

Flex\$ystem™

Premium Only Plan



Save Taxes
Ease Your Healthcare Burden
Gain Peace-of-Mind



TASC

Division of Total Administrative Services Corporation

Why Choose a Premium Only Plan?

A Section 125 Premium Only Plan enables employees to pay for their portion of the employer-sponsored health insurance premiums on a pre-tax basis. The result is immediate tax savings for both the employer and their employees! By offering a Section 125 Premium Only Plan an employer is able to:

Reduce Payroll Costs. Matching Social Security (FICA) contributions are reduced for each dollar of employee participation! Contributions are automatically deducted from the employee's paycheck *before taxes are calculated* causing you to save on payroll taxes.

Give Your Employees a Raise. Employees don't pay taxes on the contributions they make toward their portion of the group health premium, therefore their taxable income is reduced. They take home more from their paychecks meaning you can give them a raise without any cost to you!

Recruit and Retain of Quality Employees. An employer is viewed in a positive light by current and prospective employees because a benefit package is being provided to the employees by the company...with the employee's interests in mind.



Save Taxes While Providing an Employee Benefit!

How can your company implement a Section 125 Premium Only Plan?

To implement a Section 125 Premium Only Plan, a change is required in the way payroll taxes are calculated. A Section 125 Premium Only Plan will affect those employees who have health, dental, vision, disability and/or group term life insurance premiums deducted from their payroll and who elect to participate in the Section 125 Premium Only Plan.

Because these expenses are paid with pre-tax dollars, employees are taxed on a lower gross salary, thereby saving money that would otherwise be spent on federal, state and FICA taxes.

Your company also saves on your portion of the FICA taxes (7.65%) for every dollar your employees run through the Plan. The examples below show how a POP Plan can provide savings!

EXAMPLE 1

The first example illustrates how a payroll check would be calculated for an employee who earns \$30,000 annually, is paid on a monthly basis and has three withholding allowances. In this example, the employee is paying for their health insurance premium with *after-tax* dollars.

EXAMPLE 2

The second example shows how the payroll check is now computed because of participation in the Section 125 Premium Only Plan. The only change required by the Section 125 Premium Only Plan is that the insurance premium be deducted on a *pre-tax* basis. This means the employer must deduct the insurance premium from the gross salary *before* computing the FICA, federal and state income taxes.

By participating in the Section 125 Premium Only Plan, the employee's net paycheck has been increased because the insurance premium is paid with pre-tax dollars. Section 125 permits the gross salary to be reduced by the insurance premiums being funded through the payroll deduction. Therefore, taxes will go down and the employee's paycheck will increase.

Example 1 After-Tax

Monthly Gross Salary	\$2,500
FICA	- \$191
Federal Income Tax	- \$375
*State Income Tax	- \$78
Adj. Gross Salary	\$1,856
Insurance Premium	- \$400
Net Pay	\$1,456

*Some states do not have a state income tax. Example assumes 3.1%.

Example 2

Monthly Gross Salary	\$2,500
Insurance Premium	- \$400
Adj. Gross Salary	\$2,100
FICA	- \$161
Federal Income Tax	- \$315
*State Income Tax	- \$65
Net Pay	\$1,559

Yearly Savings = \$1,236

* Some states do not have a state income tax. Example assumes 3.1%.

Employer Tax Savings

To estimate the potential savings realized by implementing a POP, determine the total number of single employees and the total number of family employees. Then, multiply that figure by the amount of premiums paid by the employees.

Example	
Health Insurance for Single Employees <i>(6 Single Employees x \$50 per month)</i>	\$300
Health Insurance for Family Employees <i>(10 Married Employees x \$250 per month)</i>	\$2,500
Short-Term Disability Insurance <i>(13 Employees x \$20 per month)</i>	\$260
Total Monthly Premiums	\$3,060
Total Employer Monthly Savings <i>(Total Monthly Premiums x 7.65%)</i>	\$234
Annual Employer Payroll Tax Savings is \$2,808!	

