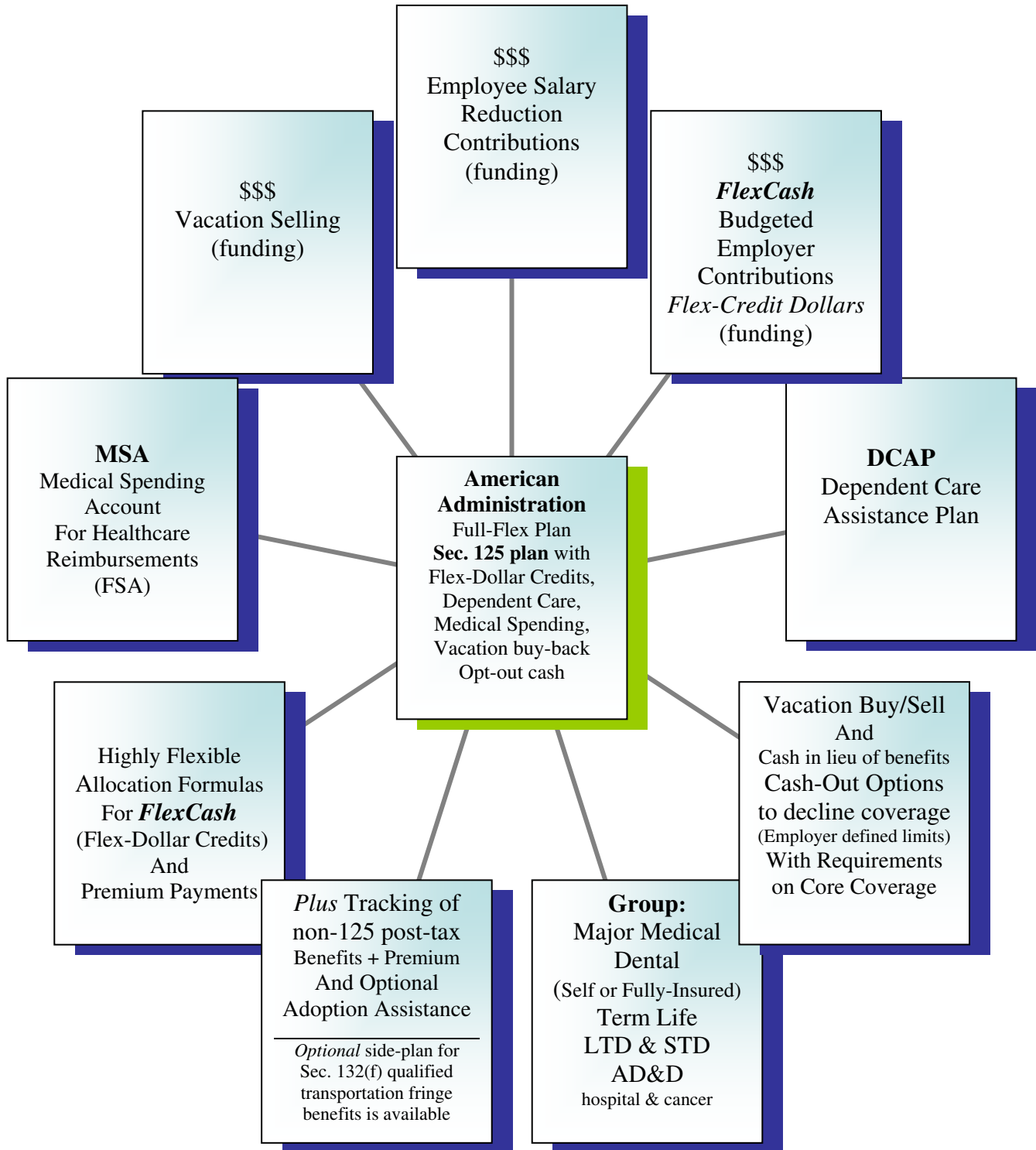


Graphic illustration of the AMERICAN ADMINISTRATION Full-Flex 125 Hybrid Cafeteria Plan
Featuring Salary Reductions with tiered & calculated Employer FlexCash, Employee Contributions, Premium Payment Features, Medical Care FSA, Dependent Care FSA and Cash-Out Options



To avoid current taxation to employees on the non-taxable benefits offered, employee elections are irrevocable and the cafeteria plan must meet various technical IRS requirements set forth in § 125 of the Internal Revenue Code of 1986, as amended (the "Code") and in regulations issued by the IRS.

