TMYK

The More You Know

UNIVERSAL FINANCIAL CONSULTANTS

TOP 10 REASONS WHY AN *ARP* OUT-PERFORMS YOUR FSA

REASON NO. 10: HAS ANYONE MENTIONED EMPLOYEE MORALE?

In this series of topics on payroll reduction plans, we have focused on the savings in payroll taxes such plans offer to both employer and employee. We've noted numerous times that skyrocketing cost on Work. Comp. premium for California business owners can be significantly lowered because payroll reduction plans automatically reduce monthly Work. Com. Premium paid wholly by employers.

Those points are worthy of multiple mention, but so is the impact a payroll reduction plan can have on employee morale. And there we have been neglectful. From the employee's perspective you, the employer, are setting up something that gives every participating employee a raise using Uncle Sam's dollars to pay for it. Though the employer derives significant benefit from a payroll reduction program, care needs to be taken to assure your program is providing everything the employee expects. And, that is where a FSA program proves itself inferior to an Alternative Reimbursement Plan or ARP.

First, employees pre-determine the amount to place in their FSA account. When an ARP is used no predetermination is necessary. FSAs set up a separate bank account for each employee. By the time the employee's money is removed and placed in the FSA account, then reimbursed back to the employee, the lag in payment may exceed the bill's due date leaving the employee to write a check using after tax dollars. An ARP has no separate bank accounts and there is almost no lag.

Second drawback: employees sometimes put more money into their FSA account than they could spend in a year. Sometimes employees thought their unspent funds rolled over to the next year. Instead, tax law required it be returned to the employer. Invariably when employees lost money in an FSA program they believed they were scammed. Not only did employee morale suffer, so did the level of participation.

Third, medium and smaller employers that set up FSA plans, often came to dread the legal requirement that when an employee presented an eligible receipt, the employer had to finance reimbursement if the employee's FSA account lacked the funds. Cash flow for the employer couldn't be predicted. Worse, the employee sometimes took the money advanced and disappeared, leaving the employer to bear a loss. To control the problem of financing and over-funding, employers often placed dollar limits on the amount each employee could put into their FSA account annually. An ARP operates from an entirely different platform. There is nothing for the employer to finance!

Over the past three years California employers have seen their Work. Comp. premiums double. That should cause employers to look for ways to maximize potential savings from their payroll reduction plans. When that time comes the ARP has all the right features and its administrative costs are significantly less than an FSA's. Since it contains none of the FSA's downsides, employee morale won't suffer. On average employee participation runs four times higher than the levels achieved from FSAs. That's important, because new laws now allow Over-The-Counter drugs, natural supplements and homeopathic remedies to be 100% deductible, so the opportunities to reduce payroll will be greater than ever!

Maximizing participation requires a pro-active effort throughout the year. Our company will work with Human Resource personnel to provide the necessary reminders and incentives. Employers can expect to find their savings jump two to three times above the levels achieved with an FSA. Of course, employers with no previous payroll reduction plan in place will see the most dramatic results.

The variables that affect dollars saved include, tax bracket, Work. Comp. Mod. Factor. and employee participation. For this reason you should call Scott McKee* at (619) 295-5920 Ext.214 for details.

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