Employer Tax Savings Worksheet

A) Estimated Health Premiums

A1 Total Monthly Premium Paid for Single _____

A2 Total Monthly Premium Paid for Family _____

Number of Employees on the Plan

A3 Single _____

A4 Family _____

B) Other Insurance Premiums (Group dental, vision, disability, and/or term life.)

B1 Total Monthly Premium Paid for Single _____

B2 Total Monthly Premium Paid for Family _____

Number of Employees on the Plan

B3 Single _____

B4 Family _____

C) Calculated Savings

Total of A1 x A3 = \$ _____

Total of A2 x A4 = \$ _____

Total of B1 x B3 = \$ _____

Total of B2 x B4 = \$ _____

Add the four totals from above = \$ _____

x 7.65%

Estimated Potential Payroll Savings/Month = \$ _____

W-2 Forms and Your POP

To take advantage of the pre-tax benefits available with a Section 125 Premium Only Plan, employees are paying for their share of insurance premiums by reducing their salary before taxes are calculated, as illustrated in the example below. The reduced gross wages (A) is the amount used for W-2 income tax purposes.

Gross Wages		\$30,000
less premiums withheld from salary on a pre-tax basis		\$2,400
Reduced Gross Wages	(A)	\$27,600
less		
*Federal Income Tax	(B)	\$4,140
*State Income Tax	(C)	\$856
Social Security Tax	(D)	\$2,111
Medicare Tax	(E)	\$359
Net Wages:		\$20,134
* Figures may vary based on individual filing status.		

Instructions for completion of W-2 Form for POP Participants:

1. Input Item A, *Reduced Gross Wages*, in Boxes 1, 3, and 5.
2. Input Item A, *Reduced Gross Wages*, in Box 16.
3. Input either the non-reduced Gross Wages or Item A, *Reduced Gross Wages*, in Box 18 as determined by local jurisdiction.
4. Input Item B in Box 2.
5. Input Item C in Box 17.
6. Input Item D in Box 4.
7. Input Item E in Box 6.
8. Complete all other lines as they would be completed without regard to the Premium Only Plan.

Box 14 of the form allows employers the opportunity to provide the employee with information on any additional deductions. Deduction in this box may include union dues, education assistance payments, a clergyman's parsonage allowance and utilities, etc. It may include amounts paid for a Cafeteria Plan, however it is not typical to list these here. The box is used mostly for informational purposes.

Non-Discrimination Testing

Section 125 of the Internal Revenue Code requires that Cafeteria Plans be offered on a non-discriminatory basis. In assuring compliance, the Internal Revenue Code provides no one simple test. Section 125 has its own non-discrimination test, just as the individual benefits (Section 105, medical expenses, Section 129, dependent care expenses, and Section 79, group term life insurance premiums) have separate tests that must be met. Although the various tests tend to be subjective to each other, the concept of fairness is consistent throughout.

FlexSystem has created a “test” which takes into consideration the similarities of all tests. It is first necessary to define who is highly compensated. After this determination has been made, **it is necessary to apply the concentration test.** As the concentration test states, those who are deemed highly compensated may contribute no more than 33% of the total amount contributed by the non-highly compensated employees. Refer to the Non-Discrimination Testing Worksheet on page 15 of this Manual for a definition of who qualifies as highly compensated.

Once you complete the Non-Discrimination Testing Worksheet and return it to FlexSystem, FlexSystem will perform the actual non-discrimination test for you. You may be asked to provide additional information for a more complete testing. After the testing is complete, FlexSystem will notify you with the results. This non-discrimination testing must be performed annually and is due back to FlexSystem no later than 30 days after the Plan start date.

Form 5500

When the Plan Year is complete, employers with 100 or more eligible employees, will be sent a 5500 Data Questionnaire that must be completed and returned. Upon submission, FlexSystem will complete Form 5500. Eligible employees are defined as all employees who meet the Plan’s eligibility requirements.

If you have 100 or more eligible employees and receive no Form 5500 after your Plan Year is complete, please call FlexSystem Client Services for assistance.

