New Administrator for FSAs and Premium Only Plans

CareFirst BlueCross BlueShield is pleased to announce that HFS Benefits (HFS) will be our preferred administrator for both Flexible Spending Accounts (FSAs) and Premium Only Plans (POP) for non-BlueFund accounts. HFS Benefits has been serving the employer and consultant community with benefits administration since 1996.

(Note: FlexAmerica will continue to be our preferred administrator for FSAs and POP for accounts with BlueFund CDH products.)

HFS Benefits new program, FLEX Express, provides complete FSA services, including plan documents, open enrollment meeting support, and administration for one, all-inclusive price. HFS provides the following services with FSA Administration:

- Smooth FSA Implementation and Administration
- Dedicated Account Representative
- Participant Call Center
- Employee Web Access
- Administrator Web Access
- Maximized Debit Card Auto Substantiation
- No claims pre-funding
- Accessibility to all HFS departments and personnel

For POP plans, the following services are included:

- Plan design
- Plan document preparation
- Compliance requirements
- Employee communication

In addition to the above referenced services, HFS can also prepare signature ready Form 5500 for Welfare Benefits when required.

HFS materials and applications for POP and FSA have been added to the Group Applications and Forms section of CareFirst's broker portal. Attached for your reference are the FSA brochure and the POP overview.

Please note that the BlueCross BlueShield of Delaware (BCBSDE) POP application remained on our website in error until March 25th. Unfortunately, we are unable to honor any new request for POP Administration from BSBSDE; however, groups that currently offer POP plans through Delaware may continue to do so.

Additionally, we are in the process of updating the FSA and POP information on Rate Proposals and Renewals. We are making the systems changes necessary to have the old information removed as quickly as possible; however, BCBSDE will no longer accept new business referred from CareFirst so the...
rates shown cannot be honored. Please provide your accounts the new brochures and applications available on our website. We apologize for any confusion this may cause.

Should you have any questions, please contact your Broker Sales Representative or HFS Benefits at 410-771-1331 or 1-888-460-8005.

Shekar Subramaniam
Associate Vice President, Broker Sales
HFS Benefits has been serving the employer and consultant community with benefits administration since 1996 and provides complete services in the following areas:

- Flexible Spending Account (FSA) Administration
- Transportation Plan Administration
- Health Reimbursement Account (HRA) Administration
- Health Savings Account (HSA) Administration
- COBRA Administration
- Premium Only Conversion Plans
- IRS & DOL Compliance

Complete service includes plan design, plan document preparation, compliance requirements, employee communication and Form 5500 preparation for Welfare benefits when required.

What is a Premium Only Plan?

Authorized by the Internal Revenue Service, a premium only plan (commonly referred to as a POP Plan) permits employees to pay for the cost of their employer sponsored benefits with pre-tax dollars. Benefits such as Health, Dental and Vision coverage can be included under the premium only plan. Other types of coverage may be included such as Life and Disability coverage, but limitations and tax ramifications will apply.

How do Employees Save?

By using pre-tax dollars to pay for certain benefits, employees reduce their taxable income, resulting in more spending dollars. Contributions are not subject to Federal, State*, Social Security and Medicare taxes.

* New Jersey requires residents to pay state taxes on all contributions and Pennsylvania requires residents to pay taxes on Dependent Care FSA withholdings.
Employers also save!

All pre-tax withholdings are not subject to matching Medicare and FICA (Social Security) taxes. It is very common that the Employer savings will offset any administrative costs.

How do you establish and maintain a Plan?

In order for you and your employees to begin saving you must have a written plan document in place. In addition, you are required to provide each employee with a Summary Plan Description (SPD).

An SPD is a summary of the Plan Document. Annually, you must pass non-discrimination testing to remain in compliance with Plan requirements.

Who can have a plan?

Any type of an employer can offer a Premium Only Conversion Plan to its employees. However, owners of an S-Corporation, Partners in a partnership and Sole Proprietors are not eligible to participate in their company’s plan.

Do you have to file a tax return?

The IRS no longer requires a Form 5500 to be filed for a Cafeteria Plan. However, if you have over 100 participants in your Welfare Benefit Plan (i.e., Medical, Dental, Vision, Life, DI, EAP, FSA, HRA), you may have to file a Form 5500 for Welfare Benefits. HFS can assist with the preparation of this return.

