

The More You Know  
**TMYK**



**TOP 10 REASONS WHY AN ARP OUT-PERFORMS YOUR FSA**  
**REASON NO. 3: NEW RULING MAKES OTC DRUGS REIMBURSEABLE**

**UNIVERSAL FINANCIAL  
CONSULTANTS'  
MISSION STATEMENT**

"Our mission is to promote the long term financial well being of our clients. It is our intention to pool our talents, resources, and years of experience in order to provide the most comprehensive and objective analysis possible. We will strive to work hand in hand with your existing advisors to build a synergistic effect that will empower you to achieve greater levels of financial freedom by having all of your trusted advisors see your goals and objectives from the same viewpoint, thereby maximizing your potential for financial security and success."

**ARP stands for Alternative Reimbursement Plan.** Like the *Flexible Spending Account (FSA)* these plans are set up be employers to reduce payroll, which enables reduction in the amount of payroll tax paid, as well as the premium payments for state mandated Workers' Compensation insurance. FSAs have been used since Congress changed the tax code to allow employees to pay for certain insurance benefits and expenses without paying payroll tax on the money used. ARPs came on the scene over eight years ago because of problems, restrictions and operating complexities associated with FSAs that were limiting—even eliminating savings. With cost of Work. Comp. insurance doubling in the past three years, ARPs are becoming more popular, for the simple reason that they produce 400% greater employee participation. The increased participation translated into three to four times the savings levels of an FSA.

Prescription drug costs have increased steadily in the past five years. Many health plans have shifted more of the cost to employees in the form of higher co-payments and limiting the drug benefits to a fixed dollar amount per covered person. Companies with payroll reduction plans are experiencing greater reimbursements for out-of-pocket prescription drug cost. That trend is sure to continue because of Revenue Ruling 2003 – 102. Starting this year all Over-The-Counter (OTC) drugs are eligible for reimbursement through FSA and ARP plans. That also includes natural supplements and homeopathic remedies.

To capture the maximum number of reimbursable expenses through a payroll reduction program, use an ARP. ARPs don't require separate bank accounts nor do they require the actuarial review to certify that highly compensated employees aren't receiving more than 25% of the reimbursements. Without those two major cost items, an ARP's administrative cost is much less than an FSA. With an ARP owners of S-Corps, LLCs, partnerships and Sole Proprietors are able to participate. They are prohibited from participating in a company FSA and they will not contend with discrimination testing. That is a blessing for small businesses.

There are no "use it or lose it" provisions to cause any of the employees dollars from reverting to the employer. Employees tend to complain bitterly over such forfeitures and very quickly participation drops. Employers often limit the number of dollars employees can put into their FSA accounts yearly for that very reason. However, such limits prevent maximizing the payroll tax and Work. Comp. savings. Given the business climate in California companies of all sizes need the maximum savings possible. So, we say again use an ARP.

Unlike FSAs, the structure of an ARP gives employers no exposure to the legal requirement mandating that they finance any expense when the employee hasn't had time to adequately fund his or her FSA account. That requirement can impair financial stability within the company's general account when the amount to be advanced was substantial. Worse, more than a few incidences occurred where the employee simply took the money and disappeared, leaving the employer with a loss to write-off.

There are three main factors that impact the level of savings to be achieved using an ARP to implement a payroll savings plan. The tax brackets of each employee, the type of reimbursements employees submit and the Workers' Compensation "Mod-Factor" all impact savings these plans will generate. Our company will help motivate and remind employees to submit their reimbursable expenses to the plan administrator throughout the course of the plan-year.

We encourage you to call our ARP specialist, Scott McKee\* at (619) 295-5920 Ext. 214, to discuss how this plan can help improve your company's bottom line.

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