FlexSystem[®] Non-Discrimination Testing Worksheet

Client Name: _____ Client ID #: _____
Plan Year: From: ____/____/____ to: ____/____/____
(Indicate your new Plan Year dates above)

List group insurance premiums **ONLY**. You need not indicate payroll deductions that are not part of your Flex Plan. List all of your “highly compensated employees” in the first section below who participate in **any** pre-tax account, but only disclose their insurance dollars. The deductions for the other flex accounts will be added from our records. Enter “NONE” if no one meets the definition, and “zeros” if insurance is not part of your pre-tax benefit.

Name	Social Security	H.C. Category(s) <small>(circle those that apply)</small>				Annual Employer Contribution to Group-Sponsored Premium Dollars	Annual Pre-tax Employee Group-Sponsored Premium Dollars
		1	2	3	4		
_____	_____	_____	_____	_____	\$ _____	\$ _____	
_____	_____	_____	_____	_____	\$ _____	\$ _____	
_____	_____	_____	_____	_____	\$ _____	\$ _____	
_____	_____	_____	_____	_____	\$ _____	\$ _____	
_____	_____	_____	_____	_____	\$ _____	\$ _____	
_____	_____	_____	_____	_____	\$ _____	\$ _____	
Combined Subtotal:						\$ _____	

(Please attach a separate piece of paper for additional highly compensated employees not listed above)

Definition of a Highly Compensated Employee
1. All officers of the corporation and
2. Owners of more than 1% of all classes of stock, and/or
3. Employees who earn over \$91,000 for the preceding year and are in the top 20% in income, and/or
4. Employees who are a spouse or dependent of employees meeting 1, 2, or 3 above.

Non-Highly Compensated Employees
NON-HIGHLY Compensated Participant's Group Insurance Premiums (do not include daycare, medical reimbursement, transportation or 106F elections). List annual totals for all Non-Highly Compensated Employees as group. Enter “NONE” if the employee does not provide any insurance benefits.
Total Annual Employer contributions: \$ _____ Total Annual Employee contributions: \$ _____ Total: \$ _____

Other Highly and Non-Highly Compensated Pre-Tax Contributions
If applicable, please indicate any other pre-tax, employer contributions to benefits that TASC may not be aware of (e.g., separate dental, term life, other insurance, etc.). Do not include 401(k) or other retirement benefits.
Benefit Type: _____ Annual Non H.C. dollars: \$ _____ Annual H.C. dollars: \$ _____

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Frequently Asked Questions

When Can I Start the POP Plan?

You can elect to begin your POP Plan anytime during the year. The standard “plan year” is twelve months; it may be on a calendar year or coincide with the health plan year. As the employer, you can request that the first year of the plan be a “short plan year”, meaning you can begin it at any time, and then choose a renewal date to coincide with the plan year you wish for the plan to run on in the future.

What Employees Are Eligible?

Eligibility requirements for a POP Plan usually match those for eligibility in the group health plan. To assure that the plan follows the non-discrimination rules, eligibility requirements should match those of the longest waiting period you have in place for the group health plan, if you have more than one type of eligibility. Once you have decided upon eligibility requirements, the only requirement of the employee is that he or she participate in the group health plan.

Is the POP Plan Subject to COBRA health care continuation?

Yes. A Premium Only Plan is subject to COBRA continuation rules. An election notice must be distributed to each employee (and their dependents) when they experience a qualifying event. Qualifying events include:

- Termination of employment or reduction of work hours to a level below the qualifying requirements.
- Death
- Entitlement to receive Medicare benefits
- Divorce or legal separation
- Dependent ceasing to be a dependent

Employee who choose to participate in the POP via COBRA do not receive the tax advantage. Regardless, employers are required by law to offer participation. The monthly premium charged to the employee will equal their POP contribution. If they so choose, the employer may add up to three percent to cover COBRA administrative costs. If the employee does not return the election form, they are effectively terminating participation in the Plan.

Can An Employee Change Their Election Mid-Year?

