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Jump Start Employee Benefit Packages With Flex Credit Plans

Most think of flexible benefit plans as some sort of a voluntary product or get it confused with a health FSA. But that's not really what a flex plan is—rather it's a tax-advantaged vehicle for paying for a number of benefits.

So how can employers get more employees to participate in flexible benefit plans? One way is through flex credit plans. These plans involve some employer-funding through a cafeteria plan, but can result in two things: greater employee satisfaction with their benefits package and greater savings for employers. In many cases, it simply redefines employer costs.

What Is a Flex Credit Plan?

A flex credit plan is a good vehicle for employers who are willing to pay a portion of their employees' premium contributions. Flex credit plan dollars are available to employees to augment their flexible benefit plans.

Employers can choose to earmark flex credits for (1) a specific benefit such as medical coverage; (2) helping employees defray health care expenses or deductibles; (3) giving employees the option to convert the credits to cash (depending on plan design and state law).

Under a Section 125 plan, flex credits are tax deductible to the business and a nontaxable allowance to employees. However, if employers allow and employees choose to take the credit as cash, that amount is taxable to the employees.

A caution here: Plan sponsors should not make this option too tempting. After all, the credits are to encourage participation in benefit plans, and that's where the dollars should stay.

Why Implement a Credit-Based System?

When was the last time you saw someone pass up free money? All kidding aside, flex credit plans increase employee awareness of their benefits. Naturally there will be a sudden interest in a plan where the employer "is giving money away." Employees will be more likely to participate in greater numbers and for larger dollar amounts as well.

Flex credit plans mean increased tax savings for employers (when more money flows through the plan) as well as improved control of benefit dollars. For example, if an employer makes $1,000 available to each eligible employee and selects single coverage, the budgeted amount of employer credits every year limits liability for higher costs in the future. Generally, such a strategy moves an employer's strategy from defining the benefits to defining the contributions to benefits—a more focused and total compensation approach.

Employees each have different needs; a diverse work force includes singles, families with children and older workers—all of whom have different health care issues. Flex credit plans allow employers to move from a "one-size-fits-all" design to a more customized approach that makes room for life cycle choices.

Finally, surveys prove that employers providing a menu of benefits not only empower current employees, but attract and retain new employees.

Taxable and Non-Taxable Flex Credits

Just because an employer is making flex credits available through a cafeteria plan does not mean dollars flowing through the plan have to be non-taxable. A very elaborate benefits package can be delivered through the cafeteria plan, ranging from employer dollars used for health insurance premiums to taxable dollars for incentive bonuses.

Flexible benefit plans with taxable employer dollars can deliver attractive incentives or life cycle extras that provide money for the purchase of a home or a reward for employment longevity.

Plan Designs

Determining the amount of flex credits is the first place to start. Employers can use this opportunity to think about their total rewards strategy and how the credits can be used. For example, credits may vary based on employee choice of health plans—more credits can be offered to those who choose family coverage versus those choosing single coverage. Employers can also restrict the use of credits to medical or dental coverage only. Employers may want to ensure a safety net of coverage for every employee, so that only those who have health insurance coverage elsewhere can turn credits into cash.

The purpose of flex credit plans is to efficiently deliver benefits and not to increase taxable cash flow for employers. Therefore, an employer may decide to reduce the value of cashable credits (e.g., every dollar of benefits may be worth just 25 cents if cashed out).

A 401(k) option within a cafeteria plan is another great choice with flex credits. For instance, not all employees will use the flex credits for benefits. By placing a 401(k) contribution option within a flex plan, employer credits could flow to a 401(k) plan. The 401(k) plan document does not need to be amended and most everyone could use the flex credits.

What's the Down Side?

Flex credit plans can be complicated to understand unless communicated well. Employers may experience an increase in time spent on internal administration to track credits and employee education. Too much flexibility and choice may cause employee frustration, which is why timely employee education is important.

Adverse selection of benefits or cash can be cause for alarm. In fact, for that reason, many employers do not allow a cash-out option, which creates hard dollar costs in the form of taxable compensation for employees who are covered elsewhere.

During a plan year, employers must take time to evaluate and make a note for future year adjustments. These plans are a living, breathing entity and will experience adverse selection. Periodic reviews are necessary to determine whether the plan is meeting both employer and employee needs.

Review Current Benefits

The first planning session with an employer is a review of current benefits, employee demographics and a list of employer and employee needs. Ensure the ground rules are laid out and all decision-makers have answers to their questions.

The amount of money employers are willing to spend will depend on management philosophy and whether a company is small and emerging or an established institution with positive cash flow.

Here are a few bullet points to consider:

- What is the employer's philosophy toward compensation and benefits?
- Does the employer currently differentiate costs by family coverage category?
- How many employees are currently waiving medical coverage?
- What credit types (benefit specific or for general use) and amounts will be included?
- Will the employer be increasing or decreasing the number of benefits being offered?
- Will taxable benefits be offered?
- What are the employer's goals—to reduce benefit dollars or increase transparency of benefits?

Start Simple

An employer match plan is one of the simplest flex credit plans to install. Employees commit a certain dollar amount and employers match the figure, up to a certain dollar amount. It works much like a 401(k) plan. Not only do employees have more choice, but participation in a flexible benefit plan will soar. Moreover, remember the more salary redirection by employees, the bigger the payroll savings for employers.

The employer can also make a small amount of flex credits available as "seed" money for a health FSA. All eligible employees receive this "seed" money at the beginning of the flexible benefit plan year. As participants start to fill out claim forms in order to receive nontaxable payments, they realize how easy it is to participate in the plan.

When employer "seed" money is gone, they will see how their eligible expenses continue to pile up—expenses they could have paid with untaxed dollars. The key is to keep this experience in the forefront in the minds of employees so they make a different choice the next plan year.

Educate Employees

No use having a party if no one attends. Employee education is the second most important aspect of offering a flex credit plan—second only to the actual development and implementation of a plan. Adequate time must be set aside to inform and educate employees. Develop a timetable to include vendor selection, education and review of selections, and usage throughout the plan year.

A flexible benefit plan is a perfect choice for most employers. Employee approval ratings take off and benefit knowledge accelerates. Alternatively, when an employer takes flex plans to the next level with employer credits, both sides gain financially.

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