



The Harrison Group, Inc.

BENEFITS PLAN Q & A: Flexible Spending Accounts (FSAs)

By definition, a flexible spending account (FSA) is a tax-free account that allows employees to pay for essential healthcare expenses not covered, or only partially covered by their medical, dental and vision insurance plans. FSAs can also be used to pay for child- or dependent-care expenses. By contribution of their payroll dollars into an FSA on a pre-tax basis, employees can save from 15 to 40 percent on the cost of eligible expenses. Employees save money to pay for out-of-pocket healthcare expenses, including prescription drug costs, medical, dental, vision and hearing expenses, and care expenses including day care, babysitting, in-home care for senior dependents and for before- and after-school care expenses. The advantage of FSAs also extends to employers, who ultimately save money by offering employees the benefit plan. Because such pre-tax benefits aren't subject to Federal Social Security withholding taxes, most employers can recoup the expense of implementing the plan with the first year.

Q. How much does it cost an employer to establish and maintain flexible spending accounts (FSA) for its employees??

A. Let's assume that an employer with 50 employees has a specific group who are interested in taking advantage of flexible spending accounts. Normally at least 30 percent of employees will elect either the Healthcare or Day Care Flexible Spending Accounts. From HG's experience, participants average \$1,200 per year of contributions to the Healthcare FSA and \$4,000 to the Day Care FSA. We'll figure that 12 employees participate in the Healthcare FSA and that three participate in the Dependent Day Care FSA because the employer will save payroll taxes due to employee contributions, the following savings and costs would apply assuming the following:

Flexible Spending Account Savings/Cost Projection		
# of Participants	Annual Contribution	Amount
12 Employees @	\$1,200 ea.	\$14,000
3 Employees @	\$4,000 ea.	\$12,000
	Total =	\$26,400
	Payroll Tax Savings @ 7.65% =	\$2,020
	On-going Admin. Costs @ \$5/Participant =	\$900
	Net Employee Savings =	\$1,120

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Page Two - Benefits Plan Q & A: Flexible Spending Accounts (FSAs)

As you can see, the answer to the question is that it normally doesn't cost the employer anything to maintain Flexible Spending Accounts for its employees.

*For Healthcare Flexible Spending Account plans renewing on Jan. 1, 2013 and thereafter, an annual limit is imposed, of \$2,500 per employee-participant. If you would like to learn more about how The Harrison Group can help you design, administer and implement customized benefit plans backed by unprecedented customer service, call The Harrison Group President **Rich Miller** at **610-853-9075** or email rmiller@theharrisingrouponline.com.*

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