

FlexSystem Defined

What is a Section 125 Cafeteria Plan?

Section 125 Cafeteria Plans (also called Flexible Spending Accounts, or FSAs) allow Participants to elect or set aside pre-tax dollars to pay for medical out-of-pocket expenses, dependent care expenses, non-employer sponsored medical-related insurance premiums, and qualified transportation expenses. In addition, a Health Savings Account can be set up under a Section 125 Cafeteria Plan. (A more detailed explanation of these benefits appears later in this Manual.) The amount deducted from the Participant's salary to pay for these expenses is called an election. Because these expenses are paid with pre-tax dollars, Participants are taxed on a lower gross salary, thereby saving money that would otherwise be spent on federal, state, and FICA taxes. As the employing company you save on your portion of FICA taxes (7.65 percent for every dollar a Participant runs through the FSA).

How FlexSystem Works

Participants must enroll in FlexSystem at the start-up of a new Plan or at the time they become first eligible for a Plan, and must renew (re-enroll) at the start of each subsequent Plan-year. At that time, all eligible Participants must choose their election(s) for each benefit in which they will be participating. The elections are specific to each type of Flexible Spending Account (FSA), meaning that dollars set aside for dependent care can be used for dependent care only, and not for medical out-of-pocket expenses, etc. With a Section 125 Plan, the employee's portion of group-sponsored premiums can be deducted pre-tax. These amounts, along with any employer portions are sent to the insurance provider directly. You deduct the FSA-elected amounts from each Participant's payroll pre-tax and deposit the withholding amounts with FlexSystem. FlexSystem maintains these funds in an account until the Participant requests reimbursement.

Audit Guarantee

FlexSystem will support and assist any enrolled employers or Participants who adhere to our Plan procedures and parameters and nevertheless have their Section 125 Cafeteria Plan challenged by the Internal Revenue Service. We will provide:

- Plan Documentation
- Plan Communications
- Claim and Account Information
- Information on Form 5500 Filing
- All other relative necessary information regarding FlexSystem or other filing requirements related to the Plan.

Additionally, if all procedures are adhered to, FlexSystem will assume financial responsibility for any penalty and/or interest charged as a result of an audit that results in the payment of additional Federal, State, Social Security or Medicare tax as these pertain to FlexSystem. FlexSystem will also assume financial responsibility for any penalty issued by the Internal Revenue Service or Department of Labor for untimely reporting or lack of reporting as these pertain to FlexSystem. For more details on the FlexSystem Audit Guarantee see Side Two of the Guarantee, which is available in our on-line *MyTASC* Library (log-in and search for "Audit Guarantee").