An employee may only change their contribution election mid-year if they experience a qualifying event. Such events include:

- Marriage or divorce
- Birth or adoption of a child
- Change in employment status of the employee or the employee’s spouse (full-time to part-time, etc.)
- Death of a spouse or dependent
- Unpaid leave-of-absence by either the employee or the employee’s spouse.

FlexSystem offers toll-free customer support to answer any other questions related to your POP Plan!



Participant Guide to Premium Only Plans

What is a Section 125 Premium Only Plan?

Section 125 Premium Only Plans allow you to use pre-tax dollars to pay for your portion of the employer-sponsored health, dental, vision, disability and/or group term life insurance premiums.

What does pre-tax mean?

Pre-tax is your pay before state, federal and social security taxes have been deducted. Because these premiums are paid with pre-tax dollars, you are taxed on a lower gross salary, thereby saving money that would otherwise be spent on federal, state, and FICA taxes. ***The bottom line: you take home more pay.***

How does a Section 125 Plan work?

Funds are withheld from your salary and used to pay your portion of the employer-sponsored insurance premiums. Your employer will deduct your share of the premiums before your wages are taxed! The opportunity for you to pay your eligible insurance premiums pre-tax is made possible through Section 125, commonly referred to as Flexible Compensation. The income taxes saved include State, Federal and FICA. The reduction in Social Security taxes may reduce Social Security retirement benefits.

What if my premiums change during the Plan Year?

Participants may change their elections during the Plan year only if they experience a change of status such as a marriage or divorce, birth or adoption of a child, or a change in employment status. If there is an increase or decrease in the amount of your premium, you can make an accommodating change.

How do I enroll?

You are not required to participate in the FlexSystem Premium Only Plan. If you do participate, no paperwork is necessary. Your share of eligible premiums will automatically be deducted before taxes. If you do not wish to take advantage of having your eligible insurance premium deducted pre-tax, and prefer instead to be taxed on these dollars, contact your payroll department.

Increase your take-home pay and improve your benefits with FlexSystem.

IT SAVES MONEY!

Pay your portion of the employer-sponsored insurance premiums and save substantial tax dollars. The result is an improved benefit package and substantial tax savings.

FlexSystem's Participants save hundreds of dollars in taxes each year.

HOW MUCH WILL YOU SAVE? Pre-Tax Example

	Without FlexSystem	With FlexSystem
Gross Pay	\$2,500/mo	\$2,500/mo
Pre-Tax Benefits		
- Premiums	0	400
TOTAL	<u>0</u>	<u>400</u>
Wages subject to tax	2,500	2,100
Federal Tax	375	315
FICA Tax (Social Security)	191	161
State Tax	78	65
Premiums	<u>400</u>	<u>0</u>
Spendable Income	\$1,456	\$1,559

Net Increase in Annual Take-Home Pay = \$1,236

This is an illustration only and actual numbers may vary. Paying certain qualified expenses before tax increases your take-home pay.

How Do I Get Started?

Complete the Premium Only Plan Application. See an example below. You have the opportunity to select the eligibility requirements and what the plan will cover. Upon completion, fax it to FlexSystem at 1-608-241-4584. You will receive your Client Kit, including the Summary Plan Description, within 7 to 10 days business. For more information, contact FlexSystem at 1-800-422-4661.

Section 1

This section is where you complete your name and address. We also need to know your tax filing status, and business Federal ID number or business owner's social security number. If you already have a Premium Only Plan, please let us know that and tell us who the administrator was.

(1) EMPLOYER/ADMINISTRATOR

Contact Name Jim Smith Company Name ABC Plumbing, Inc.
Email jim@abcplumbing.com Telephone Number (800)-555-1234 Fax Number (949) 555-5678
Street Address (not PO Box) 123 Main Street City Laguna Beach State CA Zip 92651
Tax Filing Status: C-Corp S-Corp Partnership Sole Proprietor Non-Profit LLC Other _____
Business Federal ID # 12-3456789 Total Number of Eligible Employees 30
Do you currently have a Section 125 Plan? No Yes If yes, number of Participants _____ and name of administrator _____
Are you a Health Net Client? Yes No If Yes, check what region you are in: Northern CA (SF area) Southern CA (LA, SD area)

Section 2

In this section you may designate the eligibility requirements to determine which employees will be eligible to participate in the plan. Maximums are listed for your convenience.

