



TO: SMALL GROUP MEDICAL PLANS

FROM: GREENBERG & ASSOCIATES INSURANCE, LLC.

DATE: JANUARY 31, 2013

RE: SECTION 125 PLAN CONSIDERATIONS DUE TO 2013 CONTRACT EXTENSIONS

Now that the dust has settled on our 2013 medical plan renewals, we wanted to communicate with you regarding the impact of the 2013 contract extension on Section 125 plans. As is the case with many things surrounding healthcare reform, we have had little or no guidance regarding the implications of many of the changes taking place. It occurred to us that there has been no information brought forth to date regarding how the extensions impact your existing Section 125 plan. Therefore, we have sought the advice of several of the Section 125 Plan Administrators we deal with to provide insight into this matter.

As you are aware, your Section 125 plan has generally renewed on the same date as your medical plan. Therefore, with the extension of the 2013 medical plans, most of our client's Section 125 plans are no longer in sync with their medical renewal. Therefore, we wanted to find out if there should be steps taken to realign the renewal dates between your medical and Section 125 plan, or, if it is acceptable to let them remain different.

There was a consensus regarding Full Section 125 plans that include premiums, a flexible spending account and dependent child care. It is best to amend your Section 125 plan to again renew at the same time as your medical plan. Since many employees use their flexible spending accounts to reimburse deductibles and coinsurance it is really helpful to be able to make changes at the same time your medical plan renews since that is the time plan changes take place and impact the employee's elections. In order to bring the plans back to the same renewal date, it requires that you initially do a short plan year which will require the election maximums for your flexible spending account be pro-rated for the number of months in the short plan year. Then your plan will renew again thereafter for a full 12 month plan year along with your medical plan.

If, however, your Section 125 plan is a Premium Only Plan (POP), we have received contradictory information. The IRS does allow for premiums to be changed off anniversary on a POP plan when premiums change on your medical and or dental plans. Therefore, the need to have the medical and Section 125 plan be aligned isn't an issue. However, one of the Administrators we spoke to was adamant that it is "best" to have all benefits running on the same schedule. We were told there were no specific rules that require the POP and medical plans be aligned, but, strongly recommended it for administrative ease.

If you have a Full Section 125 plan, it seems clear it would be best to amend your plan to provide for a short plan year that'll renew again at the same time as your medical plan. However, if you have a POP plan, even though there doesn't appear to be any requirement that you sync your POP plan with your medical renewal, it may administratively be easier for you. Since Section 125 Plans are IRS regulated plans, we would recommend that you consult your CPA regarding amending your POP plan to align its renewals with your medical plans. Since they are your Tax Advisors, we feel it would be prudent to seek their recommendation regarding the necessity to amend your POP plan.

If you do decide you would like to amend either your Full Section 125 Plan or your Premium Only Plan, please contact your plan administrator directly to make the request to do so.

Please don't hesitate to let us know if you have any questions.

Regards,

Sharon and Adrienne