



**TOP 10 REASONS WHY AN ARP OUT-PERFORMS YOUR FSA**  
**REASON NO. 2: HOW FSA PLANS ARE DISCRIMINATORY TO THE HIGHLY COMPENSATED AND MANY BUSINESS OWNERS**

**UNIVERSAL FINANCIAL  
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There are two types of payroll reduction plans, *Flexible Spending Accounts (FSA)* and the newer *Alternative Reimbursement Plan (ARP)*. Employers install payroll reduction plans to help their employees and themselves cut payroll taxes. In California, reducing payroll also reduces the monthly premium paid for Workers' Compensation insurance, and since those premiums have doubled in the past three years, payroll reduction has become important to many companies' bottom lines.

One of the problems employers face with a FSA is limitations resulting from annual discrimination testing, which is required under the US tax code. There was considerable concern that the highly compensated would benefit the most from taxable dollars out of their paychecks and into tax exempt FSA accounts. Bluntly, the law has ended up discriminating against the highly compensated and limiting potential savings for their employers.

Another type of discrimination prevents the owners of S-Corps, LLCs, Partnerships and Sole Proprietors from taking any portion of their earnings and placing them in their own FSA accounts. Again, this is a provision built into our US tax laws.

Besides discrimination there are other problems the tax laws impose on FSAs. For example, when an employee can't spend all the funds he or she earmarks into an FSA, it must be returned to the employer. Employees became embittered when that trap sprang on them, which often curtailed participation from the entire workforce. On the employer side, the requirement forcing them to advance funds to any employee submitting a receipt for reimbursement, but insufficient money in their FSA account. Some employees just took the advance and disappeared, leaving the employer with a loss

**None of the drawbacks noted above for FSAs are contained in an ARP –NONE!** The ARP operates as a reimbursement supplement complementing an employee's primary health plan, and the platform is much like medical reimbursement plans. As such, no individual bank accounts are necessary. There are no annual discrimination tests to perform. That makes an ARP more economical to set up and operate than a FSA. Further, employees can't ever over-fund or under-fund so it's virtually impossible to incur a forfeiture. They willingly participate in ARPs and submit more receipts for orthodontics and other "big ticket" items. Last, Employers have nothing that needs financing.

**Therefore, any employer that wants to maximize payroll reduction to save on Work. Comp. premium payments should use an ARP not FSA.** Compare the results. Employee participation runs at four times the levels achieved by FSAs. With new laws allowing Over-The-Counter drugs, natural supplements and homeopathic remedies to be 100% deductible, the opportunities to reduce payroll are greater than ever! To capture those reimbursements in the payroll reduction plan requires a pro-active effort throughout the year. Our company works with Human Resources to provide the necessary reminders and incentives to your employees. Employers find their savings jump two to three times the levels achieved with an FSA. 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 that reason we recommend you call **Scott McKee\*** at (619) 295-5920 Ext. 214 for details.

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