(2) PARTICIPATION AND ELIGIBILITY REQUIREMENTS

Check eligible employees and their respective maximums. If a category is checked, but a maximum is not elected, it will be defaulted to the maximum.

- Part-time employees working at least 25 hours per week will be included (maximum of 30 hours)
- Seasonal employees working at least _____ months within a year will be included (maximum of 6 months)
- Employees reaching 18 years of age will be included (maximum 21 years)
- Employees meeting Probationary period of 6 months will be included (maximum 24 months)
- Members of bargaining unit will be included

FlexSystem first year administration shall begin on the first day of January, 2007 (month/year) and continue for twelve consecutive months. For the second and successive years, the Plan shall operate starting on the first day of January, 2008 (month/year) and continue for the following consecutive successive twelve (12) month period. Note: Plans need not run on the calendar year (i.e. January 1 - December 31).

Entry Date - An employee (other than a rehired employee) is able to enter and participate in the Plan the first day of the Plan Year, or such dates within the Plan Year noted below, and after they have met the eligibility requirements above. July 1 (i.e. January 1 and July 1) *see reverse side

Section 3

If you have multiple insurance plans that you offer to your employee(s), you can select here which ones fall under the plan parameters.

(3) AVAILABLE BENEFITS

Select the benefits available to the eligible employee(s). These benefits are taken through salary deductions.

- Medical or Medical-Related Premium - (Group Sponsored - Employee and Family)
- Voluntary Term Life Insurance Premium - (Employee Only-Up to \$50,000 in death benefits.)
- Disability Insurance Premium - (Employee Only)
- Cancer Insurance - (Employee and Family)

(next page)

Section 4

Complete this section to sign up for ACH/automatic payment of your annual Premium Only Plan fees. Note that the first year of the plan is at no charge to you!

(4) ELECTRONIC PAYMENT

If you would like to have the renewal fee automatically deducted from your account, please complete this section of the form. If it is not completed an invoice will be sent approximately 45 days prior to your Plan renewal date.

I hereby authorize Total Administrative Services Corporation, hereinafter called TASC, to initiate debit entries for ABC Plumbing, Inc. (print name) from the checking account and financial institution named below, hereinafter called FINANCIAL INSTITUTION, and to debit the same to such account. I acknowledge that the origination of ACH transactions from my checking account must comply with the provisions of U.S. law.

Financial Institution Name: California Business Bank Branch: _____
Address: 100 Commerce Avenue City: Laguna Beach State: CA Zip: 92651
Checking Account Routing Number: 123456789 Checking Account Number: 1000-3333

This authority is to remain in full force and effect until TASC has received written notification from me of its termination in such time and manner as to afford TASC and my FINANCIAL INSTITUTION a reasonable opportunity to act. I hereby authorize TASC to use the ACH system to receive payment of my Plan Administration Fees (E-Pay).

Notes: All written debit authorizations must provide that the Payor may revoke the authorization only by notifying the Originator in the manner specified in the authorization.

Section 5

By signing this section you authorize FlexSystem to begin serving you and your employees, and you also confirm that cost of the plan - \$0.00 for the first year!

(5) AUTHORIZATION

I have read, understand and agree to the terms and conditions stated on the other side of this document as attested by the signature below, effective on the date of the signature. In addition, I understand my First Year fee for the FlexSystem POP plan is \$0.00. There is an annual renewal fee of \$125.00 to continue the POP Plan.

Employer (sign here) James Smith Title Owner Date 6/1/2006
Agent/Broker Name: Tom Johnson HealthNet Provider#: TAS-00-6327 Retail Code: HNIA
Agent Phone Number: (213) 555-1111 Agent E-Mail Address: tom.johnson@healthnet.com
Agent Mailing Address: 999 Beach Drive City: Los Angeles State: CA Zip: 90012



TASC

Division of Total Administrative Services Corporation