

TOP 10 REASONS WHY AN ARP OUT-PERFORMS YOUR FSA  
**REASON NO. 8: AN ARP PLAN IS LIKE A 125 PREMIUM ONLY PLAN ON STEROIDS!**

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**ARP stands for Alternative Reimbursement Plan**, the 8-year old "new star" in payroll reduction plans. IRC Section 125 allows employees to reduce their paychecks by pre-determined amount to cover items like employees' contributions for health benefits. A Premium Only Plan (POP) deliberately limits eligible expense to the employees' premium contributions. Money going into a POP plan is exempt from payroll taxes.

Limiting Section 125 benefits to only health plan contributions uses a very small portion of what the law allows. However, giving employees full access to have all allowable expenses reimbursed through a FSA plan is costly and hence has been limited to larger, highly profitable companies. FSAs are administratively complex, which impacts their operating cost. FSAs also have more than a few drawbacks. Hence, most of the 125 plans in force today are the POP variety. But today's business climate points to employers maximizing savings derived from payroll reduction plans, which is why the newer ARP model will gain a bigger market share than FSAs.

An ARP can function alongside an existing POP plan, but it is more economical to fold the POP into the ARP. With Workers' Compensation rates doubling in the last 3 years and double digit increases in health insurance prices, more employers are turning to ARPs to maximize savings on Work. Comp. costs and matching payroll taxes paid by employers. Any strategy to maximize savings places an ARP in a highly favorable position.

The ARP platform resembles a medical reimbursement supplement. The ARP doesn't need separate bank accounts for each employee, and, administrative costs are made even lower because there is little need for expensive annual discrimination tests. Highly compensated executives and owners can be reimbursed for all their eligible expenses without worrying about making the ARP top-heavy.

**What getting Maximum Savings Means:** Besides premium contributions, employees can submit receipts for all out-of-pocket costs associated with their benefit plans. Expenses above dollar limits, as with chiropractic and mental health care, expenses not covered can be handled on a tax-exempt basis can be 100% reimbursed through the ARP. Excluded items like experimental procedures and drugs not on a formulary can be reimbursed. Finally, thanks to a new law, employees can deduct 100% of the cost for all Over-the-Counter health items, all natural supplements and homeopathic remedies they incurred in 2003, which will increase savings greatly.

ARPs have a dependent care option, which makes handling these "big-ticket" items easy because there is no lag between submission of the monthly charge and its reimbursement. Each employee with expenses for dependent care, including nursery school, pre-school and after school care, whether a child or an adult can be submitted with up to \$5,000 (the federal ceiling) reimbursed using tax-exempt dollars from an ARP.

**Why do employers limit the amount they allow their employees to put into Flexible Spending Accounts (FSAs)?** First, the money an employee commits to a FSA plan must be spent within one year. Unused funds cannot be rolled over; the law requires the money be returned to the employer. Employees that suffered this kind of loss often become embittered and can be quite vocal about the FSA being a scheme to make the company richer at the expense of employees. Then FSA participation drops like a rock. Since it's virtually impossible to suffer such a loss with an ARP, employees run four times as many dollars into the plan than with a FSA. That translates into a savings three to four times on average what the employer can derive from a FSA plan. (Savings vary according to the Work. Comp. mod factor, employee tax brackets).

Maximizing the savings possible from any payroll reduction plan requires a pro-active approach so employees turn in applicable receipts. Our company has the motivational tools to ensure that receipted expenses are paid through the ARP and will work with your HR Department. Call Scott McKee\* at (619) 295-5920 Ext. 214.

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