

CAFETERIA PLAN

Administration Proposal

2011

Cafeteria Plan – A Flexible Benefits Program

Want a benefits program that suits BOTH you and your employees? One that offers tax savings, convenience and customer support? It's time to sample a Cafeteria Plan from Blue Cross and Blue Shield of Louisiana.

A Cafeteria Plan, also referred to as a Section 125 Plan, allows employees to set aside a portion of each paycheck — before paying taxes — to pay for qualified healthcare expenses not covered by insurance and for dependent care expenses for qualified dependents.

Standard Menu of Cafeteria Plans Includes:

Premium-Only Plan: Allows employees to have their premiums for most employer-sponsored health plans deducted from their paychecks on a pre-tax basis.

Flexible Spending Account (FSA): Allows employees to redirect a portion of their salary on a pre-tax basis to pay for qualified out-of-pocket expenses.

- **Medical Reimbursement Plan:** Allows employees to pay for qualified medical expenses not covered by insurance, such as premiums, deductibles, copayments, contacts and glasses, and dental services.
- **Dependent Care Assistance Plan:** Allows employees to pay for qualified dependent care with pre-tax dollars.

Advantages of a Flexible Benefits Program

Both employers and employees benefit from flexible benefits programs. One of the biggest benefits is tax savings. For instance, employers pay lower payroll taxes as a result of pre-tax payroll deductions. The more employees participating in the program, the greater the payroll tax savings to the employer. In turn, employees lower their taxable income and increase their net take-home pay.

All participants in Section 125 Plan must be employees. Proposed regulations define the term employees to exclude self-employed individuals. Thus, partners, the owner of a sole proprietorship or shareholders in a Subchapter S Corporation who own more than 2 percent of the stock of the corporation cannot participate in the Cafeteria Plan. However, partnerships, sole proprietorships and Subchapter S Corporations are not prevented from sponsoring a Cafeteria Plan for the benefit of the common law employees.



P.O. Box 98025 | Baton Rouge, LA 70898
5525 Reitz Ave. | Baton Rouge, LA 70809

800.376.7734 or 225.298.3105
225.297.2665 fax

www.ezflexplan.com/bcbsla



Direct Deposit

Employers may choose to offer the option of direct deposit to employees who opt for a flexible spending account.

This way, employees may choose to have their reimbursement checks deposited directly into their checking or savings account.

Full-Service Cafeteria Plan Administration

As an added value, we offer full-service administration of your Cafeteria Plan. We provide plan documentation and complete all 5500 forms, if applicable, required by the IRS. We also perform all necessary discrimination testing to ensure your company's compliance.

Administrative Services Provided

- Design a Cafeteria Plan Document, Summary Plan Description, Dependent Care Assistance Plan, and Medical Reimbursement Plan to be reviewed and approved by the employer.
- Provide participant election forms to be used during the enrollment process.
- Provide participant election forms at the end of each plan year for use in making elections for the following plan year and/or import specifications for electronic enrollment.
- Enter initial election information and make changes in employee eligibility as provided to administrative company by the employer.
- Process claims and issue reimbursement.
- Provide participation assistance. Employees have 24-hour access to their accounts via the Internet and interactive voice response, and daytime access to our call center.

Responsibilities of the Employer

- Maintain the Cafeteria Plan Document and Summary Plan Description.
- Establish a benefit plan banking account and maintain a balance sufficient at all times for payment of plan benefits.
- Report participant terminations and changes of family status to Administrative Company to be effective two weeks after receipt. Failure to report changes/adjustments in a timely manner could result in an adjustment processing fee.
- Reconciliation of payroll amount redirected to the Cafeteria Plan based on reports provided each month by administrative company via www.eflexonline.com.
- Complete discrimination testing and return to Administrative Company for determination of potential discriminatory practices.
- Initiate and remain responsible for any action required in the event plan(s) may be involved in discriminatory practices.

Easy Access 24/7 for Our Employers and Their Employees with Flexible Spending Accounts

For Employers:

Employer reports, participant account balances, disbursement registers

www.eflexonline.com

For Employers and Employees:

Account balances, claims status, claim entry, items eligible for reimbursement

www.ezflexplan.com/bcbsla



Fee Schedule

Premium-Only Plan

Offers employees the opportunity to have their insurance premiums deducted on a pre-tax basis from payroll.

Fees are waived if a group enrolls with any of the group or voluntary products offered by Southern National Life Insurance Company, Inc. (Voluntary Accidental Death and Dismemberment is not eligible for the fee waiver.)

← **Plan Document**
Summary Plan Description Fee \$350

← **Annual Fee**
Services to include full support to group of administrative guidelines and procedures for maintaining a compliant Section 125 Plan.

Number of Participants	1-10	.....	\$75
	11-15	.....	\$150
	16-30	.....	\$200
	31-50	.....	\$350
	51-75	.....	\$450
	75+	.....	\$500

Flexible Spending Account (FSA)

Provides pre-tax payroll deduction of employee insurance premiums and a flexible spending account to help reimburse qualified medical expenses not covered by insurance, as well as dependent care assistance. A flexible spending account helps ease the financial burden of employees who have benefit plans with high copayments and deductibles.

