer group must have at least 2 eligible employees in order to enroll.

Can it be combined with HRA's?

The FSA can be combined with an HRA. The employer must define which account funds will be drawn from first. Typically, employers require that funds be drawn from the FSA first.

Funding the Account

Employees fund the account on a pre-tax basis through payroll deduction. Employers may also fund the account. The employer must make the full election amount available to participants on the first day of the plan. Should the employee leave or be terminated and thus no longer pay in to the plan, the employer does not recapture their pre-funding from the employee's payroll deduction.

Use it or Lose it

Eligible expenses may be incurred during the plan year and up to 2 ½ months following the plan year end. Funds elected by participants, but unused, will be forfeited back to the employer.

Annual Contribution Caps

The annual caps for a medical FSA varies by employer. Unlike dependent care FSA's, there is currently no IRS cap on medical FSA's, so the employer establishes any minimum or maximum contribution requirements. Generally, the employers limit the annual amount each employee may contribute in order to reduce the risk of pre-funding.



For a full listing of Allowed and Disallowed Medical expenses, please go to www.flexsaveamerica.com

Allowed Medical Expenses

In general, eligible expenses must be for the diagnosis, treatment or prevention of disease or for the amounts you paid for transportation to get medical care. Below is a partial listing of some of the most common allowed expenses.

Coinsurance, Co-pays, Contact Lenses, Deductibles, Acupuncture, Dental Treatment, Doctors Fees, Eye Exams and Glasses, Hospital Services, Immunizations, Lab Fees, Eligible Over the Counter Items, Physical Exams, Lasik, Hearing Aids, Dermatologist, Vaccinations, Mental Health Treatment, Medical Mileage Reimbursement, etc.

Disallowed Medical Expenses

Disallowed expenses include Cosmetic surgery expenses, Diaper service, Hair transplant, Health Club Dues, Household help, Insurance premiums, Supplements, Vitamins, Oral Hygiene Products such as toothpaste, Special pillows, etc.

Dependent Care Account

What is it?

Unlike medical FSA's Dependent Care FSA's are not "pre-funded"; employees cannot receive reimbursement for the full amount of the annual contribution on day one. Employees can only be reimbursed up to the amount they have deducted during that plan year. The Dependent Care FSA is federally capped at \$5,000 per year.

Reimbursements cannot be claimed for amounts paid to a spouse or anyone claimed as a tax dependent. Any expenses reimbursed through the dependent care account cannot be claimed for income tax purposes.

For a complete list of Allowed and Disallowed Dependent Care expenses, please visit www.irs.gov/pub/irs-pdf

Allowed Dependent Care Expenses

Licensed daycare facility, Preschool program, Before-school/after-school program, In-home child and dependent care services, Day camp expenses, Elder care, etc...

Disallowed Dependent Care Expenses

Overnight camp, Services solely for the purpose of household cleaning, Kindergarten tuition or costs, Babysitting for social events, etc..



The FlexSave Difference

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| • POS access to funds with the FlexCard | • Customized web portal (with employer logo branding) | • Approximate 80% auto-adjudication rate of debit card claims | • 24/7 online account management |
| • 24 hour claims processing time | • Online receipt upload | • Online Enrollment | • Online Claim Filing |
| • Free direct deposit | • No Phone Prompts | • Talk to a specialist | • Text Message Alerts/Balances |

About FlexSave

Our company offers a full service, turn-key flexible spending account solution that gets you a positive return on your investment. Our services include employee communications, enrollment assistance and processing, employee account management (claims adjudication, debit card processing, customer service) as well as reporting and compliance support. Our services are designed to eliminate the administrative burden associated with sponsoring flexible spending accounts, reduce the associated administrative costs and help you focus more on your organizations key HR initiatives.

Getting Started

You can start a Flex plan at any time. 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 year. The choice is yours.

To set up the Flex Plan, simply visit flexsaveamerica.com/quoterequest.asp to request a quote. One of our representatives will contact you to design a custom Flex Plan and walk you through the process of implementing your FSA.

For more information or to be put in touch with a benefit consultant, call (313) 254-0012 or email bfaber4@flexsaveamerica.com for more design options and money saving strategies.