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How Employers Can Take Charge Of Flexible Spending Account Plans

Self-help books are always runaway best sellers, it seems. Why not in the area of benefits, too? This article is devoted to helping your employer/clients help themselves. Many articles have been written about the need for employers auditing their insurance plans. The same holds true for audits on other plans employers maintain—from their 401(k) and pension plans to their flexible spending accounts.

Using a third party administrator (TPA) that has an audit process in place is essential and having an employer/client conduct an audit of accounts periodically is just "good business." This article will focus on flexible spending accounts (FSAs) and health reimbursement arrangements (HRAs) and touch on health savings accounts (HSAs). The following list includes some discussion points you may have with your employer/clients.

1. Plan Documents. The first question to ask is, "Where are your plan documents?" Personnel and TPA changes, or even moving an office, can spell disaster for important papers like plan documents and employee summary plan descriptions (SPDs). Remind your clients to locate copies of all benefit plans. Be sure they are signed and adopted. Too often they may find a draft that was never finalized.

Determine if plan documents are current and accurately reflect how the plan is presently being administered. For instance, eligibility for the FSA plan may hinge on the eligibility for health insurance, but the two plans' requirements may not match. Has the plan been updated to reflect recent prohibitions against reimbursing over-the-counter drugs and medicines without a prescription? Some plans were written in a manner that may not require amending, but some plans may not be in compliance.

One area of common non-compliance is how the Family and Medical Leave Act (FMLA) is administered. Generally speaking, an employer should have one procedure covering all plans for consistency and adherence to the law.

Combining or adding plans may mean updating existing plan documents. When adding an HSA option, health FSA documents should allow for a limited purpose or HSA-compatible health FSA. The language needs to address a participant automatically moving into a limited health FSA upon establishing an HSA plan. Also don't forget about running the HSA contributions through the employer's cafeteria plan. That amounts to more savings for both employees and employers.

And finally, ensure all employees receive an SPD for each plan sponsored by an employer. Employee education is the key to increased participation in the plans and satisfaction with benefit choices.

2. Enrollment and Contributions. An audit of payroll and TPA records for each participant's election is a must. Employers should be encouraged to compare internal payroll records with the TPAs on a periodic basis to ensure accuracy and consistency.

Contributions for FSAs are chiefly payroll deductions and retained by the employer in their general assets. This makes for uniformity of payroll administration with each pay period being the same for the entire plan year. Changes occur when participants have changes in status, new employees come on board, or employees terminate throughout the year.

HRAs don't necessarily have any type of account in which funds are placed. Rather, the money needs to be available as claims are turned in for reimbursement. Another issue is availability of employer funds. Some HRA plans allow the entire plan limit to be used at the beginning of the plan year, while other plan designs make the dollars available to correspond with employee payroll, monthly or even quarterly.

3. Claims. This is not so much an audit of the actual claims, but how the TPA handles claims submissions. Is each claim adjudicated? The TPA must know the name of the individual receiving the product or service, date of service, explanation of the product or service and amount being requested for reimbursement. This information should all be provided on a statement from an independent third party, the vendor, along with the vendor's name preprinted or stamped on the receipt.

Even debit card swipes must be adjudicated. If TPAs don't ask for receipts, they may not be doing their job according to Internal Revenue Service (IRS) regulations. Some debit card swipes are "auto adjudicated." Purchases from large pharmacies or drug stores are automatically adjudicated at the point of sale through software programs. Debit card purchases can also be auto-adjudicated if the amount matches a participant's insurance co-payment amount. However, debit card purchases at dental or vision care providers are typically not able to be auto-adjudicated and require the participant to submit a detailed receipt. The TPA may also receive a download from the insurance carrier.

4. Disbursements. Auditing employer plans is similar to taking a good look at bank statements every month. Are all the transactions in the correct amount and do they belong to the employer? An audit point for disbursements from the plan would be to look for recent disbursements to terminated employees or names of participants who are not your employees.

Another tip that some TPAs may not mention is to retrieve the health care debit card from terminating employees. The cafeteria plan Regulation 1.125-6 states: "The debit card is automatically cancelled when the employee ceases to participate in the health FSA."

5. Eligibility Changes. Eligibility maintenance starts and ends with your employer/client. Employers must notify the TPA, just as for payroll, of participants' additions, changes, election amounts or terminations. This will greatly reduce the risk of ineligible employees receiving benefits they are not entitled to collect.

Questions for TPAs

- How does my employer/client audit his plan?
- What reports will be sent automatically?
- Is there a secure website for running reports and getting the information needed?
- Will participants be informed that card swipes have taken place?
- When will the TPA ask for receipts?
- Is the latest technology being used? This could include apps to download claims and receipts from a phone or tablet or taking a picture of a receipt to send for debit card substantiation.

Setting ground rules and fully educating employees is the first step toward a successful plan. Auditing plans ensures success throughout the plan year.