Flexdollars - PLURAL NOUN: Money provided by an employer to be used by an employee to obtain various benefits, such as health insurance and life insurance. Also called *flexcash*. *The American Heritage® Dictionary of the English Language: Fourth Edition.2000.*

Summary of Internal Revenue Code Requirements Applicable to FSAs

Health FSAs

(Max to be selected by the employer & specified in the plan document; AASC normally suggests \$2,400 annual Max)
Health FSAs are subject to the requirements under Code § 105(h) for self-insured medical reimbursement plans. Health FSAs are also subject to all of the special FSA requirements contained in Q/A-7 of Prop. Treas. Reg. § 1.125-2 (1989). Most health FSAs are subject to ERISA. Health FSAs are also subject to COBRA (assuming that the employer has 20 or more employees), though a limited COBRA exception from some of COBRA's requirements may be available. They are subject to HIPAA, the Mental Health Parity Act (MHPA) and the Newborns' and Mothers' Health Protection Act (NMHPA).

- Medical reimbursement plan rules under Code § 105(h)
 - ⇒ Written plan
 - ⇒ Reimburse employee, spouse and dependent "medical expenses"
 - ⇒ Nondiscrimination rules under Code § 105(h)
 - ⇒ No reimbursement if employee claims tax deduction
- Health FSA rules under Q/A-7 of Prop. Treas. Reg. § 1.125-2 (1989)
 - ⇒ Uniform coverage rule for health FSAs under Q/A-7(b)(2)
 - ⇒ 12-Month period of coverage
 - ⇒ Claims must be reimbursed at least monthly
 - ⇒ No reimbursement of insurance premiums
 - ⇒ Claims must be incurred during period of coverage
 - ⇒ Claims substantiation
 - ⇒ Use-it-or-lose-it
- COBRA, HIPAA and other requirements that apply to group health plans

DCAPs

DCAPs are subject to all of the special FSA requirements contained in Q/A-7 of Prop. Treas. Reg. § 1.125-2 (1989), except the rules in Q/A-7(b)(2) relating to uniform coverage throughout the coverage period. DCAPs are also subject to the requirements under Code § 129 for employer-sponsored DCAPs. DCAPs generally are not subject to ERISA.

- Dependent care assistance plan rules under Code § 129
 - ⇒ \$5,000 Max if single parent or married filing jointly or \$2,500 if filing separately
 - ⇒ Written plan document
 - ⇒ Exclusive benefit requirement
 - ⇒ Pay only for qualifying dependent care assistance—expenses must be for care of a qualifying individual to enable employee and spouse to be gainfully employed
 - ⇒ Payments limited by amount of exclusion available to employee
 - ⇒ Code § 129 nondiscrimination rules
 - ⇒ Disclosures to employees

The Cash-Out Option - A plan is not required to offer a cash-out option, but most comprehensive full-flex plans do. The employer may require that certain "core" benefits be taken, prior to being able to elect the cash-out option. We use **FlexCash** (flex-credits) to discount the opt-out cash, e.g. we can limit the cash-out, and if an employer contribution is \$350 in **FlexCash** and if the plan limits cash-in-lieu-of-benefits to 50¢ on the dollar, the maximum cash-out of is \$175. Opted-out cash is W-2 income.

NOTE: Church, State and Tribal plan rules may vary slightly.

Currently, we do not recommend **Health Reimbursement Arrangements (HRA plans)**; however, an HRA can be integrated into this plan design later, with ease. An HRA can NOT be funded, directly or indirectly under the cafeteria plan. Any future HRA must be funded entirely by the employer outside of this plan. Many unresolved questions still exist regarding HRAs and it is best to take a wait and see approach but periodically visit: www.HRAplan.com