Fees

The fee for the Premium Only Plan for groups with 200 employees or less is $350. This includes documents and non-discrimination testing.

The renewal fee is $350.

The charge for preparing a Form 5500 for Welfare Benefits is $750.00 and includes the benefits under the Welfare Benefit Plan.

These fees apply to any account referred to HFS Benefits by CareFirst, using the Premium Only Plan application available on the broker portal of www.carefirst.com under Group Applications and Forms.

Should you have questions, please contact HFS Benefits:

HFS Benefits
P.O. Box 1550
Hunt Valley, MD 21230-1550
Phone: 410.771.1331, ext. 5 / 888.460.8005, ext. 5
Fax: 410.771.5533 / 888.510.4218
www.hfsbenefits.com

CareFirst BlueCross BlueShield is the shared business name of CareFirst of Maryland, Inc. and Group Hospitalization and Medical Services Inc. which are independent licensees of the Blue Cross and Blue Shield Association. ® Registered trademark of the Blue Cross and Blue Shield Association. ® Registered trademark of CareFirst of Maryland, Inc.
Flexible Spending Accounts

Flexible Spending Accounts (FSAs) make it easy to reduce taxes, save money and attract and retain valuable employees.

Enhance Your Benefits Package with FSAs

CareFirst BlueCross BlueShield and CareFirst BlueChoice, Inc. (collectively CareFirst) is pleased to offer Flexible Spending Account (FSA) administration through HFS Benefits. FSAs make it easy for your employees to realize significant tax savings while improving your overall benefits package.

HFS Benefit’s FLEX Express is a simple, cost-effective, all inclusive solution to flexible spending account administration.

As an employer, you can offer:

- Health Care FSA
- Dependent Care Assistance FSA

Employees can use one or both of these FSAs to reduce their taxes.

Here’s How Each FSA Works

Health Care

Your employees now pay for out-of-pocket health care expenses on an after-tax basis. Most employees’ health care expenses do not exceed federal income tax deduction thresholds. By implementing a Health Care FSA, employees can pay for eligible health care expenses on a pre-tax basis, cutting costs by reducing their federal income tax, FICA tax and, in most states, their state income taxes. (Please refer to the Example of Semi-Monthly Employee Savings on page four.)

Typical out-of-pocket health care expenses include:

- Health care deductibles and copays
- Prescription drug copays
- Dental expenses, including:
  - copays
  - deductibles
  - dental implants
  - orthodontia (pro-rated)
- Vision expenses, including:
  - eye exams
  - eyeglasses
  - contact lenses and solution
  - laser eye surgery
- Other expenses, including:
  - chiropractic care
  - diabetic care
  - smoking cessation programs
  - hearing aids
  - weight loss programs (to treat a specific disease)
  - outpatient psychiatric care

More to feel good about.
Dependent Care
Many employees who have children under the age of 13 pay dependent care expenses. Your employees pay these expenses to ensure that during working hours, their children get the attention and care they need. Some examples of dependent care expenses are:

- Day care
- Day camp
- Before and after school care
- Preschool (not kindergarten)

For dependent care expenses, dependent care FSAs may provide more tax advantages than the federal income tax credit. To compare savings, your employees will need to consider the following factors:

- Tax filing status
- Adjusted gross income
- Amount of expense
- Number of dependents in day care

Enrollment, Claims and Administrative Services

- Accept and maintain enrollment information via spreadsheet with participant demographics and election amounts
- Receive, adjudicate and reimburse employees directly for approved claims
- Direct deposit claims payment
- Provide enrollment, payroll and claims reports
- Provide customer service
- Provide access to toll-free telephone number and e-mail address for inquiries and claim status
- Provide web site access to employees for balance, claims and payment information as well as forms and account management

Flex Debit Card

- Employees can use their flex debit card to directly access their available FSA funds, eliminating the waiting for reimbursement.

Reporting

- Annual discrimination testing
- Enrollment and payroll reports available online
- Forfeiture reports
- Payment register identifying all FSA participants with approved claims and total claims payment amounts for each reimbursement period.