Fees are waived if a group enrolls with any of the group or voluntary products offered by Southern National Life Insurance Company, Inc. (Voluntary Accidental Death and Dismemberment is not eligible for the fee waiver.)

← **Initial Plan Set-Up Fee** \$500
(includes plan document and summary plan description)

← **Annual Fee** \$250
This fee covers the revised plan document/summary plan description, website maintenance and plan updates/notifications during the plan year.

Monthly Fee Per Participant

Premium-Only	.....	\$0.00
Medical Reimbursement Plan	.....	\$3.50
Dependent Care Assistance Plan	.....	\$3.50



Advantages to an Employer

Save payroll taxes – You will save 8 percent on every dollar your employees redirect to the FSA. (This is for employees earning less than the maximum amount taxed for Social Security.)

Manage premium costs – You can increase your employees’ share of insurance premiums without reducing their take-home pay.

Cushion insurance rate increases – Many employers are changing coverages and/or passing increases along to employees. An FSA can be implemented with a change and lessen the impact on an employee’s paycheck.

Lower your insurance costs – An employer’s insurance costs can be lowered by coordinating changes to your insurance plan with the installation of an FSA.

Cut your retirement plan expenses – Since profit sharing, 401(k) and pension plan contributions are based on employees’ taxable salaries, your retirement expenses may be reduced.

Save on other insurance premiums – Contributions for other coverages (like workers’ compensation or disability) may be reduced because they are based on employees’ taxable salaries.

Plan administration fees are deductible – Administrative costs are tax deductible and can be paid by you and/or your employees. Fees can even be collected by payroll deduction on a pre-tax basis.

Employer Tax Savings Example

<i>XYZ Company Has 10 Employees</i>	<i>Without an FSA</i>	<i>With an FSA</i>
Annual Payroll	\$ 300,000	\$ 300,000
Employee-Paid Premium	- 0	- 24,000
Unreimbursed Medical Expenses	- 0	- 3,000
Dependent Daycare Expenses	- 0	- 10,000
Taxable Payroll	= \$ 300,000	= \$ 263,000
FICA Tax (7.65%)	\$ 22,950	\$ 20,120
Savings	\$ 0	\$ 2,830

Employee-Paid Premiums:

Based on insurance premiums averaging \$200 per month per employee.

Unreimbursed Medical Expenses:

Based on four employees contributing an average of \$62.50 per month.

Dependent Daycare Expenses:

Based on two employees contributing an average of \$417 per month.

Note: Actual savings may vary depending upon specific tax situation. Social Security benefits could be affected.



Advantages to an Employee

- Tax savings (federal and state income tax and Social Security tax)
- Increases take-home pay because taxable income is reduced
- Convenient way to save for healthcare expenses such as deductibles, coinsurance and more
- Easy account access 24/7 to check account balances or claim status, submit questions and review qualified medical expenses



Employee Tax Savings Example

Employee Paycheck Without an FSA

Gross Monthly Salary	\$ 2,000
Insurance Premium	- 100
Health/Daycare Expenses	- 300
FICA, Federal, State Taxes	- 500
Net Pay	\$ 1,100

Employee Paycheck With an FSA

Gross Monthly Salary	\$ 2,000
Insurance Premium	- 100
Health/Daycare Expenses	- 300
Adjusted Earnings	= \$ 1,600
FICA, Federal, State Taxes	- 400
Net Pay	\$ 1,200

Next Steps

To enroll your group, please complete the Implementation Checklist on page 6 and return to the address indicated on the form. Once received, we will provide the forms to begin your enrollment.

If you have any questions, please contact your Blue Cross Regional Office or our Section 125 Benefits Administration Department at 800.376.7734.



SECTION 125 Cafeteria Plan Implementation Checklist

**Please complete the following and return to the address or fax below.
NOTE: Incomplete information could delay implementing your plan.**

Select Plan

Premium-Only Plan Flexible Spending Account

Employer Info

Complete Name: _____

Address: _____

Telephone: () _____ - _____ Fax: () _____ - _____

E-mail Address: _____

Primary Contact Name/Position: _____

Tax ID Number: _____

Section 125 Cafeteria Plan

Requested Effective Date: ____/____/____

Is initial enrollment a short plan year? Yes No

Plan Year: Begin: ____/____/____ End: ____/____/____

HSA Plan

Does your company have a Health Savings Account (HSA) plan? Yes No

If yes, are the HSA contributions payroll-deducted pre-tax? Yes No

If yes, participants of the HSA are only eligible to participate with a limited FSA (dental and vision expenses only).

Fee Waiver Information

Are you enrolling or currently enrolled in an SNL plan with Employee's Choice?

Yes No

For Flexible Spending Account ONLY

Medical Reimbursement Plan Maximum: \$ _____

Pay Schedule:

Monthly (12) Semi-Monthly (24) Bi-weekly (26) Weekly (52)

Regional Office Representative: _____

Producer/Agent: _____

Group Leader: _____

Contact Information

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