Rely on Outstanding Service

When you offer FSAs, you can depend on professional service. HFS Benefits provides the following services as part of the FLEX Express program.

Communication Services

- Employee communication materials
- Employee meetings to explain FSAs in simple, easy to understand terms

Compliance Services

- Plan documents and summary plan descriptions (SPD)
- Non-discrimination testing
- Form 5500 services (additional fees apply)
Easy Implementation

**The Employer**
- Selects plan year; initial plan year may be less than 12 months
- Determines the annual minimum and maximum employee contribution
- Determines employee waiting period
- No upfront claims funding; employee withholdings stay with the employer until payments are processed.

*NOTE: For the Health Care FSA, employer understands that each employee’s entire annual election is available for reimbursement of eligible health care expenses incurred starting on the first day of the plan year.*

**Each Employee**
- Determines the amount of his/her predictable annual out-of-pocket expenses
- Divides the total annual expense by the number of pays in the plan year
- Election is deducted from each pay on a pre-tax basis
- Has access to entire annual health care election at start of plan year
- Uses debit card to pay for out-of-pocket expenses or submits claims with proper documentation for reimbursement
- Reimbursements made directly to participant’s bank account
- Access account information at [www.hfsbenefits.com](http://www.hfsbenefits.com) or by calling Customer Service at (888) 460-8005

FSA Advantages

FSAs are valuable benefits enhancements and deliver the following advantages to employees and employers:

**Employees**
- Tax savings
  - Federal income tax savings
  - State income tax savings (in most states)
  - FICA tax savings
- More spendable income

*More to feel good about.*
Employees benefits (con’t)
- A broader, more attractive range of benefits
- A smart way to pay for out-of-pocket expenses
- Access to web site for forms, claims information and account management

Employers
- Lower payroll taxes
- A cost effective way to enhance your benefits package
- Another way to offer quality benefits as health care costs rise
- Easy, confidential administration including:
  • Employee enrollment
  • Employer status reports
  • Claims eligibility research
  • Employee claims processing
  • Employee reimbursements

Flexible Spending Accounts Fee Schedule: All inclusive annual fees
The annual fee includes set-up, claims administration, Plan Documents and SPD, discrimination testing, compliance assistance, participation in enrollment meetings, and more. This includes Premium Only Plan administration (commonly referred to as a POP Plan). These provisions are included when Flexible Spending Account administration is purchased.

HFS Benefits FLEX Express Fees
- 1-35 participants $1,950
- Over 35 participants $1,950 + $65 for each participant over 35. The initial payment of $1,950 is due with application and ACH authorization. If participation exceeds 35 participants, HFS Benefits will invoice once enrollment is complete. There will be a $5.00 fee for additional or replacement debit cards.

Example of Semi-Monthly Employee Savings

<table>
<thead>
<tr>
<th>Before FSA</th>
<th>After FSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Pay:</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>Pre-tax Contribution:</td>
<td>0</td>
</tr>
<tr>
<td>Taxes at 25%:*</td>
<td>-250.00</td>
</tr>
<tr>
<td>After-tax Health Care Expenses:</td>
<td>-50.00</td>
</tr>
<tr>
<td>Net Pay:</td>
<td>$700.00</td>
</tr>
</tbody>
</table>

By paying for eligible benefits pre-tax, your employees can save $300 a year—or more, if employees are in a higher tax bracket.

<table>
<thead>
<tr>
<th>Before FSA</th>
<th>After FSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Pay:</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>Pre-tax Contribution:</td>
<td>-50.00</td>
</tr>
<tr>
<td>Taxes at 25%:**</td>
<td>-237.50</td>
</tr>
<tr>
<td>After-tax Health Care Expenses:</td>
<td>0</td>
</tr>
<tr>
<td>Net Pay:</td>
<td>$712.50</td>
</tr>
</tbody>
</table>

Per Pay Savings: $12.50
Annual Savings: $300.00

* Assumes 15% federal income tax bracket. Includes federal, FICA, and income taxes in most states.
** Assumes 15% federal income tax bracket. If higher, savings are even greater. Includes federal, FICA, and income taxes in most states. Employees’ W-2s will show reduced taxable wages and lower FICA taxes.